Leicestershire County Council

-

LOCAL PENSION COMMITTEE – 30 JANUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

CESSATION CORRIDOR APPROACH – DRAFT FUNDING STRATEGY STATEMENT

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee (LPC) of a proposed change to the Fund's cessation approach when an employer leaves the scheme. The change will be incorporated into the Fund's final Funding Strategy Statement (FSS).

Background

2. When an employer leaves the Leicestershire Fund's LGPS, Regulations require the Fund Actuary to carry out a cessation calculation. The calculation determines if the employer is in deficit or surplus when leaving the scheme.

3. If an employer leaves the scheme in deficit the employer makes payment of the required value, and in so doing, complies with their Fund requirements.

4. If an employer leaves the scheme in surplus the Fund determines how much, if any, surplus is repaid back to the employer via an 'exit credit'.

5. The Regulations outline steps that each LGPS fund must carry out when determining the value (which may be zero) of any exit credit.

6. Each exit credit should be assessed on a case-by-case basis subject to the circumstances of the employer exit, and further guidance on the Fund's process is set out in the Fund's current cessation policy (Appendix I of the current FSS).

7. The Fund's total funding position has improved to 140% at the 2025 valuation, which has been primarily driven by changes in market conditions. The improved funding position means it is now more likely employers will leave in surplus.

8. As part of the wider review of funding strategy and policies, officers are reviewing the approach to calculating cessation values in the context of the current funding environment.

9. Officers informed the LPC on the 26 September 2025, the cessation approach was under review, and the final details will be included in the Fund's final Funding Strategy Statement (FSS) which will be brought to the Committee meeting on the 20 March 2026 for approval.

10. Employers were invited to reply on the recent consultation on the FSS that ended on the 11 January 2026. Officers highlighted proposed changes to the cessation approach detailed in Appendix E of the draft FSS. The current draft FSS is included as Appendix A.

11. Officers are currently considering employers' responses on the draft FSS and whether any changes or additions are required, for finalising the FSS for Committee in March 2026.

12. Approval of the final FSS on the 20 March 2026 will conclude the 2025 valuation, finalising employer rates for the period 1 April 2026 to 31 March 2029.

Cessation Basis 2022

13. At the 2022 valuation the Fund reviewed the cessation approach, moving from a gilts-based methodology to a risk-based approached for the low-risk cessation exit basis.

14. All employers that leave the scheme are assessed on the low-risk basis, other than Transferee Admission Bodies (TABs) as they have a scheme employer guarantor that the liabilities pass back to.

15. By moving to the risk-based approach in 2022, this aligned with the approach used to determine the future investment return for the ongoing basis and contribution rate setting.

16. Notably in 2022, the Fund defined the assumed future investment return for the Fund's low-risk cessation basis to be the level of return that the Fund's Investment Strategy is expected to achieve, with a 90% likelihood over the 20 years following the valuation.

17. This approach has been in place since the 2022 valuation.

Cessation Basis 2025

18. Since 2022 there has been improvement in the funding position of the Fund and employers, which has increased the number of employers who could exit the scheme in surplus.

19. Officers accept there are occasions when employers may choose to leave the Fund. Exiting employers do not bring additional risk to the Fund if the cessation basis is managed with adequate prudence and provided there is sufficient surplus for the remaining employers.

20. The improved funding position is positive for the Fund and employers, as it reduces the risk of an unaffordable deficit being owed by any exiting employer.

21. To protect the Fund and remaining employers when an employer exits the scheme, the Fund proposes a change to the 2022 cessation basis, to introduce a cessation likelihood “corridor”.

22. The Fund Actuary, Hymans has recommended the “corridor” approach to the Leicestershire Fund, and this is already in place at other LGPS Funds.

23. The Fund proposes to move away from calculating cessations with a fixed 90% likelihood (of the assets achieving at least this rate of return) and replace with an upper and lower level (referred in the appendix as bounds) to provide a ‘corridor’ of certainty for employers approaching exit.

24. Officers propose 85% likelihood as the lower level, and 95% likelihood as the upper level. This means that an exiting employer would only pay a debt to the Fund if there was a deficit on the 85% lower level, while an exit credit would only be payable if a surplus existed on the 95% upper level.

25. Officers feel 85% and 95% are reasonable and present fairness to the Fund and employers. This is designed to provide greater scope for an employer to not be in deficit at the 85% lower level (rather than 90%) but also to protect the Fund and other employers by increasing the upper level to 95% (rather than 90%), when an exit credit payment may be payable.

26. The lower and upper levels would be fixed at 85% and 95% likelihood, until the cessation policy is reviewed in the future, however the discount rate under each level would change as markets change.

27. The cessation corridor at 31 March 2025 would range from a discount rate of approximately 5.3% pa (85% lower level) to 3.4% pa (95% upper level).

28. This range (at 31 March 2025) is approximately a 2% per annum difference in the discount rate - which is equivalent to a change in liability values of around 30%. This helps reduce the volatility of cessation valuations and provides more certainty to employers when planning for future cessation events.

29. Officers propose to review the 85% to 95% levels at each triennial valuation period, or sooner if considered necessary (e.g. in response to a rapid change in the economic environment or a change in Regulations).

30. The following three examples demonstrate how the 85% lower level and 95% upper level will work. The examples are simply designed to show the methodology and not actual calculations.

Example One

Methodology	Cessation Value	Surplus or Deficit
85% (lower level)	(£10,000)	Deficit
90% (mid-point)	(£20,000)	Deficit
95% (upper level)	(£30,000)	Deficit

In this example, there is a £10,000 payment due from the employer as there is a deficit at the 85% lower level.

Example Two

Methodology	Cessation Value	Surplus or Deficit
85% (lower level)	£220,000	Surplus
90% (mid-point)	£150,000	Surplus
95% (upper level)	(£15,000)	Deficit

In this example, there is no deficit payment due from the employer as there is a surplus at the 85% lower level. There is no payment due from the Fund as there is a deficit at the 95% upper level.

Example Three

Methodology	Cessation Value	Surplus or Deficit
85% (lower level)	£650,000	Surplus
90% (mid-point)	£440,000	Surplus
95% (upper level)	£200,000	Surplus

In this example, there is no deficit payment due from the employer as there is a surplus at the 85% lower level. There may be an exit credit payable from the Fund as there is a surplus at the 95% upper level.

The attached document from the Fund actuary Hymans Robertson provides information on the proposed cessation change. See Appendix B.

Exit credit

31. In example three, where there is a surplus at the 95% upper level, officers will consider if an element of the surplus can be repaid to the exiting employer.

32. The approach used when considering payment of an exit credit is detailed in the Fund's current FSS in Appendix I and there is no proposal to change this methodology.

33. Officers will consider the amount of any exit credit having regard to the following factors:

- The extent to which there is an excess of assets in the Fund relating to the employer (i.e. is there a surplus on the cessation calculation)
- The proportion of this excess of assets which has arisen because of the value of the employer's contributions
- Any representations to the Fund made by the exiting employer or relevant qualifying party
- Any other relevant factors

34. Officers will liaise with the exiting employer when assessing if there is a surplus or deficit on the cessation calculation, after allowing for the corridor approach set out above.

35. Where there is a surplus (on the 95% upper level) – known as an 'excess of assets' – Officers will make an exit credit determination (which may be zero) subject to the circumstances of the exit and the steps set out in the Fund's cessation policy and will notify the employer of this decision.

Timeline

36. The latest valuation timeline is detailed as follows.

Date	Topic	Stakeholder
January/February 2026	Consider consultation replies and any changes to the FSS	Pension Section
March 2026	Finalise FSS for approval	Committee
March 2026	Final valuation report	Hymans
April 2026 to March 2029	Employer rates to be implemented	Fund employers

Recommendation

37. It is recommended that the Committee notes:

- The proposed change to introduce a corridor approach for the Fund's cessation methodology
- The Fund's final Funding Strategy Statement will be brought to the 20 March 2026 Pension Committee meeting for approval

Equality Implications

38. 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

39. 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.

Appendix

Appendix A – Fund's draft FSS
Appendix B – Hymans Robertson Cessation Paper

Background Papers

Report of the Director of Corporate Resources – Pension Fund Valuation – Indicative Whole Fund Results, Draft Funding Strategy Statement – 26 September 2025:
https://democracy.leics.gov.uk/documents/s192029/Pensions%20Committee%20Whole%20Fund%20Results%20and%20FSS%2026%20Sept%202025%20final.pdf

Officers to Contact

Ian Howe – Pensions Manager
Tel: 0116 305 6945
Email: Ian.Howe@leics.gov.uk

Simone Hines – Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066
Email: Simone.Hines@leics.gov.uk

Delcan Keegan - Director of Corporate Resources
Tel: 0116 305 7668
Email: Declan.Keegan@leics.gov.uk