

# Suffolk Pension Fund

## Funding Strategy Statement

### April 2026

|  |                  |
|--|------------------|
| Effective date   | 1 April 2026     |
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| Prepared in accordance with SAB / CIPFA / MHCLG guidance dated | January 2025     |



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# 1 Purpose of the Suffolk Pension Fund and the Funding Strategy Statement

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

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

You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org) and about the regulatory framework in [Appendix A](#).

This document sets out the FSS for Suffolk Pension Fund (the Fund). If you have any queries about the FSS, contact [Tracey.Woods@suffolk.gov.uk](mailto:Tracey.Woods@suffolk.gov.uk) or [Sharon.Tan@suffolk.gov.uk](mailto:Sharon.Tan@suffolk.gov.uk).

The Suffolk Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Suffolk County Council, known as the administering authority. The Suffolk Pension Fund is part of the Local Government Pension Scheme (LGPS). The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

Suffolk County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2026, and is expected to remain in force until 31 March 2029 at the latest, unless an interim review is carried out prior to then. [LGPS Regulations](#) (specifically Regulation 62) require an actuarial valuation to be carried out every three years, under which contribution rates for all participating employers are set for the following three years. This FSS sets out the assumptions and methodology underpinning the 2025 actuarial valuation actuarial exercise

## 1.1 What are the funding strategy objectives?

The funding strategy objectives are to:

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

The Fund engages with employers when developing funding strategy in a way which balances the risk appetite of stakeholders. The funding strategy therefore reflects the specific characteristics of its fund employers and its own investment strategy.

## 1.2 Who is the FSS for?

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

Different types of employers participate in the Fund:

### Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers such as academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

### Resolution bodies (otherwise known Designating employers)

Employers such as town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

### Admission bodies

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

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

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

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

## 1.3 How often is the Funding Strategy Statement reviewed?

The FSS is reviewed in detail at least every three years ahead of the triennial actuarial valuation and an annual check is carried out in the intervening years.

Any amendments will be consulted on and approved by the Pensions Committee.

Amendments to the FSS may be made due to the following circumstances:

- material changes to the scheme benefit structure (e.g. HM Treasury-led)
- on the advice of the fund actuary
- significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond FSS expectation
- if there have been significant changes to the fund membership and/or fund maturity profile

- if there have been significant or notable changes to the number, type, or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure) which could materially impact cashflow and/or maturity profile and/or covenant)
- if there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS.
- recommendations from MHCLG/GAD.

In undertaking such reviews, the administering authority should consider:

- looking at experience in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (e.g. pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the ISS
- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process

A review won't necessarily lead to rates changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

#### **1.4 Links to Administration Strategy**

The fund maintains an Administration Strategy Statement which outlines the responsibilities, standards and procedures for employers and the fund. A copy of this can be found [here](#).

Adherence with the requirements of the Administration Strategy Statement is crucial and failure to do so may have a material effect on the value of an employer's liabilities and its contribution rate requirements

#### **1.5 Actuarial valuation report**

The actuarial valuation report sets out 1) the actuary's assessment of the past service funding position, and 2) the contributions required to ensure full funding by the end of the time horizon. The Rates and Adjustments certificate shows the contribution rates payable by each employer (which may be expressed as a percentage of payroll and/or monetary amounts).

## PART A – Key Funding Principles

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

#### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

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

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

The primary rate also includes an allowance for the Fund's expenses, calculated at each formal valuation.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix E](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

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

The approach taken by the fund actuary helps the fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

## 2.2 The contribution rate calculation

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

| Type of employer   | Scheduled bodies  |                     |   | CABs and designating employers               |                        | TABs                              |
|--|---|---------------------|---|--|------------------------|-----------------------------------|
| Sub-type   | Councils, Police  | Academies, Colleges | Other Scheduled Bodies  | Open to new entrants                         | Closed to new entrants | Without pass-through arrangements |
| SAB Tier   | Tier 1  | Tier 2              | Tier 3  | Tier 3                                       | Tier 3                 | Tier 1 or 2                       |
| <b>Funding target*</b>                                   | Ongoing   | Ongoing             | Ongoing   | Ongoing, but may move to low-risk exit basis |                        | Ongoing                           |
| <b>Minimum likelihood of success</b>                     | 85%   | 85%                 | 85%   | 85%  | 85%                    | 85%                               |
| <b>Maximum time horizon</b>                              | 20 years  | 20 years            | 20 years  | 15 years                                     | 15 years               | 15 years                          |
| <b>Primary rate approach**</b>                           | The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay |                     |   |  |                        |                                   |
| <b>Secondary rate</b>                                    | % of payroll  | % of payroll        | % of payroll  | % of payroll                                 | Monetary amount        | % of payroll                      |
| <b>Stabilised contribution rate?</b>                     | Yes   | Yes                 | No  | No   | No                     | No                                |
| <b>Treatment of surplus (assessed at valuation date)</b> | Covered by stabilisation arrangement  |                     | Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of the low-risk exit basis position |  |                        |                                   |
| <b>Phasing of contribution changes</b>                   | Covered by stabilisation arrangement  |                     | 3 years   | 3 years                                      | 3 years                | 3 years                           |

\* The past service funding position is that assessed as at the triennial funding valuation date, using the triennial funding valuation assumptions and based on full individual membership data and actual assets. See [Appendix E](#) for further information on funding base.

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

Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting employer, subject to Administering Authority approval. See [Appendix H](#) for further details.

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

### 2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund adopts a stabilised approach to setting contributions for long-term tax raising employers, which aims to keep contribution variations within a pre-determined range from year-to-year. Stabilisation criteria and limits are reviewed during each triennial valuation process.

In light of both sustained past service funding position improvements and increased market volatility and economic uncertainty, the administering authority believes a stabilised approach remains a prudent long-term strategy and the robustness of this approach was once again tested by extensive asset liability modelling (ALM) carried out by the Fund actuary at the 31 March 2025 funding valuation.

In recognition of local government reorganisation within Suffolk, contribution rates have been aligned for county, district and borough councils by 1 April 2028.

**Table 2: stabilisation approach (from 1 April 2026)**

| Type of employer                       | Councils, Police, Academies, Colleges |
|--|---------------------------------------|
| Maximum contribution increase per year | +1% of pay                            |
| Maximum contribution decrease per year | -1% of pay                            |

The administering authority may exercise discretion over the phasing of annual contribution rate increases or decreases subject to a maximum increase/decrease of 3% of pay over the 3-year inter-valuation period.

### 2.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the Fund's investment strategy in its Investment Strategy Statement (ISS) [here](#).

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

The investment strategy is set considering the Fund's long-term funding requirements and its investment risk appetite. The fund's current strategic investment strategy is summarised in the table, with full details available set out in the ISS.

| Asset class  | Allocation |
|--------------|------------|
| Equities     | 42.5%      |
| Bonds        | 28.0%      |
| Alternatives | 29.0%      |
| Cash         | 0.5%       |

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

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

## 2.6 Reviewing contributions between valuations

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

## 2.7 What is pooling for funding and contribution rate purposes?

A single contribution rate is payable by all employers in the pool and individual funding positions are not tracked.

All schools within a single multi-academy trust are pooled for funding and contribution rate purposes.

## 2.8 What is pooling for contribution rate purposes only?

A single contribution rate is payable by all employers in the pool and individual funding positions are tracked, by the Fund actuary.

Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes, pooling across a group of employers minimises this.

As individual funding positions are tracked, some employers may be better funded or more poorly funded than the pool average. In this type of pooling arrangement, employers do not target full funding at exit. If an employer leaves the Fund, the cessation valuation is based on their own funding position rather than the pool average.

CABs that are closed to new entrants aren't usually allowed to enter a pool. TABs are usually also ineligible for pooling (with other TABs).

The current contribution rate pools are:

- **Town and Parish Councils** – the fund operates a contribution rate pool for Town and Parish Councils (MATs), where a single contribution rate is payable by each employer in the pool and individual funding positions are tracked.
- **TABs** – where pass-through is in place, the admission body will be pooled with the letting authority.

## 2.9 Administering authority discretion

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

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

The fund may, at its absolute discretion, permit the prepayment of employer contributions in specific circumstances.

## 2.10 Non cash funding

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

### **2.11 Managing surpluses and deficits**

The funding strategy is designed to ensure that all employers are at least fully funded on a prudent basis at the end of their own specific time horizon. The uncertain and volatile nature of pension scheme funding means that it is likely there will be times when employers are in surplus and times when employers are in deficit. The funding strategy recognises this by 1) including sufficient prudence to manage the effect of this over the time horizon, and 2) making changes to employer contribution rates to ensure the funding strategy objectives are met.

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

## 3 What additional contributions may be payable?

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

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

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments. The Fund's policy is that any additional contributions are payable immediately.

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

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

For some larger employers, the Fund will monitor an ill-health budget based on the assumptions from the most recent valuation. When the budget is used up, additional contributions will be requested. Details are included in each admission agreement.

To mitigate this risk, employers may choose to use external insurance made available by the Fund.

The Fund's policy is detailed in [Appendix G](#).

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

### 4.1 How are employer asset shares calculated?

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

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

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

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see Section 2).

### 4.2 How are employer liabilities calculated?

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

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC

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

### 4.3 What is a funding level?

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

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

## PART B – Employer Events

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

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

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

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

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.3 below.

#### 5.2 New academies

##### Academies converting from local authority status

For an academy converting from local authority status, only active members of the former local authority school transfer to the new academy.

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

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

New academies joining the Fund will fall into one of the below categories:

1. be a single academy trust (a "SAT"); or
2. one of multiple academies within the Fund who are part of a multi-academy trust (a "MAT"); or
3. a standalone employer where they are the only academy within the Fund who are a part of a MAT (and the other academies in the MAT do not participate within the Suffolk Pension Fund).

If the academy joins an existing MAT in the Fund (i.e. 2 above), the assessed assets and liabilities are added to the MAT funding pool and the academy will pay the MAT contribution rate. This approach represents full risk-sharing of past and future service costs.

If the new academy is a SAT or standalone employer (i.e. 1 or 3 above), then the actuary will need to calculate the contribution rate to be paid on conversion.

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

##### Newly set up academies (including free schools and studio schools)

Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Newly set up academies (including free schools and studio schools) will fall into one of the below categories:

- the academy joins an existing MAT in the Fund, becomes part of the MAT funding pool and will pay the MAT contribution rate.
- if the academy is sponsored by another employer within the Fund, it becomes part of the sponsoring employer's funding pool and will pay the sponsoring employer's contribution rate.
- if the academy is standalone, the academy will pay the in-force Suffolk County Council contribution rate. The academy rate will then be re-assessed as part of the next triennial funding valuation exercise, alongside all other Fund employers.

The Fund's academy policy can be found [here](#).

### **5.3 New admission bodies as a result of outsourcing services**

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

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

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

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

The Fund's policy is to administer any new admission bodies under a pass-through arrangement. The Fund's policy on pass through is detailed in [Appendix H](#).

Where an academy is the letting employer, the admission body is set up as a pass-through arrangement which is closed to new members. This is to ensure that the 'Department for Education (DfE) Academy Trust LGPS Guarantee policy' can apply to the outsourcing.

### **5.4 Other new employers**

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

New designated employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

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

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

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

This must cover some or all of the:

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

Where an academy is the letting employer, the Fund will expect academies to ensure and confirm that the outsourcing complies with the requirements set out in the DfE Academy Trust LGPS Guarantee policy before permitting an admission body in the Fund. Where this requirement is met, no additional risk assessment or security will typically be required for the admitted body as the pension liabilities will be covered by the DfE Academy Guarantee.

Where the admission body does not meet the requirements of the DfE Academy Trust LGPS Guarantee policy, the Fund will review each case individually to decide if the admission body must provide security before being admitted to the Fund. In these cases, the Fund will typically require the academy to evidence that they have sought and received permission from the Education and Skills Funding Agency to act as a guarantor.

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

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

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

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

### 7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

The administering authority, at its discretion, can defer triggering a cessation for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time.

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

### 7.2 What happens on cessation?

The administering authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix E](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis.
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms. This is known as 'subsumption' of the assets and liabilities.

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

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

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

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

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much (if any) will be paid back to the employer based on:

- the surplus amount
- any representations (such as risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is covered in the cessation policy in [Appendix I](#).

### 7.4 What happens if there is a deficit?

If the cessation valuation shows the exiting employer has less assets than liabilities, then there is a deficit – an exit debt, full payment will be expected in a single lump sum or:

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

The employer flexibility on exit policy is covered in the cessation policy in [Appendix I](#).

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

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

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

## 8 What are the statutory reporting requirements?

### 8.1 Reporting regulations

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

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

### 8.2 Solvency

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

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level; or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit. To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

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

Absolute factors include:

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

These metrics may be assessed by GAD on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons. Standard information about the fund's approach to solvency of the pension fund and long-term cost efficiency will be provided in a uniform dashboard format in the valuation report to facilitate comparisons between funds.

# Appendices

## Appendix A – The regulatory framework

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

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

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

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

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

### A2 Consultation

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

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers and the Local Pensions Board in October 2025 for comment;
- b) Comments were requested by 31 December 2025;
- c) Following the end of the consultation period the FSS was updated where required and then published, in February 2026.

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

### A3 How is the FSS published?

The FSS is made available through the following routes:

- published on the Suffolk Pension Fund website, at [www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)

- adding the FSS to the agenda of pension fund annual employer meetings
- copies made freely available on request.

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

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements such as the Investment Strategy Statement, Governance Strategy and Communications Strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all fund documentation at [www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)

## Appendix B – Roles and responsibilities

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

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

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

- 1 ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- 2 provide the fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- 3 pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date
- 4 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework

- 5 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- 6 notify the administering authority promptly of all changes to active membership that affect future funding
- 7 pay any exit payments on ceasing participation in the fund timely provide the fund with accurate data and understand that the quality of the data provided to the fund will directly impact on the assessment of their liabilities and their contributions. In particular, any inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

### **B3 The Fund actuary should:**

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

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

Local Pension Boards have responsibility to assist the administering authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. It will be for each fund to determine the input into the development of the FSS (as appropriate within fund's own governance arrangements) however this may include:

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

### **B5 Employer guarantors**

- 1 Department for Education - To pay cessation debts in the case of academy cessations (where the obligations are not being transferred to another MAT) and to consider using intervention powers if an academy is deemed to be in breach of the regulations.
- 2 Other bodies with a financial interest (outsourcing employers)

3 Any other Guarantor

**B6 Other parties:**

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

## Appendix C – Glossary

### **Actuarial certificates**

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

### **Actuarial valuation**

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

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

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

### **Admission agreement**

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

### **Assumptions**

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

### **Code of Practice**

The Pensions Regulator’s General Code of Practice.

### **Debt spreading arrangement**

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

### **Deferred debt agreement**

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

### **Employer covenant**

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

### **Funding level**

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

### **Fund valuation date**

The effective date of the triennial fund valuation.

**Guarantee / guarantor**

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

**Local Pension Board**

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

**Non-statutory guidance**

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

**Notifiable events**

Events which the employer should make the Administering Authority aware of.

**Past service liabilities**

The cost of pensions already built up or in payment.

**Pension committee**

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

**Pensions Administration Strategy**

A statement of the duties and responsibilities of scheme employers and Administering Authorities to ensure the effective management of the scheme.

**Primary and secondary employer contributions**

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

**Rates and adjustments certificate**

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

**Scheme Manager**

A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each Fund has a Scheme Manager which is the Administering Authority.

## Appendix D – Risks and controls

### D1 Managing risks

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

The role of the local pension board is set out in the Suffolk County Council's Constitution, board terms of reference available [Part 1 Articles of the Constitution \(suffolk.gov.uk\)](https://www.suffolk.gov.uk/part-1-articles-of-the-constitution)

Details of the key fund-specific risks and controls are below.

### Financial risks

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

**Risk****Control**

Orphaned employers create added Fund costs.

Seek a cessation debt (or security/guarantor).  
Spread added costs among employers.

**Demographic risks****Risk****Control**

Pensioners live longer, increasing Fund costs.

Set mortality assumptions with allowances for future increases in life expectancy.

Use the Fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.

As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.

Monitor at each valuation, consider seeking monetary amounts rather than % of pay.

Consider alternative investment strategies.

Deteriorating patterns of early retirements

Charge employers the extra cost of non ill-health retirements following each individual decision.

Monitor employer ill-health retirement experience, with optional insurance.

Reductions in payroll cause insufficient deficit recovery payments.

Buy-out employers in the stabilisation mechanism to permit contribution increases.

Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

**Regulatory risks****Risk****Control**

Changes to national pension requirements or HMRC rules.

Consider all Government consultation papers and comment where appropriate.

Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known.

Build preferred solutions into valuations as required.

Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis

Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.

Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.

Consider all Government consultation papers and comment where appropriate.

Take advice from the Fund actuary and amend strategy.

## Governance risks

### Risk

### Control

The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.

The administering authority develops a close relationship with employing bodies and communicates required standards.

The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations

Deficit contributions may be expressed as monetary amounts.

Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way

The administering authority maintains close contact with its advisers.

Advice is delivered through formal meetings and recorded appropriately.

Actuarial advice is subject to professional requirements such as peer review.

The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.

CABs' memberships are monitored and steps are taken if active membership decreases.

An employer ceases to exist with insufficient funding or bonds.

It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by:

Seeking a funding guarantee from another scheme employer, or external body.

Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

Vetting prospective employers before admission.

Requiring a bond to protect the Fund, where permitted.

Requiring a guarantor for new CABs.

Regularly reviewing bond or guarantor arrangements.

Reviewing contributions well ahead of cessation.

**Risk****Control**

An employer ceases to exist, so an exit credit is payable.

The administering authority regularly monitors admission bodies coming up to cessation.

The administering authority invests in liquid assets so that exit credits can be paid.

**D2 Employer covenant assessment and monitoring**

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

| Type of employer                | Assessment  | Monitoring   |
|---------------------------------|---|--|
| Local Authorities, Police, Fire | Tax-raising or government-backed, no individual assessment required | n/a  |
| Colleges                        | Government-backed, covered by DfE guarantee in event of failure     | Check that DfE guarantee continues, after regular scheduled DfE review |
| Universities                    | No change since 2022 valuation                                      | Regular ongoing dialogue   |
| Academies                       | Government-backed, covered by DfE guarantee in event of MAT failure | Check that DfE guarantee continues, after regular scheduled DfE review |
| Admission bodies (CABs)         | No change since 2022 valuation                                      | Regular ongoing dialogue   |
| Admission bodies (TABs)         | No change since 2022 valuation                                      | Regular ongoing dialogue   |
| Designating employers           | No change since 2022 valuation                                      | Regular ongoing dialogue   |

Any change in covenant over the inter-valuation period may lead to a contribution rate review

**D3 Climate risk and TCFD reporting**

The Fund has considered climate-related risks when setting the funding strategy.

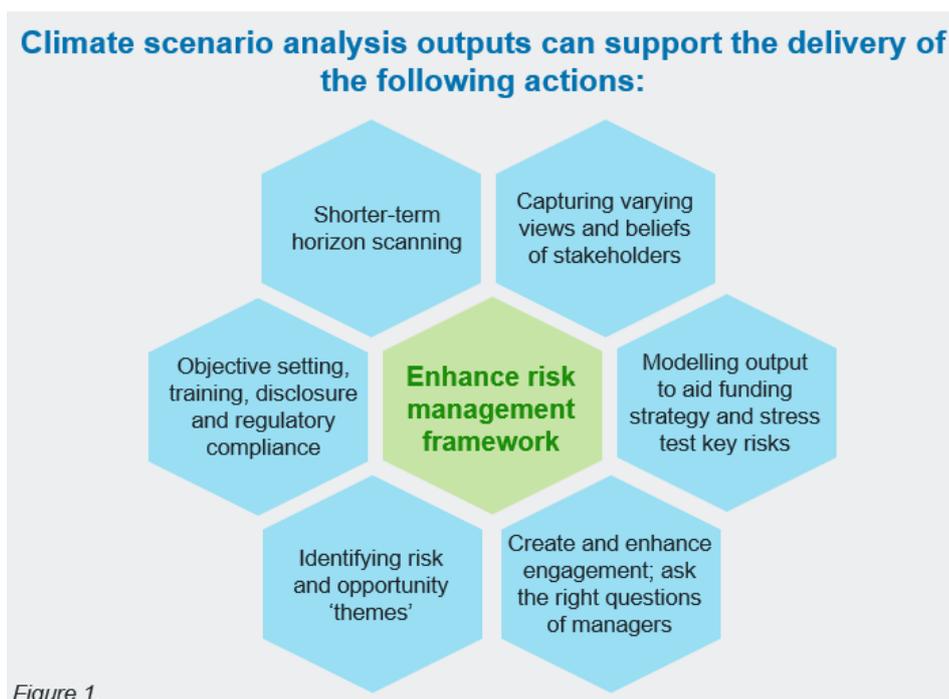
The Fund has carried out climate scenario analysis incorporating both stress testing, and narrative-based scenario analysis for the local authority employers at the 2025 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific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

The results show that:

1. When considering climate scenario stress tests, the Fund appears to be generally resilient to different climate scenarios, with generally modest impacts versus the base case modelled

2. The results of the downside, narrative analysis suggest that the Fund is likely to be resilient in the face of some severe downside risk events (in comparison to the base case), but not all.

Climate scenario analysis helps assess risks and tests the resilience of current and long-term strategies under various scenarios. This helps to identify vulnerabilities across both assets and liabilities. Identification of these vulnerabilities can inform risk management processes (see figure 1), helping the Fund ensure appropriate controls and mitigations are in place. Scenario analysis therefore supports informed decision making, and may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.



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

The Fund’s Responsible Investment beliefs are included in its Investment Strategy Statement.

#### **D4 Gender Pension Gap reporting**

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

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

## Appendix E – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the Funding Strategy Statement.

### E1 What are actuarial assumptions?

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

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

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

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

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

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

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

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

#### Discount rate

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

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

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

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

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

| Funding basis         | Prudence level |
|-----------------------|----------------|
| Ongoing participation | 85%            |
| Low-risk exit         | 95%            |

### CPI inflation

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

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

The CPI inflation assumption is calculated to be:

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

### Salary growth

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

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

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

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

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

| Time period       | Percentile       | Annualised total returns |                          |                            |                        |           |  |                                      |                                       |          |                |                 | Inflation/Yields      |                 |                          |               |
|-------------------|------------------|--------------------------|--------------------------|----------------------------|------------------------|-----------|--|--------------------------------------|---------------------------------------|----------|----------------|-----------------|-----------------------|-----------------|--------------------------|---------------|
|                   |                  | Cash                     | Global Equities (hedged) | Global Equities (unhedged) | EM equities (unhedged) | UK Equity | UK corporate bonds (BBB-rated average) | UK corporate bonds (A-rated average) | UK corporate bonds (BB-rated average) | Property | Private Equity | Private Lending | Infrastructure equity | Inflation (CPI) | 17-year real yield (CPI) | 17-year yield |
| 5 Years           | 16 <sup>th</sup> | 3.5%                     | 0.3%                     | -0.2%                      | -3.2%                  | 0.1%      | 3.8%                                   | 4.0%                                 | 3.8%                                  | 0.2%     | -2.5%          | 4.5%            | 1.1%                  | 1.2%            | 1.5%                     | 4.8%          |
|                   | 50 <sup>th</sup> | 4.3%                     | 8.7%                     | 8.5%                       | 8.5%                   | 8.2%      | 5.5%                                   | 5.2%                                 | 6.0%                                  | 6.8%     | 10.0%          | 8.2%            | 8.1%                  | 2.8%            | 2.4%                     | 5.8%          |
|                   | 84 <sup>th</sup> | 5.1%                     | 17.0%                    | 17.1%                      | 20.9%                  | 16.4%     | 6.6%                                   | 6.1%                                 | 7.4%                                  | 14.1%    | 22.8%          | 11.4%           | 15.5%                 | 4.3%            | 3.3%                     | 7.1%          |
| 10 Years          | 16 <sup>th</sup> | 3.6%                     | 2.8%                     | 2.5%                       | 0.2%                   | 2.5%      | 4.9%                                   | 4.8%                                 | 4.9%                                  | 2.3%     | 1.2%           | 6.4%            | 3.1%                  | 0.8%            | 0.8%                     | 3.9%          |
|                   | 50 <sup>th</sup> | 4.6%                     | 8.9%                     | 8.7%                       | 8.8%                   | 8.6%      | 6.1%                                   | 5.8%                                 | 6.5%                                  | 7.3%     | 10.2%          | 8.8%            | 8.4%                  | 2.5%            | 2.1%                     | 5.3%          |
|                   | 84 <sup>th</sup> | 5.8%                     | 14.9%                    | 15.0%                      | 17.5%                  | 14.6%     | 7.1%                                   | 6.7%                                 | 7.8%                                  | 12.7%    | 19.6%          | 10.9%           | 13.8%                 | 4.1%            | 3.3%                     | 7.1%          |
| 20 Years          | 16 <sup>th</sup> | 3.1%                     | 4.3%                     | 3.9%                       | 2.2%                   | 3.8%      | 4.8%                                   | 4.6%                                 | 5.1%                                  | 3.5%     | 3.4%           | 7.0%            | 4.2%                  | 0.7%            | -0.5%                    | 1.6%          |
|                   | 50 <sup>th</sup> | 4.5%                     | 8.7%                     | 8.6%                       | 8.5%                   | 8.4%      | 6.1%                                   | 5.8%                                 | 6.5%                                  | 7.3%     | 9.9%           | 8.8%            | 8.3%                  | 2.3%            | 1.3%                     | 3.6%          |
|                   | 84 <sup>th</sup> | 6.3%                     | 13.3%                    | 13.4%                      | 15.1%                  | 12.9%     | 7.6%                                   | 7.2%                                 | 8.1%                                  | 11.3%    | 17.0%          | 10.7%           | 12.4%                 | 3.9%            | 3.0%                     | 6.2%          |
| Volatility (1 yr) |                  | 0.3%                     | 17.8%                    | 18.4%                      | 24.3%                  | 16.3%     | 3.7%                                   | 3.2%                                 | 4.7%                                  | 15.2%    | 26.6%          | 9.3%            | 14.5%                 | 1.4%            | -                        | -             |

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

## E5 What demographic assumptions were used?

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

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

### Life expectancy

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

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

| <b>Other demographic assumptions</b> |   |
|--------------------------------------|---|
| <b>Retirement in normal health</b>   | Members are assumed to retire at the earliest age possible with no pension reduction.   |
| <b>Promotional salary increases</b>  | Sample increases below  |
| <b>Death in service</b>              | Sample rates below  |
| <b>Withdrawals</b>                   | Sample rates below  |
| <b>Retirement in ill health</b>      | Sample rates below  |
| <b>Family details</b>                | A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 65 this is assumed to be 55% for males and 54% for females. The dependant of a male member is assumed to be 3.4 years younger than him and the dependent of a female member is assumed to be 2.3 years older than her. |
| <b>Commutation</b>                   | 60% of maximum tax-free cash  |
| <b>50:50 option</b>                  | 0% of existing members will opt to change schemes   |

## Males

| Age | Salary Scale | Death Before Retirement | Withdrawals |        | Ill Health Tier 1 |      | Ill Health Tier 2 |      |
|-----|--------------|-------------------------|-------------|--------|-------------------|------|-------------------|------|
|     |              |                         | FT & PT     | FT     | PT                | FT   | PT                | FT   |
| 20  | 105          | 0.17                    | 323.45      | 548.78 | 0.00              | 0.00 | 0.00              | 0.00 |
| 25  | 117          | 0.17                    | 213.65      | 362.49 | 0.00              | 0.00 | 0.00              | 0.00 |
| 30  | 131          | 0.20                    | 151.59      | 257.16 | 0.00              | 0.00 | 0.00              | 0.00 |
| 35  | 144          | 0.24                    | 118.44      | 200.90 | 0.10              | 0.07 | 0.02              | 0.01 |
| 40  | 151          | 0.41                    | 95.36       | 161.69 | 0.16              | 0.12 | 0.03              | 0.02 |
| 45  | 159          | 0.68                    | 89.57       | 151.85 | 0.35              | 0.27 | 0.07              | 0.05 |
| 50  | 167          | 1.09                    | 73.83       | 125.03 | 0.90              | 0.68 | 0.23              | 0.17 |
| 55  | 173          | 1.70                    | 58.14       | 98.51  | 3.54              | 2.65 | 0.51              | 0.38 |
| 60  | 174          | 3.06                    | 51.82       | 87.76  | 6.23              | 4.67 | 0.44              | 0.33 |
| 65  | 174          | 5.10                    | 31.81       | 53.87  | 11.83             | 8.87 | 0.00              | 0.00 |

## Females

| Age | Salary Scale | Death Before Retirement | Withdrawals |        | Ill Health Tier 1 |      | Ill Health Tier 2 |      |
|-----|--------------|-------------------------|-------------|--------|-------------------|------|-------------------|------|
|     |              |                         | FT & PT     | FT     | PT                | FT   | PT                | FT   |
| 20  | 105          | 0.10                    | 281.94      | 373.90 | 0.00              | 0.00 | 0.00              | 0.00 |
| 25  | 117          | 0.10                    | 189.71      | 251.55 | 0.10              | 0.07 | 0.02              | 0.01 |
| 30  | 131          | 0.14                    | 159.02      | 210.83 | 0.13              | 0.10 | 0.03              | 0.02 |
| 35  | 144          | 0.24                    | 137.25      | 181.90 | 0.26              | 0.19 | 0.05              | 0.04 |
| 40  | 151          | 0.38                    | 114.23      | 151.34 | 0.39              | 0.29 | 0.08              | 0.06 |
| 45  | 159          | 0.62                    | 106.60      | 141.21 | 0.52              | 0.39 | 0.10              | 0.08 |
| 50  | 167          | 0.90                    | 89.87       | 118.92 | 0.97              | 0.73 | 0.24              | 0.18 |
| 55  | 173          | 1.19                    | 67.06       | 88.83  | 3.59              | 2.69 | 0.52              | 0.39 |
| 60  | 174          | 1.52                    | 54.04       | 71.50  | 5.71              | 4.28 | 0.54              | 0.40 |
| 65  | 174          | 1.95                    | 25.76       | 34.07  | 10.26             | 7.69 | 0.00              | 0.00 |

## Appendix F – Contribution reviews

Under the LGPS Regulations the Fund may amend contribution rates between valuations where there has been “significant change” to the liabilities or covenant of an employer. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under [Regulation 31\(3\) of the Regulations](#);
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the administering authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership). The employer would be expected to provide evidence to back up its request for a review e.g. report and accounts, financial forecasts and budgets. The administering authority will endeavour to complete any review within 3 months of request subject to receipt of satisfactory evidence, and will monitor any change in an employer’s circumstances on a regular basis following any change in contribution rate and may require further information from the employer to support this monitoring process.

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

It should be noted that any review may require increased contributions. The administering authority may need to consult other fund employers e.g. where they act as guarantor, as part of a review.

## Appendix G – Ill-health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

Each employer may elect to use external insurance which has been made available by the Fund. The Fund communicates this external insurance option regularly to all employers including new employers.

If an employer provides satisfactory evidence to the administering authority of putting in place an external insurance policy covering ill health early retirement strains, then:

- the employer's contribution rate to the Fund each year is reduced by the amount of that year's insurance premium rate, and
- there is no need for monitoring of ill health allowances versus experience.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the administering authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

## Appendix H – Pass-through and risk sharing

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. If the contractor does not take on the risk (the traditional approach), then there are different approaches that may be adopted.

- i) **Fixed contribution rate agreed** - under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass-through” to the letting employer.
- ii) **Pooling** - under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

The Administering Authority’s preferred approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer\*. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority’s primary rate on the contract start date. Upon cessation the contractor’s assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

The Administering Authority is, however, willing to administer either of the above two options – it will be important that the approach is clearly documented in the Admission Agreement and/or any transfer agreement.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

*\* Catering and cleaning contracts are often outsourced by academies. The Fund expects academies to set up such contracts as pass-through arrangements which are closed to new members, and to confirm that the outsourcing complies with the requirements set out in the ‘DfE Academy Trust LGPS Guarantee policy’. This confirmation should be sent to the Fund ahead of the academy entering into an agreement with the contractor. If confirmation is not provided, the Fund may ask for security to be provided as a condition of admission.*

## Appendix I – Cessation policy

On cessation, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. The administering authority reserves the right to put in place a Deferred Debt Agreement (as described in [Regulation 64 \(7A\)](#)). This is covered in further detail below.

Where there is a debt, payment of this amount in full would normally be sought from the admission body. The Fund's normal policy is that this cessation debt is paid in full as a single lump sum. However, subject to actuarial, covenant, legal and any other advice as necessary, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period. Repayments may be subject to an interest charge and any spreading would always be discussed in advance and agreed with the employer. Such agreement would only be permitted at the Fund's discretion, where the employer can demonstrate that payment of the debt in a single immediate lump sum could be shown to be materially detrimental to its normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time. The length of any spreading period will depend on the employer's financial circumstances and on the strength of any security provided, and ordinarily would not exceed 5 years. The Fund will confirm the spreading period, annual repayments including any interest, and any other costs (e.g. actuarial or legal) payable by the employer prior to the repayments starting. The Fund will monitor the employer's circumstances regularly during the spreading period and may request updated financial information that could trigger a review of the arrangement and repayments. The Fund will endeavour to accommodate any such spreading arrangement or review within 3 months of receipt of the relevant evidence from the employer.

In the rare event that the Fund is not able to recover the required payment in full and there is no guarantor, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. If material, this will require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund. If not, it will be reflected in the contribution rates set at the next formal valuation following the cessation date.

Where there is a surplus, the administering authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the administering authority will consider the extent of any surplus, the proportion of surplus arising as a result of the admission's body's employer contributions, any representations (such as risk sharing agreements - please see Appendix H) and any employer providing a guarantee to the admission body.

### Deferred Debt Agreement (DDA)

As an alternative, where the ceasing admission body is continuing in business, the Administering Authority may enter into a written agreement with the admission body to defer its obligations to make an exit payment and continue to make Secondary contributions (a 'Deferred Debt Agreement' as described in [Regulation 64 \(7A\)](#)).

The admission body must meet all requirements of Scheme employers and pay the Secondary rate of contributions as determined by the Fund actuary until the termination of the DDA. Any such agreement would always be discussed in advance with the admission body, whether at its request or not. The Fund will endeavour to accommodate any agreement within 3 months of receipt of all relevant evidence from the employer as outlined below.

The administering authority will consider DDA's in the following circumstances:

- The admission body requests the Fund to consider a DDA;
- The admission body is expected to have a deficit when the cessation valuation is carried out;

- The admission body is expected to be a going concern; and
- The covenant of the admission body is considered sufficient by the administering authority. Evidence may be required from the admission body to back this up e.g. report and accounts, financial forecasts and budgets.

The administering authority will normally require:

- Security to be put in place covering the admission body's deficit on its cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement to be met by the admission body, such as the cost of actuarial or legal advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements. Estimates of these would be notified to the admission body.

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

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

On the termination of a DDA, the admission body will become an exiting employer.