



**LOCAL PENSION BOARD – 29 OCTOBER 2025**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND VALUATION**

**INDICATIVE WHOLE FUND RESULTS, DRAFT FUNDING STRATEGY  
STATEMENT**

**Purpose of the Report**

1. The purpose of this report is to inform the Board of the indicative whole fund valuation results and the proposed changes to the Fund's Funding Strategy Statement (FSS) appended to the report.

**Background**

2. Each LGPS administering authority has a statutory obligation to have an actuarial valuation carried out every three years and all Funds in England and Wales have a valuation carried out as of 31 March 2025.
3. The major purpose of the actuarial valuation is for the Fund Actuary to set employer contribution rates for a three-year period, that commence one year after the valuation date (i.e. for the period 1 April 2026 to 31 March 2029). To set these contribution rates the actuary must take account of many factors, most of which are assumptions of what may happen in the future.
4. The 31 March 2025 valuation assumptions were approved by Pensions Committee at the 27 June 2025 meeting.
5. In addition to the assumptions, Officers must review and update the Fund's Funding Strategy Statement (FSS). The FSS underpins the Fund policies and includes a table detailing the Fund's framework for setting contribution rates for each employer group.
6. As part of the valuation process, employers must be made aware of the proposed changes to the FSS and a consultation must take place with the employers. The Department for Education should also be consulted on the FSS as they provide the LGPS guarantee for Colleges and Academies.
7. A timetable of the valuation is included in the report.

8. Pension Committee noted the indicative whole fund valuation results and proposed changes to the FSS at their meeting on the 26 September 2025.

### **Assumptions**

9. The assumptions used in the Fund Valuation are detailed in the table below and were approved by Committee on the 27 June 2025.

<b>Assumption</b>	<b>Approach for the 2025 Valuation</b>
Discount Rate	Adopt an 80% prudence for calculating funding levels and contribution rates, equating to a 6.1% pa discount rate*
CPI Inflation	Continue to use the modelled CPI best estimate assumption plus the inflation risk premium of 0.2% pa, totalling 2.5% pa
Salary Increases	Retain the 2022 salary increase assumption of 0.5% pa above CPI. 2.5% pa plus 0.5% totalling 3.0% pa for 2025
Longevity	Use the Actuary's default assumption
Others	Assumptions have been modelled using the Leicestershire fund data and based on the Club Vita analysis

\*Amended from 6.0% to 6.1% due to minor changes in the investment strategy and due to roundings.

### **Indicative Whole Fund Result**

10. Using the assumptions detailed above, the Fund Actuary (Hymans) have calculated the Whole Fund Result. The Fund's funding position has improved from 105% at the 31 March 2022 valuation, to 140% at the 31 March 2025 valuation.
11. The improvement from 105% in March 2022 to 140% in March 2025 is welcome, but this brings additional points that need to be considered.
12. It should be noted, the total funding level is only at a single point in time (31 March 2025) and the markets continue to fluctuate. Employers may incorrectly believe the overall improvement in funding is a right to pay lower contributions, and whilst the employers may be over 100% funded, this does not entitle employers to an immediate reduction in rate.
13. However, Officers also have a duty to consider the cost to employers, needing to balance this against the long-term aim of paying future pension benefits.
14. The stabilised employer rates have been modelled using the assumptions detailed above. The stabilised employers include the City, County, Boroughs,

Districts, Police and Fire, and they have been offered a 2% reduction per year, in line with the Fund's stabilised employer rules. However, given the funding pressures on employers and the positive Fund position, the Fund has used its discretion to offer the full 6% reduction (rather than 2% stepped per year) from April 2026.

15. Employer rates are being calculated by the Fund Actuary, and these are expected in November 2025, however early indications indicate employers are likely to be in surplus (i.e. over 100% funded). Fund Officers will write to employers when the rates are available.
16. At the 2022 valuation, the Fund introduced a 120% funding buffer, designed to protect employers and the fund from future fluctuations in the market. It reduced the risk of significantly fluctuating employer contribution rates between valuations, which helps employers with their longer-term financial planning.
17. The Fund will retain the 120% funding buffer at the 2025 valuation. Employers that are over 120% funded will continue to be considered for a possible reduction in rates over the longer-term as detailed in the draft Funding Strategy Statement (FSS).
18. However, with the improvement in the funding level since 2022, the table has been adapted to meet the improved employer funding position. The 2022 reference to employers needing to reach 100% funding has been removed.
19. An employer's primary contribution rate is payable to meet the cost of new benefits. An employer secondary rate is paid to meet the cost of past service.
- 20.

<b>Employer Funding Level</b>	<b>Total Contribution Rate</b>
Between 101% and 120%	Employer pays their primary contribution rate
Greater than 120% funded	<p>Employer is allowed to benefit from a contribution rate reduction (via a negative Secondary Rate), to gradually reduce their funding level down to 120%</p> <p>Employer may pay up to a maximum of 3% less than the Primary Rate to support the aims of stability and inter-generational fairness</p>

21. It should be noted there may be exceptions to this approach. Employers expecting to exit the scheme in the future, have no restrictions on contribution reductions (via a negative Secondary Rate), and in general the Fund will seek to reduce any surplus where possible prior to the Employer's exit date.

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

22. The Fund Actuary and Officers work collaboratively on the Fund's FSS. Officers have used this opportunity to review the style, content and presentation of the FSS in response to updated guidance provided by the Scheme Advisory Board (SAB), Ministry of Housing, Communities and Local Government (MHCLG) and Chartered Institute of Public Finance and Accountancy (CIPFA).
23. The main points to note in the 2025 draft FSS are detailed below. One area is new, and the review of cessations is ongoing, but most are designed to show the Fund's current approach more explicitly in the FSS. The points below are highlighted in yellow in the draft FSS which is appended to the report.
24. Table 2.2. The contributions rate calculation. The table lists each employer group and the approach taken in the following areas; funding basis, target funding level, minimum likelihood of success, maximum time horizon, primary rate approach, secondary rate, stabilised approach, treatment of surplus, recognising covenant, phasing of contribution changes.
25. The key areas to highlight in table 2.2.
- The funding basis, is the on-going approach for all groups, other than employers closed to new members and with no guarantor, where a low-risk approach is used.
  - Minimum likelihood of success is 80% for the majority, however for the higher risk groups this is increased. For Community admission bodies this is 90%, and for Universities this is between 80 and 85%, but can be lowered to 80% with security.
  - Maximum time horizon is 17 years for all groups to reflect the long-term nature of participation and to align with the long-term assumptions nature of the assumptions set. Where an employer is closed to new entrants or expected to exit the Fund in the future, a shorter period may be used where appropriate.
  - Phasing of contributions changes. The stabilised approach exists for this group. There is no phasing for the transferee admission bodies. All other groups have a 3-year period to align with the valuation cycle and to support a stepped rate of reduction, where applicable.
26. Table 2.5 Employer open or closed status. This is a new section in the Fund's FSS introduced following requests from employers to consider closing the scheme to some new staff. These staff would be offered an alternative pension arrangement via Subsidiary Company. The table proposes the approach the Fund will take when assessing if an employer is open or closed. Closed employers may be assessed on the low-risk methodology (table 2.2) and additional security requested.

27. Section 2.6 Alternative Investment Strategy including facilitating a buy-in or other insurance solution. The Fund does not allow these due to the increased cost of administration, and this is now explicit in the FSS
28. Section 2.8 Reviewing Contributions Between Valuations. When the Fund will consider an early review of employer contributions are detailed in Appendix H Section 3.1. This has always been the fund approach, but is now explicit in the FSS
29. Section 2.11 Administering Authority Discretion. Officers recognise individual employers may be affected by circumstances not easily managed within the FSS and therefore will consider funding approaches on a case-by-case basis. Flexibility to employer contributions may be considered if appropriate security is added (for example the Universities). This has always been the Fund approach, but is now explicit in the FSS
30. The Fund charges employers for actuarial work carried out for the employer. The Fund has always adopted this approach, but this is now explicitly mentioned at various points within the FSS.
31. Section 7.1 What is a cessation event. The Fund's approach to cessations has not changed, but with discretion, a cessation valuation may be deferred for up to three years in specific circumstances (known as a suspension notice). The Fund has only adopted this approach for Town and Parish Councils due to their small size with sometimes only one active member of staff. This is now explicit in the FSS
32. Section 7.6 Partial cessations. In general, the Fund does not allow employer partial cessations on the grounds of equitable treatment for all employers. However, the Fund reserves the right to review this policy in exceptional circumstances. This has always been the fund approach, but this is now explicit in the FSS
33. Appendix D – Risk and Controls. Section D6 Employer covenant assessment and monitoring. The table has been updated to reflect the level of risk for each employer group at the 2025 valuation.
34. Appendix D – Section D7 Climate risk and TCFD reporting. The section has been amended to reflect the Fund's approach at the 2025 valuation.
35. Appendix E – Actuarial assumptions. This has been updated to reflect the assumptions at the 2025 valuation.
36. Appendix E – Actuarial assumptions, Cessation Basis. Where an exiting employer ceases on the low-risk basis, the liabilities will be calculated on both the lower and upper limits to determine whether any deficit or surplus exists. If any surplus exists using the upper limit, then the Fund will carry out an exit credit determination. Officers are continuing to review this area,

looking to further strengthen the Fund approach, and more information will be provided to Pensions Committee in December 2025.

37. Appendix I – Cessation Policies Section 3. The Fund may consider withholding any surplus where an employer has chosen to exit the Fund prematurely. The cessation exit basis is detailed in Table 3.1. The low-risk basis is used for all cessations, other than transferee admission bodies, however the Fund may adopt the low-risk basis where deliberate design has been taken to bring about a cessation event. This has always been the Fund approach, but this is now explicit in the FSS

### **Investment Strategy Statement**

38. All LGPS funds in England and Wales are required to have an Investment Strategy Statement (ISS). The ISS is composed in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“The Regulations”). Given changes expected across the LGPS from the Fit For the Future consultation outcome and Pension Bill, it has been considered appropriate to take a draft update to Pension Committee when there is more certainty.

### **Timeline**

39. The latest valuation timeline is detailed as follows.

<b>Date</b>	<b>Topic</b>	<b>Stakeholder</b>
November 2025	Provide employers with their indicative rates. 1 April 2026 to 31 March 2029  Commence FSS consultation	Pension Section / Fund employers
December 2025 / January 2026	Changes to the FSS	Pension Section
February 2026	Finalise FSS	Committee
March 2026	Final valuation report	Hymans
April 2026 to March 2029	Employer rates to be implemented	Fund employers

40. Officers will start a consultation with employers on the FSS in November 2025. To assist administration and employers, this will commence at the same time employers receive their indicative employer rates.

41. Whilst there’s no expected changes to the assumptions, the final assumptions will be taken to the Committee in February 2026 alongside the final FSS after completion of the employer consultation.

### **Recommendation**

42. It is recommended that the Board notes;

- The Whole Fund Valuation Rate of 140%
- The draft FSS
- Employer consultation on the FSS will commence in November 2025, once indicative employer rates are available

### **Equality and Human Rights Implications**

43. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund’s approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

### **Human Rights Implications**

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### **Appendix**

Appendix – Fund’s draft FSS

### **Background Papers**

None

### **Officers to Contact**

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