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LOCAL PENSION BOARD – 4 FEBRUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT FUNDING STRATEGY STATEMENT

Purpose of the Report

1. The purpose of this report is to inform the Board of the results of the Fund's Funding Strategy Statement (FSS) consultation.

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 had a valuation carried out on the 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. Each fund employer received their indicative employer rates (for the period 1 April 2026 to 31 March 2029) in November 2025, alongside the draft FSS. Employers were made aware of the proposed changes to the FSS and consulted on the document. The consultation ran from mid November 2025 to the 11 January 2026. The Department for Education (DfE) was also consulted as they provide the LGPS guarantee for Colleges and Academies.

7. Employers were reminded of the consultation at the Fund's Annual General Meeting in December 2025.

FSS Proposed Changes – Pre Consultation

8. The Fund Actuary and Officers worked collaboratively on the Fund's FSS. Officers 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).

9. The main points to note in the 2025 draft FSS are detailed below. One area is new, the review of cessations is included in this report, 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 included as Appendix A.

10. 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.

11. 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.

12. 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 a 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. Appendix D – Section D7 Climate risk and TCFD reporting. The section has been amended to reflect the Fund's approach at the 2025 valuation.

21. Appendix E – Actuarial assumptions. This has been updated to reflect the assumptions at the 2025 valuation.

22. 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 levels 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. This is known as the “corridor approach”. Officers have continued to review this area, and further information was provided to Pensions Committee on the 30 January 2026. Final changes will be incorporated into the final FSS taken to Pension Committee on 20 March 2026 for approval.

23. 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

Corridor Approach

24. As detailed in point 22 of the report, the Fund proposed to introduce a corridor approach for cessations, designed to protect the Fund and remaining employers when an employer exits the scheme.

25. This is a recommended change by the Fund Actuary and is already in place in other Local Government Pension Funds.

26. 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 to provide a ‘corridor’ of certainty for employers approaching exit.

27. 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.

28. 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.

29. 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.

30. 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).

31. 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.

32. 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).

33. 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.

Consultation Replies

34. All the 205 Fund employers and the Department for Education (DfE) were invited to comment on the Fund's draft Funding Strategy Statement (FSS).

35. 67 employers replied, 138 employers did not reply. Employers were reminded, and it was also discussed at the Fund AGM in December 2025.

36. FSS employer replies are shown in the table below;

- Question 1 = The FSS is clear and concise, it uses plain English and avoids acronyms, where possible
- Question 2 =The FSS is informative, and I have sufficient time to prepare a response within the FSS consultation period
- Question 3 = I have been provided with sufficient detail about the policies adopted within or alongside the FSS, such as policies on employer exits
- Question 4 = I understand what the next steps in the process will be and how the outcome of the consultation will be communicated

	Strongly Agree	Agree	Neither agree or disagree	Disagree	Strongly disagree
Question 1	8	43	17	0	0
Question 2	10	40	18	0	0
Question 3	8	42	18	0	0
Question 4	9	47	11	1	0

37. Several employers and the DfE replied formally, and the main themes are incorporated in sections 39 to 45 in the report. The Fund only need consider the replies received and does not have to make changes to the FSS, however, officers have considered the key themes and detail below any proposed changes to the FSS from April 2026.

38. There are no changes to any of the Fund assumptions approved by Committee in June 2025.

FSS Consultation Themes - Proposed Changes to the FSS

39. The following is a summary of the themes. It is not a full and comprehensive list of all points raised. Officers will produce a single Fund response to the consultation replies.

40. When an employer exits the scheme Fund Regulations require the Fund Actuary to calculate a cessation valuation. If the employer leaves in deficit the employer makes good the shortfall. If the employer leaves in surplus, officers determine how much (if any) of the surplus can be repaid to the exiting employer. This is deemed the "exit credit".

41. Officers and the Fund Actuary assess the excess contributions the employer has paid, stripping out the element gained from investment return, as the exit credit value. Officers then consider if this can be repaid back to the exiting employer, noting this still can be deemed a nil value. There is no change to the current methodology, however the proposal is for the FSS to be updated to make this more explicit in the FSS.

42. Where there is an exit credit value, officers review each case to establish if there is a fund employer guarantor. Where there is, the exit credit may be paid. Officers are reviewing this to consider exiting Colleges or Academies where the DfE act as guarantor. Cases will be considered on a case-by case basis.

43. 3% CAP on the secondary rate. Employers in the Education and open Transferee Admission Sectors raised concerns, formally and informally, that the negative 3% cap on the secondary rate is too prudent, effectively distributing the surplus over a longer period than the time horizon outlines in the draft FSS. Officers are considering this and welcome the Board's view. Relaxing the negative 3% cap on the secondary rate will reduce employer contribution rates for certain employers.

44. Minimum likelihood of success. The draft FSS proposes a more prudent minimum likelihood of success from 75% at the 2022 valuation, to 80% at the 2025 valuation, for all employers. However, employers in the University Sector were considered higher risk, so their minimum likelihood of success level was set between 80% and 85%. This has been questioned by the two Universities, and the Fund is actively engaging with an external third-party covenant assessor and these employers. Depending on the outcome of this exercise, the Fund will consider lowering the percentage, but no lower than 80%, aligning this with other Fund employers.

45. Investment Strategy. Officers have taken the decision to utilise a single investment strategy to provide a consistent investment approach for all employers. Where different investment approaches are adopted, administration and oversight of the investment strategy would increase significantly alongside reporting and overall complexity. Whilst protection assets may provide lower volatility this is not guaranteed as recent experience has demonstrated. The Fund has over time reduced exposure to traditionally more risky assets (listed equities target is 41% of total assets) as funding levels have improved. Officers feel a single well considered investment strategy provides the right balance of complexity, returns and risk to all employers.

46. The final FSS will be taken to Pensions Committee on the 20 March 2026 for approval and will take effect from the 1 April 2026.

Timeline

47. The latest valuation timeline is detailed as follows.

Date	Topic	Stakeholder
February / March 2026	Finalise FSS	Board and Committee
March 2026	Final valuation report	Hymans
April 2026 to March 2029	Employer rates to be implemented	Fund employers

Recommendation

48. It is recommended that the Board notes the proposed amendments to the FSS, that will be considered by Pensions Committee in March 2026;

    i. The expanded information on the corridor approach for cessations.
    ii. Detail of the exit credit methodology is included.
    iii. The DfE guarantor is included in the assessment of an exit credit on a case-by-case basis.
    iv. A covenant review is taking place to review the minimum likelihood of success for the Universities.
    v. The Fund will retain one investment strategy.

49. It is recommended the Board comments on;

    i. Whether the negative 3% cap on the secondary rate is too prudent, and should it be relaxed for certain employer groups.

Equality and Human Rights Implications

50. 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

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

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