

2025 LGPS Valuations Low Contribution Considerations



December 2025

Due to the strong performance of the Fund and favourable market conditions, many employers at this valuation are seeing significant contribution reductions. In some cases, this means that the proposed contributions are very low compared to typically historic levels (of around 15%-20%). This is uncharted territory for many employers, and comes with particular risks. The below FAQ document covers some of the points these employers should be aware of.

What are employer contributions made up of?

There are two elements to LGPS contributions:

- Primary rate – this is for new benefits earned by your active members. These currently have no assets backing them as contributions have to be collected in future and invested in assets when collected.
- Secondary rate – this is to remove any recoverable surplus or deficit in your funding position (over an agreed “recovery period”). The secondary rate is backed up by assets that have accumulated up to the valuation date.

What causes these rates to vary?

Primary rates increase mainly with the age of your active membership (as well as with other factors including your gender profile and whether you are “open” to new Fund members).

Secondary rates vary depending on the size of any deficit / surplus you have already accumulated in the Fund (which in turn is affected by a wide variety of factors).

Both are affected by Fund policies and wider economic considerations, particularly views on future investment returns (here there is the added uncertainty for primary rates, as we don’t know at what levels markets will be at when we collect and invest the contributions in future).

Any other factors that cause contribution volatility?

There are many other factors that can cause contributions to vary. A few key ones include:

- Funding positions and contribution rates are more volatile for smaller employers, as the impact of each individual member is bigger (for example a member dying has a bigger impact the fewer members you have)

- The larger your assets and liabilities in the Fund are relative to you as an employer, the bigger the impact of changes in funding position can be as you become more highly “geared” versus your payroll.

Why are my contribution rates this low?

Once contributions get very low – say less than 10% - this is typically driven by a strong surplus, and so significant secondary contributions (or “surplus offsets”).

Can I expect my contributions rates to stay at this level (or less)?

The rates are certified for three years and would only change over that period in exceptional circumstances. They are reassessed every three years as part of the actuarial valuation.

Following each valuation, contribution rates can increase or reduce depending on a wide range of factors – the specific experience of your Fund members, investment performance, financial market conditions / economic outlook, changes in Fund policy, regulatory changes, etc.

The Fund aims to keep contributions stable, i.e. prevent / limit increases at each valuation. This is done by including “prudence” within the funding plan – essentially margins that can be used to prevent / limit increases if experience is negative. However, there are limits to the Fund’s ability to deliver this stability, and so increases at future valuations are certainly possible.

Could any increase be significant?

Yes, that is possible if the funding position materially worsens, for example due to a significant shift in financial markets. (Although of course the position may also improve, potentially leading to contribution reductions in future).

Is there a particular risk of increases for those paying very low contributions?

Yes. This is because lower contributions are more dependent on surplus. So, to maintain them you need to keep a suitably large surplus, while at the same time you are using up the current surplus more quickly.

Ultimately, if all deficit / surplus was removed then an employer would pay their primary contribution rate – this is the estimated long-term cost of the new benefits being earned. This increase is “baked in” to your funding plan at the end of your surplus offset period.

What can we do as an employer to protect against the risk of future increases?

Ideally, employers with very low contribution rates would not build these rates into their long-term budgets, or would include contingencies / plans to deal with future increases – essentially viewing the current low rates as a short-term “bonus”.

Here you should note that the contribution rate set by the Fund is a minimum. Employers have the option to pay more than this amount when it is certified (or request a higher certified rate – although once certified the contributions must be paid). Over-paying versus the statutory minimum will help with future stability and provide more cost certainty.

Have there been any periods of low contributions historically?

In the past there were periods where temporary reductions or pauses in employer contributions were permitted in the LGPS. Subsequently funding positions worsened and contributions had to increase to address the resulting shortfalls. This has informed current regulatory emphasis on maintaining prudent

contribution levels and long-term funding decisions (which reduces the risk of such significant increases reoccurring, but cannot eliminate it).

What if I want further advice on these issues?

Then you would need to consider hiring your own independent adviser. Neither the Fund nor our advisers can provide advice to employers in the Fund.

About This FAQ

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