

# **DRAFT FUNDING STRATEGY STATEMENT**

## **LANCASHIRE COUNTY PENSION FUND**

**[March 2026]**

### **Lancashire County Council**

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

*A glossary of the key terms used throughout is available at the end of this document [here](#)*

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

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

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

**A. Purpose of the Fund and the FSS**

**B. Key funding principles**

**C. Employer events**

This document also sets out the Fund's detailed policies in the following key areas. Please contact Julie Price at [PensionsEmployerRisk@lancashire.gov.uk](mailto:PensionsEmployerRisk@lancashire.gov.uk) for any queries relating to the FSS or Fund policies below.

**1. Demographic Assumption Details (Appendix A)**

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

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

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

**3. Surplus Usage (Appendix C)**

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

**4. New Employer Admission Policy (Appendix D)**

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

**5. Termination Policy (Appendix E)**

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

**6. Inter-Valuation Contribution Review Policy (Appendix F)**

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

## **7. Employer Risk and Covenant Policy, Including Notifiable Events Framework (Appendix G)**

The Fund operates a separate policy to address the risks related to employers who do not have direct or indirect taxpayer backing. These employers are referred to as Category B employers, with taxpayer backed employers in Category A. Further details on the policy is set out [here](#).

## **8. Ill Health Captive Arrangements (Appendix H)**

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for smaller employers. More details are set out [here](#).

## **9. Asset Share Policy (Appendix I)**

Local Government Pension Scheme (LGPS) funds are not legally sectionalised by employer under the LGPS Regulations. The Fund's approach to calculating individual employer asset shares is set out [here](#).

## **10. Redundancy Strain Arrangements (Appendix J)**

For certain employers, an element of surplus can be set aside to fund the cost of redundancy strains. The Fund's policy on this option is set out [here](#).

## **11. Roles and Responsibilities of Key Parties (Appendix K)**

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

## **12. Glossary (Appendix L)**

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

# Section A - Purpose of the Fund and the FSS

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

Ensuring that the Lancashire County Pension Fund has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Lancashire County Council). The Funding Strategy adopted by the Fund is critical in achieving this. The Administering Authority has taken advice from the Actuary in preparing this Statement.

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

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

## **Integrated Risk Managed Strategy**

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

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

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

## **The Regulations**

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively: “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS.

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

### **The Solvency Objective**

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

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

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

### **Long Term Cost Efficiency**

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

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

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

When formulating the funding strategy, the Fund has taken into account these two key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the Fund and "long term cost efficiency" of the Scheme so far as it relates to the Fund.

## **Purpose of the FSS**

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

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent long-term view of funding those liabilities
- To establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency"
- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

<b>The aims of the Fund are to:</b>
Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
Enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the employers
Achieve and maintain solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
Maximise the returns from investments within reasonable risk parameters taking into account the above aims

<b>The purpose of the Fund is to:</b>
Receive monies in respect of contributions, transfer values and investment income, and
Pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations

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

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

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

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

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

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

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

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

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



# Section B - Key Funding Principles

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## Funding Target

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

The results of the 2025 valuation show the liabilities to be [TBC]% covered by the assets, with the funding surplus of [TBC]%.

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

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

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

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

The Fund balances contributions and reliance on investment return by:

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

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

## **Managing Risk**

Funding risks are considered as part of the Fund's overarching risk management framework and strategy. This FSS covers those risks specific to the funding strategy of the pension fund or employer covenant and the measures taken to mitigate those risks. Recent developments alongside the management of other risks (including operational risks) are set out in the Fund's risk register which is reviewed regularly.

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

### **Identification of Risks and Counter-Measures**

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

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

<b>Financial Risks and Mitigations</b>
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"><li>• Economic outlook moves at variance with assumptions</li><li>• Investment markets fail to perform in line with expectations</li><li>• Investment Fund Managers fail to achieve performance targets over the longer term</li><li>• Asset re-allocations in volatile markets may lock in past losses</li><li>• Pay and price inflation are significantly more than anticipated</li><li>• Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions</li><li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements</li><li>• Experience is worse than assumed when assessing the termination liabilities for exiting employers whose liabilities are orphaned in the Fund and are</li></ul>

underwritten by all remaining employers. This would lead to additional costs falling on other employers

### **Mitigations**

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

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

The Fund also takes a prudent approach to ongoing funding with additional protections built in in relation to termination liabilities where these liabilities are orphaned in the Fund – see the termination policy in [Appendix E](#) employer risk policy in [Appendix G](#).

### **Demographic Risks and Mitigations**

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- Potential strains from early retirements for reasons of redundancy and efficiency result in an immediate and unfunded increase in liabilities

Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations

### **Mitigations**

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

The Fund operates an ill health captive ([Appendix H](#)) that is designed to manage the risk of ill-health retirement costs for smaller employers where such costs can be particularly significant.

The Fund's policy on the funding of early-retirement strain costs on the grounds of redundancy ([Appendix J](#)) requires immediate payment of such costs where they might impact on the solvency of the Fund. The Fund regularly monitors the position

in terms of cashflow requirements and considers the impact on the investment strategy

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

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

Governance and employer risks are as follows:-

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

#### **Mitigations**

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. The Fund has a Notifiable Events policy (within [Appendix G](#)) which sets out the information and events that need to be notified to the Fund. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.

The Fund's employer risk policy ([Appendix G](#)) addresses the risk of exits with insufficient funding from employers without another guarantor in the Fund. The policy also covers the monitoring of the covenant of employers deemed to pose a higher level of risk, so that action can be taken for significant changes in affordability/viability.

### **Regulatory Risks and Mitigations**

The key regulatory risks are as follows:-

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

### **Mitigations**

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

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

### **Climate Change**

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

The impact of climate risk cannot be measured with certainty. For the current valuation the fund has considered different climate change scenarios at the Whole Fund level, which have been undertaken relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis.

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

The information on climate risk is used by the fund in two key areas:

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

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

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

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

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

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

1. **Rapid Transition** – there is a highly ambitious low carbon policy and rapid technology transition. Sudden divestments in 2026 to align with the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase is assumed to stabilise at 1.6°C from 2050 onwards.  
[Commentary in relation to impact of funding to be included once analysis completed]
2. **Failed Transition** - No new climate policies are enacted, but transition progresses on economic grounds. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood. Assumed temperature increase of 3.7°C by 2100.  
[Commentary in relation to impact of funding to be included once analysis completed]

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is

currently sufficient. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors so needs to be monitored over time.

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

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

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

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

### **Financial Assumptions**

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

<b>Financial Assumptions</b>	<b>2025 provisional valuation assumption</b>		<b>Description</b>
Investment return / discount rate	Category A and B employers (see employer risk policy <a href="#">Appendix G</a> )	5.25% p.a. (past) and 4.85% p.a. (future)	<p>Derived from the expected return on the Fund assets based on the long-term strategy set out in the ISS, including appropriate margins for prudence. For the 2025 valuation this is based on an assumed return of 2.65% p.a. above CPI inflation (past service) and 2.25% p.a. above CPI inflation (future service).</p> <p>This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.</p>
Inflation (Retail Prices Index)	3.3% p.a.		The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).

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Inflation (Consumer Prices Index)	2.6% p.a. (includes an adjustment of 0.7% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI (reflecting the profile and duration of the Fund's accrued liabilities and 2030 RPI reform), adjusted to remove the estimated impact of supply/demand distortions as well as Bank of England forecasts.  The adjustment to RPI will be reviewed from time to time to take into account any market factors which affect estimated CPI inflation.
Salary increases	4.1% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) – the assumption is determined by an allowance of 1.5% p.a. above CPI as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2025 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period September 2024 to March 2025, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above (noting that for active members indexation of CARE benefits can be less than zero).	
McCloud	A reasonable estimate for the potential cost of McCloud has been included within the 2025 valuation results for each employer. This has been calculated based on the actual data provided for the 2025 valuation and in line with national guidance.	
Expenses	General expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.	

### Demographic Assumptions

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

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



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

<b>Membership Category</b>	<b>Male Life Expectancy at 65 (2022 assumptions)</b>	<b>Female Life Expectancy at 65 (2022 assumptions)</b>
Pensioners	21.8	24.3
Actives aged 45 now	23.5	26.3
Deferreds aged 45 now	23.1	25.8

<b>Membership Category</b>	<b>Male Life Expectancy at 65 (2025 assumptions)</b>	<b>Female Life Expectancy at 65 (2025 assumptions)</b>
Pensioners	20.9	23.5
Actives aged 45 now	22.0	25.0
Deferreds aged 45 now	21.2	24.4

For example, a male pensioner, currently aged 65, would be expected to live to age 85.9. Whereas a male active member aged 45 would be expected to live until age 87.0. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

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

The detailed assumptions adopted are set out in [Appendix A](#).

### **Actuarial Method**

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. (See the section on setting employer contributions below for variations to this for “closed” employers).

The assumptions to be used in the calculation of the funding target and contributions are set out above. Underlying these assumptions are the following two tenets:

- That the Fund is expected to continue for the foreseeable future

- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term

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

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

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

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

- Multi-Academy Trusts (MATs) can opt to have a pooled contribution rate applying to all academies in the MAT (although their assets and liabilities will still be tracked separately)
- For admitted bodies, there will be some instances where the admitted body and the letting employer enter into a “pass-through” arrangement, where some/all of the pension risks are retained by the letting employer. This applies to “small contractor” admissions and potentially other admitted bodies (see [Appendix D](#))

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

### **Employer Asset Shares**

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

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at

each valuation. In addition, the asset shares maybe restated for changes in data or other policies.

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

Further details on the method by which employer assets are determined and tracked over time is set out in [Appendix I](#).

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

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

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

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

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

Asset Class	Asset Allocation	Tolerance Range	Benchmark	Investment Objective
<b>Global Equity</b>	45	40 to 52.5	MSCI All Country World (net dividends reinvested) Index (GBP)	Benchmark +2.0% p.a. over a full market cycle, at least seven years
<b>Private Equity</b>	5	0-to 10	MSCI World SMID (net dividends reinvested) Index (GBP)	Benchmark +2.0% - 4.0% p.a. over a rolling ten year period
<b>Fixed Income</b>	5	0 to 10	Bloomberg Barclays Global Aggregate Bond Index (GBP Hedged)	Benchmark +0.25% p.a. over a full market cycle, at least seven years
<b>Credit</b>	18	12.5 to 22.5	50% Morningstar/LSTA US Leveraged Loans Index (GBP Hedged), 50% Bloomberg Barclays Multiverse Corporate Index (GBP Hedged)	Benchmark +1.0% - 3.0% p.a. over a full market cycle, at least seven years
<b>Real Estate</b>	11	6 to 16	MSCI UK Quarterly Property Index (GBP)	UK CPI +3.0% - 5.0% p.a. over a rolling ten year period
<b>Infrastructure</b>	15	10 to 20	UK CPI + 4% Per Annum.	
<b>Diversifying Strategy</b>	0	0 to 3	HFRI Fund of Funds Conservative Index (GBP Hedged)	Benchmark +1.0% p.a. over a rolling even year period
<b>Cash</b>	1	0 to 5	SONIA	n/a

## **How Employer Contributions are Calculated**

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

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

### **Primary Rate of Employer Contribution**

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

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

Primary contribution rates will vary between employers due to:

- Member profile (age, gender, etc). In particular, primary rates tend to be higher for older members (as their contributions are invested for a shorter period and so are expected to earn less returns)
- Whether the employer is open or closed to new entrants. Open rates are calculate using the Projected Unit method which broadly assumes the age profile will remain unchanged. Closed rates use the Attained Age method, which assumes the age profile will increase. As a result, employers who move from open to closed would see an increase in primary rate
- Whether the employer has (direct or indirect) taxpayer backing – employers without taxpayer backing may have more prudent assumptions applied and so have a higher rate. For such employers further adjustments may apply depending on their covenant. See the Fund’s employer risk policy for details [Appendix G](#)
- Whether the employer is in the ill-health captive. Primary contributions for employers in the captive includes the captive premium (based on the expected cost for the captive as a whole) – see [Appendix H](#). For employer’s not in the captive, an allowance for ill-health based on their own member profile is included

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

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

### **Secondary Rate of the Employers' Contribution**

Secondary contributions are contributions in respect of any deficit or recoverable surplus in the funding position. The secondary rate is calculated using the same assumptions as the funding target (including any variations by employer status and covenant – see [Appendix G](#)).

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

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

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

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

The Fund's policy on setting the deficit recovery plan is [Appendix B](#).

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

The Fund applies a funding buffer for employers in surplus, meaning that an element of surplus is retained in the Fund to increase contribution stability, as the buffer can be used to absorb the impact of negative experience in future and limit the need for contribution increases.

Additionally, some employers may be able to elect to set aside an element of their surplus to fund early retirement strains on redundancy – see [Appendix J](#).

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

Surplus off-sets will usually be expressed as a % of pensionable salary deduction to the primary contribution rate.

The Fund's policy on use of surplus is [Appendix C](#).

### **Payment of contributions – employer options**

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

- Employers facing an increase in total contributions may be allowed to phase in increases so that the target rate is paid in year three. This is achieved by an adjustment to the secondary contributions.
- Employers may have the option of prepaying contributions as a single lump sum, either annually or triennially, in return for a reduction. The reduction will reflect the assumed rate of investment returns (determined using the past

service discount rate). The total amount paid in each year must be in line with the certified contribution rates (meaning top up payments may be required).

- Prepayment of employee contributions is not permitted

### **Payment of Additional Contributions**

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

- To fund awards of additional pension
- Strain costs arising from retirement before normal retirement age on unreduced benefits (excluding any allowance for redundancy strains in the employer's certified contributions, see [Appendix J](#))

The Fund's default position is that such costs are funded by an immediate contribution from the employer. Employers can request an estimate of the potential costs of any such awards from the Fund.

## **Conflicts of Interest**

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

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

## **Actuarial Valuation**

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

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

As the accuracy of the valuation calculations and resulting contributions is reliant on the accuracy of the membership data used, employers have a critical role in this



process ensuring that the employee information provided to the Fund is as accurate as possible.

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

The actuarial valuation report:

- Shows the aggregate funding position for the Fund as a whole as compared with the previous valuation
- Sets out a summary of the key reasons for the change in funding position and a summary of key inter-valuation experience
- Includes sensitivity analysis and commentary to support understanding of the key risks
- Summarises the key financial and demographic assumptions alongside the underlying membership and investment data as at the valuation date
- Includes a primary and secondary contribution rate for the Fund as a whole, equal to the pay weighted average rates for percentage of pay contributions, and the total amount for cash adjustments.
- Includes information required by the Government Actuary's Department for the purpose of undertaking its Section 13 assessment
- Includes information for the Fund as a whole (and certain employer groups) in relation to the Gender Pension Gap

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

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

The Fund's policy on undertaking an interim review of contributions is set out in [Appendix F](#).

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

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

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

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

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

## **Employer Covenant**

Covenant is the employer's legal obligation and financial ability to meet their obligations to the Fund. The covenant of certain employers is assessed to understand its' current strength and how it could change in the future. This assists the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and contributions. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer covenant can be subject to substantial variation over relatively short periods, so regular monitoring and assessment may be undertaken. The relevant employers' covenants will be assessed and monitored objectively in a proportionate manner and the results considered when determining an individual employer's funding strategy.

The Fund has established a proportionate covenant assessment and monitoring framework as part of the employer risk policy which is set out in [Appendix G](#).

This includes the Fund's notifiable events framework which specifies the types of event or changes in circumstances that employers will be obliged to notify the Fund about. This is necessary as timely reporting to the Fund of events that have the potential to materially impact on employer covenant strength is critical to the management and monitoring of employer covenant risk.

A significant change in covenant may trigger a review of contributions, as set out in the inter-valuation review policy [Appendix F](#).

## **Guarantors**

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

There are two common types of guarantee:

- Full guarantee – the guarantor fully indemnifies the Fund in respect of the employer. Once the employer exits, the guarantor 'subsumes' their liabilities and residual assets (after any termination payment/exit credit is made)



- ‘Guarantee of last resort’ – the guarantor agrees to cover only the exit debt if there is one, but does not subsume the exiting employer’s assets and liabilities on termination. Instead the assets and liabilities are “orphaned – i.e. become the responsibility of the Fund as a whole

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

- The approach to covenant review – depending on the guarantee, employers may be subject to less/no contribution monitoring (see [Appendix G](#) – employer risk policy)
- The funding assumptions and so contributions payable – employers without a taxpayer guarantee may see higher contributions (see [Appendix G](#) – employer risk policy)
- The assumptions used to assess any deficit/surplus on termination – employers without a full guarantee see additional prudence in their termination assessment, to protect the ongoing employers as they would underwrite the termination liabilities going forward (see [Appendix E](#) – termination policy)
- Whether a bond or other security is required to support the admission – this is typically applied on admission (see [Appendix D](#) – admission policy)

## **Admission Bodies**

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

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

Further information on this is set out in [Section C](#) of this FSS and the Fund’s approach to such risk management when an admitted body joins the Fund is set out in [Appendix D](#).

## **Pension Administration Strategy**

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

Alongside the triennial actuarial valuation, there will be a number of occasions where the Actuary will use updated membership data to carry out its calculations, as referenced in the next section e.g. terminations (where an exit debt/credit is to be assessed in full), inter-valuation contribution rate reviews, new admissions, bulk transfers, and in some cases accounting calculations where a significant event has occurred during the accounting period. To ensure membership data is as accurate as possible, the Fund undertakes regular data quality assessments (including against requirements set out by The Pensions Regulator) and also instructs the Actuary to undertake independent inter-valuation data quality assessments.

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

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## Section C - Employer Events

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

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

### **Joining the Fund**

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

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

#### **Initial Funding Calculations**

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

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

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

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

### **Initial Contribution Rate Assessment**

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

- The type of employer, with some having detailed calculations based on their membership, and others having a simplified approach applied
- Whether the new body will be open, or closed to new entrants
- Whether any funding deficit or surplus is ultimately transferred and the impact on contributions.

### **LEA Schools Converting to Academy Status**

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

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

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

While the Fund treats each academy as a separate employer, and tracks their assets and liabilities separately, if requested the Fund does allow all employers in the MAT to pay a single pooled contribution rate.

Any new academies joining an existing MAT paying a pool would contribute at the grouped employer contribution rate already established for the MAT (although the Fund reserves the right to review the pooled MAT rate if the impact of the new academy is deemed to be significant ).

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

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

The high-level principles and considerations for exiting employers are set out below. The details of the calculation of the exit position are contained within the admission policy [Appendix E](#).

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

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

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

### **Deferred Debt Agreements**

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

### **Suspension Notices**

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

### **Partial Terminations**

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

The Fund's default position is that such arrangements are not permitted. The position would be reconsidered only in the event that a) the legal basis for such arrangements is established to the satisfaction of the Fund after taking its own legal advice, and b) it was deemed to be in the best interests of the Fund as a whole (which is not expected to be the case except in very exceptional circumstances).

## **Bulk Transfers**

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

- internal (or "intra-fund") transfers, where the two employers both participate in the Fund

- external to the Fund, where one of the employers participates in a different LGPS Fund
- external to the LGPS, where members are transferring to/from a non-LGPS pension fund

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

### **General Principles**

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

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

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

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

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

### **External Bulk Transfers**

For external transfers to other LGPS Funds, the assets transferred to/from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the Fund actuaries (with input from the administering authority, and potentially the relevant Fund employer, as required).

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

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

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# Appendix A - Demographic Assumptions

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

## Life Expectancy Assumptions

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

Current Status	Retirement Type	Mortality Table*
Male Annuitant	Normal health	112% S4PMA CMI 2024 1.5%
Female Annuitant	Normal health	103% S4PFA_M CMI 2024 1.5%
Male Annuitant	Dependant	138% S4PMA CMI 2024 1.5%
Female Annuitant	Dependant	119% S4PFA_M CMI 2024 1.5%
Male Annuitant	Ill health	116% S4IMA CMI 2024 1.5%
Female Annuitant	Ill health	119% S4IFA CMI 2024 1.5%
Male Annuitant	Future dependant	138% S4PMA CMI 2024 1.5%
Female Annuitant	Future dependant	119% S4PFA_M CMI 2024 1.5%
Male Active	Normal health	119% S4PMA CMI 2024 1.5%
Female Active	Normal health	106% S4PFA_M CMI 2024 1.5%
Male Active	Ill health	175% S4IMA CMI 2024 1.5%
Female Active	Ill health	190% S4IFA CMI 2024 1.5%
Male Deferred	All	133% S4PMA CMI 2024 1.5%
Female Deferred	All	116% S4PFA_M CMI 2024 1.5%
Male Active/Deferred	Future dependant	153% S4PMA CMI 2024 1.5%
Female Active/Deferred	Future dependant	158% S4PFA_M CMI 2024 1.5%

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

## Pre-Retirement Mortality

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

## Ill-health retirement

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



Age	Male	Female
25	0.02	0.01
35	0.03	0.03
45	0.09	0.09
55	0.41	0.36

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

### Withdrawal

Based on LGPS wide experience – sample rates below:

Age	Male	Female
25	20.3	22.4
35	5.1	6.3
45	2.5	3.9
55	0.8	1.2

### Commutation

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

### Proportions Married/Civil Partnerships

Based on LGPS wide experience – sample rates below:

Age	Male	Female
25	27	37
35	64	66
45	69	67
55	68	65
65	69	62
75	69	53

### Early Retirement

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

Age	% retiring per annum
60	10
61	8
62	8
63	8
64	8
65	100

**Discretionary Benefits**

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

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# Appendix B - Deficit Recovery Plans

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

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

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

## Employer Deficit Recovery Plan – Key Principles

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

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

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

Recovery periods will be set based on the following principles:

Employer Type	Recovery Period	Derivation
Existing open employers	Minimum 10 years	Reduce by 3 years from the previous valuation
New open employers	10 years	Fixed value
Closed employers	Linked to the expected average future working lifetime of the active membership	
Employers with a limited participation in the Fund (where appropriate)	Determined on a case by case basis based on length of expected period of participation in the Fund.	

# Appendix C - Surplus Usage

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## Key Objectives

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

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

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

## Surplus Usage Approach

The Fund's approach to determining how any surplus assets are used when setting contributions for employers is set out below.

## Buffer

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

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

As well as considering the financial and demographic outlook, the Fund will consider:

- The overall affordability of contributions (including future service contributions) and the impact of any contribution reductions on future covenant strength
- The Fund's investment strategy
- Whether an employer is likely to exit the Fund in the near future and terminate its participation in the Fund. This may mean nil, or a reduced amount of

surplus may be returned to the employer, and the final surplus would be determined on exit and the appropriate exit credit paid

When determining employer contributions, only surplus in excess of the buffer will be run-off over time via a reduction to the future service contribution rate (“the contribution off-set”). Note – for Category B employers the off-set will also be limited based on any termination surplus if lower (see the employer risk policy for details).

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

For the 2025 valuation, the buffer will be 120% (i.e. only surplus over a funding level of 120% will be distributed as off-sets).

### **Spreading period**

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

<b>Employer Type</b>	<b>Recovery Period</b>	<b>Derivation</b>
Open employers	20 years	Fixed value
Closed employers	Linked to the expected average future working lifetime of the active membership	
Employers with a limited participation in the Fund (where appropriate)	Determined on a case by case basis based on length of expected period of participation in the Fund.	

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

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

### **Monitoring and fund discretion**

The Fund retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under certain circumstances. This would typically involve a more detailed covenant review and analysis, and employers would be required to adhere to the requirements of the notifiable events policy.

# Appendix D - Admission Policy for New Employers

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## Policy Objectives

Risk mitigation	The Fund, in managing the admission process, aims to mitigate risk as far as possible within its risk management framework. The admission process reflects this framework
Efficient Processes	The Fund, in managing the admission process, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes
Costs of Managing Admissions	<p>The Fund will pass on relevant adviser costs to new employers, while also seeking to minimise these costs.</p> <p>The Fund will also recover its own costs and apply a charging framework that encourages early engagement between involved parties and reflects the additional costs involved when admission requests are not made in good time.</p> <p>It is essential that the Fund be given adequate notice of employers' plans around contracting-out exercises and other structural or organisational changes which will result in a new application for admitted body status; to this end the Fund's charging framework reflects the extra costs associated with 'late' admissions.</p>
The Fund's Default Position	<p>This document lays out the Fund's default position / policies when employers enter the Fund. All aspirant employers should make themselves aware of, and are assumed to accept, these default policies and practices.</p> <p>The Fund may deviate from the default position where individual circumstances warrant this (in these circumstances the relevant employers will be notified). Should an employer wish to deviate from the default position then this may be allowed at the sole discretion of the Fund (and the Fund's charging framework will reflect the additional cost of doing so).</p> <p>The Fund has discretion over many employers it chooses to admit, and whilst it wishes to see members retain the benefits of ongoing LGPS membership, it may not accept applications from employers which have not previously adhered to the Fund's Pensions Administration Strategy Statement.</p>

## **Background**

Certain employers, such as Councils, academies and further and higher education corporations, are entitled to join the Fund. Other employers – “designated bodies” – can designate eligibility for individuals / where they pass a resolution to that effect. Other employers – “admission bodies / admitted bodies” – do not automatically qualify for admission and must instead satisfy certain criteria. Admitted bodies also need a written admission agreement to be admitted and participate in the LGPS.

New employers joining the Fund will almost always be one of following:

- Academies
- Town or Parish Councils – who would be designated bodies
- “Transferee” admission bodies – typically contractors providing a service to another employer in the Fund
- “Community” admission bodies – typically local organisations providing a not-for-profit service

The approach for these employers is set out below. Should any other type of employer seek to join the Fund, the Fund will determine the process based on the individual circumstances.

## **Admission criteria for admitted bodies**

The Fund may make an admission agreement with any admission body that satisfies the required criteria below. An admission agreement will enable all (or any specified class) of the admission body's employees to be members of the LGPS and participate in the LGPS.

Any application for admitted body status must be submitted to the Fund in good time to enable the process to be dealt with in advance of admission. Applications should be submitted at least three months before the proposed transfer or admission date.

The criteria for admission to the Fund for admitted bodies are as follows:

<b>Transferee Admission Bodies</b>  <i>(Schedule 2 Part 3 1 (d) (i) of the regulations)</i>	<p>These admissions relate to organisations that have taken on work on behalf of a scheme employer by means of a contract or other arrangement.</p> <p>Under the regulations the transferring scheme employer will act as a guarantor in respect of the admission.</p> <p>Fund policy is to accept these admissions, but may not do so if there are unaddressed concerns around the prior compliance with the Fund's Pensions Administration Strategy Statement (PASS). The Fund dedicates significant resource to supporting employers with PASS compliance, and will engage on an ongoing basis with employers</p>
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	<p>proactively to ensure they understand and meet PASS commitments.</p> <p>Unless exceptional circumstances are identified the default position will be for the admitted body to commence from a 100% funded position and be closed to all but those eligible employees identified at the point of transfer.</p> <p>In addition, where it is deemed appropriate, following a risk analysis agreed by the transferring Scheme employer and Fund, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund Actuary or the Fund. The Fund reserves the right to insist on security even if the transferring employer does not agree.</p> <p>Fund policy is that the transferring scheme employer in its role as guarantor will subsume any ongoing assets and liabilities at exit (and so any residual surplus / deficit after the termination process is complete).</p>
<p><b>Community Admission Bodies</b></p> <p><i>(Schedule 2 Part 3 1 (a) of the regulations)</i></p>	<p>The Fund will expect an existing scheme employer to act as guarantor for the admission (normally the Fund will require this to be a scheduled body of suitable standing).</p> <p>Otherwise, the Fund's policy is not to accept admissions unless exceptional circumstances apply, as determined by the Fund.</p> <p>Where an admission is agreed, following a risk analysis agreed by the Fund, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund Actuary or the Fund.</p>
<p><b>Care Trusts</b></p> <p><i>(Regulation 4 (2) (b))</i></p>	<p>An application for an admission agreement from a Care Trust will be accepted on the basis that a guarantee will exist (or if in doubt, be explicitly provided) by either the NHS or the Local Authority as part of partnership working arrangements, or ultimately the Treasury in the event that a trust failed.</p>

In all cases an admission body must accept and agree to meet the requirements of the Local Government Pension Scheme Regulations, the employer obligations set out in the Fund's Pensions Administration Strategy Statement, and the clauses set out within Fund's standard draft admission agreement.

The value of any bond may be reviewed by the Fund periodically, and where appropriate the Fund may require an increase in (or reduction of) any bond as

required, or the renewal of the bond as appropriate. Similarly, the Fund may review the value of any security, and require additional protection where this is deemed necessary.

The Fund's default position is that it will not amend its standard admission agreement template. Should a prospective admitted body wish to enter into discussions around changing clauses within the template, then the staff time involved on the Fund side will be charged at £50 per hour

## **Initial contribution rate and funding position**

On admission, the new employer is allocated initial assets and liabilities (a funding position), and a contribution rate. There will be a provisional assessment of the funding position (where applicable) and contributions on admission, with the funding position being reviewed and new contributions set at the next actuarial valuation.

The default approach to the initial assessment for new employers is as follows:

### **Default approach**

- **Treatment on admission:** The new employer's liabilities are set equal to the estimated value of the benefits of the transferring members, for which the new employer is now liable. The assets allocated to the employer are set equal to the liabilities (a "fully funded" position).
- **Provisional assessment:** Liabilities and contributions assessed by the Fund Actuary based on member data in line with Fund's assumptions and policies as set out in the FSS.
- **Next actuarial valuation:** Full assessment of the position by the Fund Actuary based on updated member data, allowing for any relevant policy updates.

**Notes:** When the employer exits the Fund any identified deficit or surplus will be dealt with in line with the approach set out in the Fund's termination policy.

There are several common types of admission where the default is not applied, and/or where a simplified approach to the provisional assessment is taken in the interests of minimising costs for all involved:

### **Academies**

- **Treatment on admission:** The new employer's liabilities are set equal to the estimated value of the benefits of the transferring members. The assets are not set equal to the liabilities – the employer takes on a share of the ceding Council's deficit or surplus (and a share of any funding buffer where applicable), such that their certified secondary contributions at the point of transfer are the same before and after conversion (with the same recovery period, subject to a minimum initial funding level of 0% and a maximum of 200%).
- **Provisional assessment:** The position is not assessed by the Fund Actuary using full member data. Instead a provisional funding position is set based on

summary data, and with initial contributions will be set equal to those of the ceding Council (as a percentage of pay).

- **Next actuarial valuation:** The initial funding position will be formally assessed based on the academy's individual member data, and contributions will be set reflecting the academy's own membership.

**Notes:** The above assumes that the new academy is an ex-LEA school. Where this is not the case (e.g. for a free school) then the above approach will be adjusted accordingly.

**Multi Academy Trusts (MATs) paying pooled rates in the Fund:** If a new academy is part of a MAT that pays a pooled rate within the Fund, then on admission they will generally pay the pooled MAT rate until the next valuation, although the Fund reserves the right to review the pooled MAT rate if the impact of the new academy is deemed to be significant.

#### **Parish or Town Councils**

- **Treatment on admission:** Typically in line with the default above.
- **Provisional assessment:** No initial assessment of the funding position. Temporary contribution rates are used based on the most recent valuation funding assumptions and the average age of member/s involved.
- **Next actuarial valuation:** A funding position and contribution rates based on the employer's own membership are assessed as part of the next actuarial valuation.

**Notes:** Where the initial position is not fully funded (e.g. because a member has an earlier period of LGPS service that they wish to link to service with the Parish or Town Council), then the case will be referred to the Fund Actuary.

#### **“Transferee Admission Bodies” – small contractors**

- **Treatment on admission:** The employer is pooled with the transferring employer and so is not treated as a separate employer for funding or contribution purposes.
- **Provisional assessment:** The employers contributions are set equal to the outsourcing employer's primary rate.
- **Next actuarial valuation:** The new employer will pay the outsourcing employer's updated primary rate.

**Notes:** New employers meeting all of the criteria below will be classed as small contractors (unless the body and the outsourcing employer agree otherwise at the outset of the contract):

- The admission body is fully funded at the outset
- The number of transferring pensionable employees is less than 2% of the transferring employer's payroll
- The number of transferring pensionable employees is less than 20
- The contract length is limited to a maximum of 5 years

Under this approach the original transferring employer subsumes the assets and liabilities at the end of the contract without a termination calculation being carried out. This principle also applies where a contract is re-let to either an incumbent or new contractor.

In particular, where an admission takes place under this approach, then both the admission body and original transferring employer accept that the admission body is not entitled to any exit credit, or responsible for any termination payment, when the admission agreement ends.

With the agreement of the Fund and outsourcing employer, other new employers may be also be assessed under the above approach.

In particular, where the transferring employer is an academy or FE College, DfE has confirmed that use of a this type of approach (a “pass-through” arrangement), will mean that the admitted body is covered by the DfE LGPS Guarantee. As such, for any such cases that do not fall under this approach, the academy or FE College is required to engage with the Fund and DfE to ensure the guarantee applies.

### **Alternative approaches**

Transferring employers will be able to propose the use of other models, security arrangements or termination deficit calculations. However, the Fund will not instigate discussion around such and will assume the transferring employer accepts the above approach unless stated otherwise. Where the transferring employer deviates from the standard approach Fund permission will be required and any additional costs incurred will be passed on to the admission body and/or transferring employer (as appropriate).

## **Charging Structure**

### **'Tariff' Charges – Recovery of administration costs**

- Admission agreement - £1,000
- New Academy – £350

### **'Non-Tariff' Charges – Recovery of costs**

The above represents the charging structure for new admission agreements and academies using the Fund's default position. Where employers choose to deviate from the Fund's default position the Fund's costs will be recovered at a rate of £35 per hour in addition to the 'tariff' rates above.

Where 'late' admissions occur, the 'tariff' rates above will be doubled. 'Late' within this context means where the admission agreement is signed by the prospective admitted body after the transfer date and the appropriate pension contributions have not been paid across to the fund on or before the due date. To be clear the due date is 19 days after the end of the month in which the transfer date occurs.

The Fund commits to processing model-based admissions within a month of first becoming aware of an impending admission, provided that all information needed to complete the admission has been provided to it at the outset of the process.

### **Recovery of Other Costs**

Actuarial, Legal and any other costs incurred by the Fund in direct relation to an admission will be recovered from the new employer.

## **Risk Management**

When an admitted body joins the Fund, the regulations require that a risk assessment be carried out. The purpose of this risk assessment is to ensure that any liabilities which arise from the admission are paid for by the admitted employer.

Whilst circumstances can vary, in general terms, under a contracting-out arrangement the transferring employer 'guarantees' the new employer's liabilities, in the event (due for example to insolvency) that any liabilities are not paid when due. Transferring employers can, in conjunction with the Fund, decide that security measures be put in place to mitigate against this risk.

Such matters require context and judgement in applying the regulations – for example if the potential liabilities are small in comparison to the transferring employer's financial strength, then the risk assessment and mitigation process may in itself be disproportionate, time consuming and costly relative to the risks involved.

The default position is that the Fund will carry out an assessment of risk (other than for small contractors above), and will notify the transferring employer of this, but will only engage in active discussion with the transferring employer if it considers that security measures are required. If the transferring employer insists on security despite the Fund's viewpoint, then the work involved by the Fund in setting up and agreeing security measures will be charged at £35 per hour.

Where an admitted body joins the Fund under the exceptional circumstances route the Fund will carry out a risk assessment and will only accept the admission if is satisfied with the mitigation mechanism proposed.

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# Appendix E - Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements

This document sets out the default approach adopted by the Lancashire County Pension Fund (“the Fund”) when an employer’s participation is terminated and they exit the Fund.

While this document sets out the Fund’s default policy, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Head of Fund acting on the advice of the Fund Actuary (or other advisers as appropriate)).

## **Policy Objectives**

Risk mitigation	The Fund, in managing the exit process, aims to mitigate risk as far as possible, within its risk management framework. The exit process reflects this framework
Efficient Processes	The Fund, in managing the exit process, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes
Costs of Managing Terminations	<p>The Fund will pass on relevant adviser costs to terminating employers, while also seeking to minimise these costs.</p> <p>The Fund will also recover its own costs and apply a charging framework that encourages early engagement between involved parties and reflects the additional costs involved when termination requests are not made in good time.</p>
The Fund’s ‘Default’ Position	<p>This document lays out the Fund’s default position / policies in various areas when employers exit the Fund. All existing or aspirant employers should make themselves aware of, and are assumed to accept, these default policies and practices.</p> <p>The Fund may deviate from the default position where individual circumstances warrant this (in these circumstances the relevant employers will be notified). Should an employer wish to deviate from the Fund's default position then this may be allowed at the sole discretion of the Fund (and the Fund's charging framework will reflect the additional cost of doing so).</p>



## **Background**

The Fund must obtain an actuarial assessment showing the exit position when a body ceases to be a scheme employer or no longer has any active members. This “exiting” employer may, depending on the details of their admission to the Fund, be liable for the exit position, be this a “exit payment / termination payment” due to the Fund or an “exit credit” due to the exiting employer. This applies equally to all scheme employers participating in the Fund, regardless of whether an admission agreement is in place. The purpose of settling the exit position is to ensure all future liabilities arising from the exiting employer's members are met by the employer at the time of exit, and that any excess assets above this are allocated appropriately.

Once the exiting employer has left the Fund their assets and liabilities within the Fund, including any termination payment that cannot be recovered from the exiting employer, will become the responsibility of the guarantor or successor body within the Fund where one exists, or the responsibility of the Fund as a whole (i.e. all scheme employers) otherwise.

## **Policy Statement**

A termination assessment will normally be carried out for bodies who cease to be an employer within the Fund, the actuarial cost of which will be charged to the exiting employer, together with any other related costs of the termination. The exception to this will be those admission bodies where it is agreed that liabilities will be subsumed by the relevant transferring scheme employer.

### **Exit credits and termination payments**

The Fund's policy on termination payments and exit credits is:

- a) **Where there is no guarantor employer within the Fund** who will subsume the assets and liabilities on exit, any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus assessed on the termination assumptions will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then “orphaned”, meaning that they become the responsibility of the Fund as a whole (i.e. all scheme employers in proportion to the size of their Fund assets).
- b) **Where a guarantor employer within the Fund exists** who would subsume the assets and liabilities of the outgoing employer, **and there is no “risk-sharing” arrangement** (meaning the exiting employer is responsible for their final position in the Fund), any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then the responsibility of the guarantor. (Depending on circumstances, the Fund may demand immediate payment of any unrecovered termination amount from the guarantor).

- c) **Where a guarantor employer within the Fund exists and there is a risk sharing agreement**, the assets, liabilities and any deficit or surplus will be subsumed by the guarantor (this will be adjusted as appropriate in any cases where there is a partial risk sharing arrangement).

Where a guarantor attempts not to underwrite the residual liabilities, the Fund will challenge this (and seek to recover any related costs from the guarantor). However, should the guarantor be successful, the outgoing employer will be treated as having no guarantor within the Fund for the purposes of the termination assessment.

**Exit credits and termination payments – employers with a FUND guarantor**

Where an exiting employer has a guarantor within the Fund, other than for “small contractors” as defined above, it will be necessary to determine which of b) and c) above applies. In such cases the Fund’s policy will be as follows:

- The Fund will contact both the exiting employer and the guarantor to confirm whether there is a “risk-sharing” arrangement in place, and to ask for any evidence of this
- Where both sides agree as to the nature of the arrangement, the termination assessment will be progressed in line with the agreed approach
- Otherwise, the Fund’s normal policy will be to proceed assuming the exiting employer is responsible for any termination payment, and so is entitled to any exit credit

Once the termination is complete, the two parties will be notified of the outcome. At that point either party will have 1 month to dispute the outcome. If this happens then payment of any exit credit will be put on hold, and the dispute will be resolved as follows:

- In the first instance, the two parties will be expected to resolve the dispute “externally”, without input from the Fund. The Fund will not become involved in any dispute between the two parties until all other avenues have been explored
- Where this does not lead to a resolution, then the case will be handled in line with the Fund’s Internal Dispute Resolution policies
- Where this does not resolve the issue, the case will be referred to the Pensions Ombudsman

The Fund may seek to recover any costs associated with the dispute resolution process as part of the final termination settlement.

Where an exit credit may be payable the Fund will have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount and subsequent treatment, and this is reflected in the processes laid out in this document.

### **Funding assumptions for termination calculations**

For non-guaranteed employers it is important to strike a fair balance between the exiting employer and the remaining Fund employers who will assume responsibility for their liabilities, and the policy is designed to achieve this. So while the default position is set out below, where market conditions at exit are such that the Fund believes (having consulted the Fund Actuary) that this does not provide sufficient protection to the remaining employers, then the approach will be amended to reflect this. Where a termination is sufficiently large the Fund may seek the input of their investment advisers on how the remaining assets could be invested to protect the remaining employers and therefore what a suitable discount rate would be on termination to reflect the expected return on these assets. If the Fund were to move from the default policy below then the employer would be notified.

The default Fund policy is that:

- Where the exiting employer has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities, the employer's valuation funding basis (suitably updated as advised by the Fund Actuary) will be used for the termination assessment. The guarantor or successor body will then, following any termination payment or exit credit made, subsume the remaining assets and liabilities of the exiting employer within the Fund. This may, if agreed by the successor body and the Fund, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself
- Otherwise, for "non-guaranteed" employers the assumptions will be on the Fund's "Termination Basis" as follows:
  - o A discount rate based on the lower of:
    1. The long-term gilt yield
    2. The category B (lower risk) valuation funding discount rate (assuming no bond is in place, derived relative to the CPI assumption for funding purposes), updated as advised by the Fund Actuary
  - o CPI assumption derived in line with the valuation funding assumptions but with any Inflation Risk Premium removed
  - o A mortality assumption based on the Fund's valuation mortality assumptions, allowing for higher long-term improvements
  - o All other assumptions in line with the valuation funding assumptions

Where the above assumptions are based on bond yields, these will all be of a suitable duration to match the individual employer's liabilities.

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

The policy when an academy exits is as follows:

- Where it is a stand-alone academy (or a MAT in full), the "non-guaranteed" approach above will be used, as although the DfE provide a guarantee in

these circumstances, they are not an employer in the Fund, and the nature of that guarantee does not include long-term responsibility for the liabilities. This policy will also apply to other exiting employers with a similar guarantee.

- Where it is part of a MAT which is remaining within the Fund, the “guaranteed” approach will normally be used, as the MAT would be responsible for the ongoing assets and liabilities and so is in effect the Fund guarantor. In practice in some circumstances the Fund and the MAT may agree that no termination calculation is necessary, in which case the MAT will take over the deficit contributions of the former academy.

The Fund would encourage employers who are either considering exiting the Fund or believe that an exit may be triggered to engage with the Fund at the earliest opportunity so that the approach to be applied can be agreed and confirmed.

### **McCloud**

All termination assessments will include an allowance for of the liabilities in relation to the McCloud judgment (estimated where required).

### **Notification of Termination**

In many cases, termination of an employer’s participation is an event that can be foreseen, for example, because the organisation’s operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Fund becoming aware of such circumstances, it can amend an employer’s minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Fund that it will cease to be a participating employer.

In this case, employers are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body’s approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

When the Fund is notified of termination in advance, the standard approach is that the termination assessment will be based on market conditions at the actual date of exit from the Fund. However, in exceptional circumstances the Fund may consider agreeing elements of the market conditions in advance for a limited period. This is entirely at the discretion of the Fund.

### **Termination and Exit Credit Payments**

The Fund’s default policy is to recover termination deficits (including interest and expenses) as a one-off payment, within 30 days of formal notification.

In line with the governing regulations, any exit credits will be paid to the exiting employer within 6 months of cessation (subject to availability of data, co-operation of the relevant parties and the need to resolve any disputes), or such longer period as may be agreed in the individual case.

The actuarial cost of carrying out the termination assessment will be charged to the outgoing employer, together with any other related costs of the termination. These may be offset against any exit credit due.

### **Alternatives to termination and immediate payment**

The Fund's default policy is for any termination payment due to the Fund to be paid (adjusted for interest where appropriate) following the termination assessment in line with the approach stated above.

However, at the sole discretion of the Fund, suspension of the termination payment, instalment plans over an agreed period, or a "Deferred Debt Agreement" may be agreed to.

If an employer wants to use one of these options, they must make a request in writing covering the reasons for such a request. Any deviation from the default policy will be based on the Fund's assessment of whether the employer is likely to take on new members in the near future (for a suspension notice only), whether the full exit debt is affordable, and whether it is in the interests of taxpayers to adopt any of the alternative approaches. In making this assessment the Fund will consider the covenant of the employer and whether any security is required and available to back the arrangements, and will apply a proportionate approach depending on the relative materiality of the amounts involved.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

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

### **Suspension notice**

The regulations allow the fund to suspend (by issuing a "suspension notice") an exiting employer's liability for an exit payment for any period up to 3 years. This is only possible where, in the reasonable opinion of the Fund, the body is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice. On this point, the Fund will always seek to recover the exit payment due at the point no more active members exist, unless it can be demonstrated that exceptional circumstances apply to allow a suspension period to apply.

### **Spreading of exit payment (Debt Spreading Arrangement – DSA)**

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

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1. The Fund will firstly consider whether it would be in the best interests of the Fund to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
2. For this purpose, where necessary the Fund may request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
3. Depending on the length of the spread period and the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payment.
4. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
5. The initial process to determine whether an exit debt should be spread may take up 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time.
6. If the Fund's assessment confirms that the potential exit debt is not immediately affordable, the Fund will engage in discussions with the employer about the potential spreading of exit payments. As part of this, the following will be considered and agreed:
  - a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
  - b. The initial and annual payments due and how these will change over the period.
  - c. The interest rates applicable and the costs associated with the payment plan devised.
  - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
  - e. The responsibilities of the employer during the exit-spreading period including the supply of updated information and events that would trigger a review of the situation.
  - f. The views of the Actuary, covenant and legal advisors and any other specialists necessary.
  - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
  - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances).

7. The Fund will then make a final decision on whether it is in the best interests of the Fund to allow spreading of the termination payment. Once the Fund has reached its decision, the arrangement will be documented and any supporting agreements will be included.

### **Deferred debt agreement (DDA)**

As opposed to paying the exit debt, an employer may request to participate in the Fund with no contributing members and utilise a “Deferred Debt Agreement” (DDA).

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

1. The Fund will firstly consider whether it would be in the best interests of the Fund to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
2. For this purpose, where necessary the Fund may request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
3. The Fund may request security to protect the Fund before entering into such an arrangement.
4. This could include a lump sum up front to reduce the size of any potential termination debt.
5. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Fund enters into such an arrangement needs to make the request in advance of the potential exit date.
6. If the Fund’s assessment confirms that the potential exit debt is not affordable, the Fund will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement that will be based on the principles set out in the Scheme Advisory Board’s separate guide. As part of this, the following will be considered and agreed:
  - a. What security the employer can offer (generally the Fund won’t enter into such an arrangement unless they are confident the employer can support the arrangement on an ongoing basis, but in certain cases security may still be required). Provision of security may also result in a review of the recovery period and other funding arrangements.
  - b. The funding assumptions and investment strategy that would be applied to the employer.



- c. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
  - d. What the updated secondary rate of contributions would be required up to the next valuation.
  - e. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
  - f. The advice of the Actuary, covenant, legal and any other specialists necessary.
  - g. The responsibilities that would apply to the employer while they remain in the Fund.
  - h. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
  - i. The circumstances that would trigger changes to the deferred debt agreement, including a cessation of the arrangement and an exit payment (or credit) becoming payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
  - j. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.
7. The Fund will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.
8. For employers that are successful in entering into a Deferred Debt Arrangement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.

## **Charging Structure**

### **'Tariff' Charges – Recovery of administration costs**

- Admission agreement - £1,000
- New Academy – £350

### **'Non-Tariff' Charges – Recovery of costs**

The above represents the charging structure for new admission agreements and academies using the Fund's default position. Where employers choose to deviate from the Fund's default position the Fund's costs will be recovered at a rate of £35 per hour in addition to the 'tariff' rates above.

### **Recovery of Other Costs**

Actuarial, Legal and any other costs incurred by the Fund in direct relation to an admission will be recovered from the new employer.

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# Appendix F - Review of Employer Contributions Between Valuations

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This document sets out the default approach adopted by the Lancashire County Pension Fund to reviewing employer contributions between valuations.

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

## Policy Objectives

<b>Risk Mitigation</b>	The Fund, in maintaining employer contributions at appropriate levels, aims to mitigate risk as far as possible, within its risk management framework. The inter-valuation contributions review policy reflects this framework.
<b>Efficient Processes</b>	The Fund aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes.
<b>Costs of Managing contribution reviews</b>	Where an employer instigates the review, the Fund may pass on relevant adviser costs to the employer being reviewed, and will also recover its own costs from employers, but will aim to conduct the reviews in a manner that seeks to minimise these costs. Where circumstances warrant, the Fund may also seek to recover costs in cases where the review is instigated by the Fund.

## **Background**

In line with Regulations that came into force on 23rd September 2020, the Fund has the ability to review employer contributions between valuations as follows:

- The Fund may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
- The Fund may review the contributions of an employer where there has been a significant change in the employer's covenant.
- An employer may request a review of contributions from the Fund if they feel that either point 1 or point 2 applies to them.

## **Policy Statement**

The Fund may conduct a review when:

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

Where the funding position for an employer significantly changes solely due to a change in market conditions, assets, and/or actuarial assumptions, contribution reviews are not permitted. However changes in assets may be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change.

MHCLG confirmed its view (as set out in Scheme Advisory Board statement on surpluses issued in December 2023) that generally local authorities and other tax-backed employers are not subject to a change in covenant as they have a statutory obligation to pay employer contributions to the fund in which they participate. The Fund will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in an increase in contributions, or no change in the current certified contributions. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next actuarial valuation date.
- However, where there has also been a material change in covenant, a review will be considered on a case-by-case basis which will determine if and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

The employer would be required to pay the costs of any review conducted at their request following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Fund). Where circumstances warrant, the Fund may also seek to recover costs in cases where the review is instigated by the Fund.

## **Situations where contributions may be reviewed**

Contributions may be reviewed if the Fund becomes aware of any of the following scenarios. Employers will be notified if this is the case. Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

### ***1) Significant changes in the employer's liabilities***

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
  - i. Restructuring of an employer
  - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
  - iii. A bulk transfer into or out of the employer
  - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals
- b) Two or more employers merging including insourcing and transferring of services
- c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Fund will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including any underfunding in relation to pension strain costs), and the resulting impact on the Primary and Secondary rate of contributions.

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

This includes but is not limited to the following scenarios:

- a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to

any other pension arrangement which may impair the security provided to the Fund.

- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
- c) Where an employer exhibits behavior that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's covenant.

While the Fund's covenant monitoring may identify these changes, employers are required to alert the Fund to any such changes in line with the notifiable events section of the Fund's Employer Risk Policy. In some circumstances (for example where a Deferred Debt Agreement is in place), further disclosure requirements may be required – where this applies, employers will be notified separately, and the Fund will set out the requirements.

Additional information may be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Fund will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

Where there has been a significant change to employer covenant, any review of the contribution rate may include consideration of the updated funding position (both on an ongoing and termination basis) and where appropriate would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- If appropriate, a change in the investment strategy.

## **Process and potential outcomes of a contribution review**

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event and any intent of the Fund to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Fund.

This also applies where an employer notifies the Fund of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will

be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Fund.

The Fund will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate (generally the Fund operates a single investment strategy, but could apply an alternative approach in exceptional circumstances where the risk dictates this to be necessary).
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change
- Whether the secondary contributions should be adjusted including whether the recovery period remains appropriate.

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

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

# Appendix G - Employer Risk Policy and Notifiable Events Framework

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This document sets out the default approach adopted by the Lancashire County Pension Fund (“the Fund”) to the management of employer risk and covenant.

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

## **Policy Objectives**

Risk mitigation	The Fund aims to actively manage employer risk such that the risk from any individual employer to the wider Fund is minimised as much as possible
Efficient Processes	The Fund, in managing employer risk / covenant, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes
Costs of Managing Employer Risk	The cost of operating the standard elements of the Employer Risk and Covenant Policy will be met by the Fund. However, additional costs – including adviser costs and the Fund’s own costs – may be recovered from the relevant employer, particularly where they relate to actions initiated by that employer.
The Fund’s ‘Default’ Position	<p>This document lays out the Fund’s default position / policies in various areas relating to employer risk. All Fund employers should make themselves aware of, and are assumed to accept, these default policies and practices.</p> <p>The Fund may deviate from the default position where individual circumstances warrant this (in these circumstances the relevant employers will be notified). Should an employer wish to deviate from the Fund’s default position then this may be allowed at the sole discretion of the Fund.</p>



## **Background**

The Pension Fund is committed to providing a high-quality pension service to both members and scheme employers, and this includes effectively managing employer risk. As such the Employer Risk policy is an important part of the Fund's approach to funding strategy. The policy has been developed to set out the approach to covenant assessment, management of employer risk and funding approaches.

The LGPS Regulations require the payment of an exit payment (or “termination” payment) by an employer when their last active member leaves the Fund, or an employer otherwise ceases to be an employer in the Fund, and the employer was in deficit at the time of their exit.

The Regulations also allow Funds to spread exit payments or enter into deferred debt arrangements in certain circumstances. More information on this is contained in the Fund's Termination Policy.

The Fund is administered on behalf of over 300 organisations ranging from large taxpayer-backed organisations such as Councils, through to small charities with no guaranteed sources of funding. Clearly, some employers present a higher risk than others.

The Local Government Pension Scheme is open to 3 main types of employers, 'Scheduled Bodies', 'Designated Bodies' and 'Admitted Bodies'.

- **Scheduled employers** have an automatic right to Pension Scheme entry, and include Councils Combined Authorities, Fire and Rescue Authorities, Police and Crime Commissioner, Further and Higher Education Institutions and Academies
- **Designated bodies** have the right to join if they designate relevant employees as eligible. They tend to be Town and Parish Councils
- **Admitted bodies** don't have an automatic right to join the Fund and their entry to the Fund arises as a result of being 'admitted' via an Admission Agreement. Admission Agreements now specify a requirement for security against default, however older agreements do not, and these older agreements therefore need to be updated

Within a pensions context, the term 'covenant' relates to an assessment of an employer's legal obligations and longer-term ability and willingness to meet its financial commitments to the Fund. This includes the ability to meet any historic deficit payments and any final exit payment due as well as ongoing employer contributions.

Should an employer become unable to meet its commitments, sometimes because of insolvency, the Fund must still meet its pensions obligations to the affected employer's members. Unless there is a guarantor employer within the Fund who would absorb the liabilities, the financial burden of meeting these obligations falls upon all of the remaining Fund employers – these obligations are referred to as

orphan liabilities. Thus it is important to form a view on employers' covenant strength and put in place risk management strategies to reduce any impact of employer default.

The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces, which impact on the Fund's ability to continue to pay pensions to all members over the long term.

Assessing the employer covenant regularly is important as it enables the Fund to understand the extent to which the employer can afford to support the scheme now and in the future.

## **Employer Categorisation**

It is important to identify those employers that require a covenant assessment. Employers will require an assessment if it is considered possible that they could exit the Fund without having either a guarantor or the financial resources to pay any exit debt that would arise. To do this in a proportionate manner, employers are categorised into the following two categories:

**Category A** – Lower Risk – scheduled, taxpayer-backed or with the ability to levy local taxes, government guarantee:

- County, District, and Unitary Councils
- Office of the Police and Crime Commissioner / Lancashire Constabulary
- Lancashire Combined Fire Authority
- NHS-related organisations
- Academies<sup>1</sup> including Multi-Academy Trusts
- Further Education Colleges<sup>1</sup>
- Any employer with a Category A guarantor

**Category B** – Higher Risk – no government guarantee with a risk that liabilities could be orphaned:

- Housing Associations
- Universities
- Trade Unions
- Charities
- Private schools
- Parish and Town Councils

<sup>1</sup> In 2013, the Department for Education provided a LGPS guarantee for academies clarifying what support central government would provide if an academy failed – essentially they will meet the exit payment in full if required. In 2024 this was extended to FE Colleges

The focus of employer risk activity is on Category B, and specifically the possibility that they may leave an unfunded exit debt – i.e. leave the Fund and are unable to pay their exit payment (there is no such risk from Category A employers due to the taxpayer backing).

To reflect the fact that the liabilities of Category B employers will be orphaned when they exit the Fund, and so fall to all remaining employers, the exit payment for these employers is assessed using more prudent assumptions than those used for ongoing funding. This is to provide protection to the other employers by reducing the likelihood that they will need to provide additional funds to meet the exiting employer's obligations.

The full detail of the approach on termination is covered in the Fund's Termination Policy.

## **Covenant assessment**

Assessing the employer covenant regularly is important. In line with this policy, Category B employers will undergo a regular assessment of covenant by the Fund.

The scope of conducting a covenant assessment is summarised below:

- Quantitative analysis of past financial performance including income, balance sheet and Cashflow;
- Quantitative analysis of forecast financials, profitability and cash flows;
- Commentary of the qualitative factors impacting and sectoral analysis including commentary on key trends/future trends that may impact the employer in the Pension Fund; and
- The employer's group structure and position within the group.

The Pensions Regulator regards employer covenant as one of the cornerstones of the defined benefit scheme risk spectrum that must be considered and regularly monitored. Both the level of risk (as measured by the employer's potential termination deficit) and their covenant strength can change rapidly, and both the Fund and employers will want to ensure they have measures in place for remediating a concern.

The table below summarises the results into three covenant ratings. The main purpose of the covenant assessment is to identify the higher risk employers (the bottom group), so that the Fund can consider whether action needs to be taken in these cases. Once an employer has been assessed, the appropriate funding approach will be applied.

Covenant Rating	Funding Approach	Definition
	Funding approach – higher contributions*	Good financial position to support pension contributions and likely to be able to support pension deficits but no explicit government backing.
	Funding approach – higher contributions*	Good financial position with minor indication of concern to support pension deficits in the foreseeable future.
	Funding approach – higher contributions* and additional engagement to manage risk**	Poor financial position with indication of concern to support pension deficits in the foreseeable future.

*\*where risk warrants and bond / security not provided*

*\*\*the focus here will be on actions that can be taken to limit the risk to other Fund employers, and may extend to funding for termination over a short period – see Funding for termination below*

The strength of employer covenant can be subject to substantial variation over relatively short periods of time. As such, regular monitoring and assessment is important to identify increasing exposures to risk – some changes may be temporary but others may be long-term and impact on strength of the covenant.

Covenant assessments will be undertaken every three years to align with the actuarial valuation. The Fund will also aim to undertake regular reviews – potentially annually between valuations – for some employers depending on their individual circumstances. This is subject to notifiable events (see below).

## **Mitigation**

This policy focuses on protecting the other employers in the fund against the risk of unfunded exit debts from Category B employers. At each valuation the Fund will assess the size of this risk by considering the size of the Category B exit positions, as well as the level of prudence / protection built into the Fund's standard approach (i.e. that which applies to Category A employers), and then decide what if any additional protection is required.

Where the Fund's view is that additional protection is needed, the preferred approach is to increase security through a more prudent funding approach (than that which is applied to category A employers), which will result in higher liabilities and contributions. The rationale for this is that higher contributions will align more closely to the exit payment for Category B employers, and so improve funding positions and reduce the size of any potential unfunded exit debt should the employer leave the fund.

However, in these circumstances employers may instead be able to provide security (see below) to cover unfunded exit debts and would, in return, be given treatment similar to a Category A employer.

There are five primary forms of security available to the Fund in managing risk:

- obtaining guarantees from an entity in respect of other employers' pension liabilities. Guarantees from a Category A employer or Government departments or tax/levy raising bodies would see the employer in question moved to Category A. However, the Fund may also consider the value of guarantees awarded by private entities (for example a parent company);
- an employer obtains an 'insurance policy' (known as a 'bond') which would pay off remaining deficit in the event of employer default;
- an employer provides a Charge over land/property/asset which would enable the Fund to secure some or all monies due to it in the event of default;
- escrow accounts (where an employer sets aside monies in a specific account controlled by a third party); and
- termination of Admission Agreement – this can trigger an 'exit payment' due from the employer but its effectiveness depends upon the ability of the employer to meet the exit payment. However, employer flexibilities can be used in certain circumstances.

Assuming a Government guarantee cannot be provided, the default security will be bonds. However, in certain circumstances the Fund may consider the other options. Where other options are applied, any costs (for example the adviser costs related to assessing the value of a parent company guarantee) will be met by the employer.

Details of the approach for Category A and B employers are set out below. The funding assumptions for Category A and Category B employers are detailed in the FSS (and may be the same where the Fund is comfortable that the level of risk is sufficiently low). Employers will be advised of any potential bond requirement as part of their valuation results (with no bond being required if the level of risk is judged to be sufficiently low).

## **Funding approaches**

The Employer Risk Policy focuses on the use of funding-based measures to target higher contributions where the level of risk is viewed to warrant this. Where the risk is viewed to be material, then the approach for Category B employers will typically involve the use of more prudent actuarial assumptions. As a result, for Category B employers there are three potential outcomes:

- Outcome A – the risk is judged to be minimal, and so standard (i.e. Category A) assumptions applied)
- Outcome B – the employer provides sufficient security (see the mitigations section above) to cover any potential exit debt, so standard assumptions apply
- Outcome C – no such security is provided, so more prudent assumptions apply

As a result, the potential funding approaches are as follows (note details of the treatment of deficit / surplus are covered in the relevant appendices of the FSS):

	Category A employers*	Category B employers – One of the following outcomes:		
		Outcome A	Outcome B	Outcome C (default)
Bond / security	No*	No	Yes**	No
Funding target	Standard	Standard	Standard	Higher
Future service rate	Standard	Standard	Standard	Higher
Deficit recovery period	Standard	Standard	Standard	Potentially shorter
Surplus offset allowed?***	Yes	For surplus above the higher of the termination liabilities and funding liabilities plus buffer		
Alter if close to exit****	No	Optional	Optional	Optional

\*not subject to regular covenant assessment. Note that some contractors may be required to provide a bond on admission, but this is to protect the guarantor employer

\*\*The base position is any bond / security should cover the potential exit debt in full, including any redundancy strains, but depending on individual circumstances some combination of partial security and / or reliance on covenant may be sufficient (subject to agreement of the Fund)

\*\*\*Category A employers in surplus above the funding buffer (see FSS) can use this to reduce their future service contributions via “surplus offsets”. Category B employers can only use any surplus that is also above their exit debt

\*\*\*\*If an employer is close to exit and there is no bond then the Fund might take further steps – for example requiring the employer to Fund for the exit debt (usually meaning much higher contributions than even the right hand column above)

Note – for Town/Parish Councils, deficit recovery plan and surplus offset allowed will be considered based on individual circumstances.

## **Funding for termination**

The above assumes Category B employers intend to continue in the Fund in the short to medium term.

However, where they are likely to exit in the short / medium term, or the level of risk is perceived to be higher, the Fund may set a bespoke approach where it believes exit may occur shortly. The Fund will identify relevant employers as part of valuation (e.g. fixed end date in the Fund, closed employers with older membership) or

consider whether there are any weaker employers to include (e.g. more likely to terminate through insolvency) based on the results of the covenant review.

## **Notifiable Events**

While monitoring is covered above, the Fund cannot identify all issues that might affect an employer's covenant in real time. Therefore, employers are required to notify the Fund of any corporate activity or changes which could materially impact the covenant.

A notifiable event is any event or circumstance that, in the judgement of the Fund, could materially affect an employer's continued participation in the Fund, ability to pay contributions, or cover their exit debt.

Typical events that should be notified would include:

- Significant changes in the employer's membership / liabilities. This would include, for example, restructuring (involving significant staffing changes), significant outsourcings / staff transfers, mergers, significant redundancy exercises, salary awards, ill health retirements, member withdrawals from the Fund, concerns of fraud that may include pensions aspects
- Significant changes to the employer covenant. This would include, for example, reduced affordability of contributions, significant reduction in funding, provision of security to other parties, impairment of security / change in bond, sale or transfer of significant assets, any payment defaults, potential insolvency
- Other significant changes in circumstances. This would include, for example an acquisition by another organisation, winding down / ceasing to trade, change in business model, relevant legal proceedings against the employer

On notification, the Fund will discuss the circumstances with the employer, and consider whether a change in funding approach or other action is appropriate.

If an employer has any doubts as to whether an event is significant, please contact the Fund who will be happy to provide guidance on this.

Where an employer does not inform the Fund of an event that is relevant in the Fund's view, then the Fund may in extreme circumstances make changes to the funding approach or take other actions without discussion and/or consent of the employer in order to protect the Fund (although the Fund would always look to engage with employers in a collaborative manner, and so would expect such instances to be very rare in practice).

# Appendix H - III Health Captive Arrangements

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## Overview of arrangement

For smaller employers the Fund operates a captive insurance arrangement which was established by the Fund to cover additional costs arising from ill-health retirements involving the early payment of benefits.

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

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement, which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2026/29 is [TBC]% pa
- The captive arrangement is then used to meet strain costs emerging from ill-health retirements in respect of active members to limit the impact on the deficit position for employers within the captive, so that any subsequent impact should be manageable
- The premiums are set with the expectation that, allowing for the existing captive assets, they will be sufficient to cover the costs in the 3 years following the valuation date
- If any excess premiums over costs are built up in the captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Fund based on the advice of the Actuary
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers



- Where, in exceptional circumstances, early payment of deferred pensions is agreed by an employer on compassionate grounds this cost is not covered by the ill-health captive

## **Employers**

The employers included in the captive fund are those with less than 150 active members (excluding major Councils). The membership is set based on this criteria at each valuation (or date of admission for new employers). Where an employer moves above (below) the threshold during the inter-valuation period, they will normally remain in (out) of the captive up to the next valuation, at which point they will be reclassified. However, the Fund (acting on advice from the Fund Actuary) may reclassify individual employers at other points where circumstances warrant.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements would still apply – i.e. the impact of any ill-health retirement strain costs would feed into the employers' funding position and so secondary contributions.

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# Appendix I - Asset Share Policy

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[This policy will set out the methodology used to determine individual employer asset shares within the fund. It will provide a clear explanation of the existing approach and confirms that there is no change to the current treatment of employers. The current process will be documented in full to ensure transparency and consistency in application.]

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# Appendix J - Redundancy Strain Policy

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## Overview

For larger employers with a sufficiently strong funding position, the Fund has the option to set aside an element of surplus as a “strain allowance” to fund redundancy strains over the next certificate period. This works as follows: -

- At each valuation eligible employers can elect to have set an element of their surplus aside as a strain allowance. This element will not feed into secondary contributions
- Where employers select this option, it will be noted in the rates and adjustments certificate
- The allowance will be [TBC%] of valuation liabilities over the period until the next rate certificate.
- This will be express as a £ amount on the Rates and Adjustment Certificate and be based on the final valuation liabilities
- Over the certificate period, the employer will not be required to pay for any redundancy strains arising until the aggregate amount over the certificate period breaches the allowance
- The employer will then pay any strain amounts above the allowance in line with the Fund’s standard approach

## Employers eligible

The option will be made available to all employers with a) liabilities of at least [£10m] and b) sufficient surplus above the funding buffer (and termination liabilities for Category B employers) to fund the allowance.

## Fund discretion

The above denotes the Fund’s standard approach. However, the Fund, at their sole discretion, may alter any element of the approach where individual circumstances warrant. This may include withdrawing the option or extending / adjusting the size of the allowance available to reflect specific circumstances.

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# Appendix K - Roles and Responsibilities of Key Parties

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

## **The Administering Authority should:**

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

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

**The Individual Employer should:**

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

**The Fund Actuary should:**

- prepare valuations including the setting of employers' contribution rates at a level aiming to ensure fund solvency and long-term cost efficiency based on assumptions set by the Administering Authority and having regard to its FSS and the LGPS Regulations

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

**A Guarantor should:**

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

**Pension Fund Committee**

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

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

### **Local Pension Board**

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

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

### **Head of Fund/Pension Fund Officers**

Where decisions are to be taken in line with the policies outlined in this Funding Strategy Statement, or where there is discretion to adopt an alternative approach, this will be exercised by the Head of Fund or by appropriately delegated Fund Officers.

# Appendix L - Glossary of Terms

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## **Actuarial Valuation**

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

## **Administering Authority**

The Council with a statutory responsibility for managing a Local Government Pension Scheme in a specific geographical area and that is responsible for all aspects of its management and operation. This is Lancashire County Council in relation to the Lancashire County Pension Fund.

## **Admission Bodies**

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

## **Admission Agreement**

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

## **Assumptions**

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

## **Benchmark**

A measure against which fund performance is to be judged.

## **Benefits**

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

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme



benefits in relation to the member only and pay 50% of the normal member contribution.

### **Best Estimate Assumption**

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

### **Bonds**

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

### **Buffer**

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

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

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

### **Category A/Category B**

Category A employers have direct/indirect taxpayer backing. Category B employers do not. Funding treatment can differ in certain ways for the two categories.

### **CMI**

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

### **Code of Practice**

The Pensions Regulator's General Code of Practice.

### **CPI**

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

## **CPIH**

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

## **Contingent Assets**

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

## **Covenant**

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

## **Data (Section 13)**

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

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

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

## **Deferred Debt Agreement**

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

## **Deferred Employer**

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

## **Deficit**

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

## **Deficit Recovery Period**

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

## **Derivatives**

Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets.

## **Discount Rate**

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

## **Early Retirement Strain**

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

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

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

## **Employing Bodies**

Scheme employers that participate in the LGPS.

## **Equities**

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

## **Equity Protection**

An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

## **Exit Credit**

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

## **Fund**

This refers to Lancashire County Council as the Administering Authority of the Local Government Pension Scheme in Lancashire and the Lancashire County Pension Fund.

## **Funding or Solvency Level**

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

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

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

## **Fund valuation date**

The effective date of the triennial fund valuation.

## **Gilts**

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

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

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

## **Guarantee/guarantor**

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

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

## **Guarantee of last resort**

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

## **Hedging**

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

## **Ill-health captive**

This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium. It works like insurance in that a fixed premium is paid by employers who are part of the captive and then the captive arrangement will meet ill health funding costs that may arise in future, in respect of the employer's members, providing the policy criteria is met.

## **Index linked gilts**

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

## **Investment strategy**

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

## **Letting employer**

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

## **LGPS**

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

## **Liabilities**

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

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

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

## **Local Pension Board**

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

## **Long-term cost efficiency**

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

## **Lower risk funding basis**

An approach where the discount rate used to assess the liabilities is determined based on the expected long term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, are planning to exit the Fund or would like to target a lower risk strategy. This basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment strategy.

## **Mandatory scheme employers**

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

## **Maturity**

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

## **McCloud Judgment**

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

## **Members**

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

## **MHCLG**

Ministry of Housing, Communities & Local Government

## **Minimum risk funding basis**

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

## **Non-statutory guidance**

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

## **Notifiable events**

Events which the employer should make the administering authority aware of.

## **Orphan liabilities**

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

## **Pass-through arrangement**

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

## **Pension Committee**

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

## **Pensions Administration Strategy**

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

## **Percentiles**

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

## **Phasing/stepping of contributions**

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

## **Pooling**

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

## **Prepayment**

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

## **Present Value**

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

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

See definition of Employer's Primary Contribution Rate.

## **Profile**

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

## **Prudent assumption**

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



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

### **Rates and adjustments certificate**

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

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

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

### **Recovery plan**

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

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

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

### **Scheme employers**

Organisations that participate in the LGPS in Lancashire.

### **Scheme manager**

A person or body responsible for managing or administering a pension scheme established under section 1 of the Public Service Pensions Act 2013. In the case of the LGPS, each fund has a Scheme Manager which is the administering authority. For the Lancashire County Pension Fund this would be Lancashire County Council as Administering Authority for the LGPS in Lancashire.

## **Section 13 Valuation**

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

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

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

### **Solvency funding target**

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

### **Strain costs**

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

### **Swaps**

A generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks where financial obligations on one basis are "swapped" for financial obligations on another basis.

### **50/50 Scheme**

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

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