



LOCAL PENSION COMMITTEE – 20 MARCH 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND VALUATION – FUNDING STRATEGY STATEMENT AND RESULTS

Purpose of the Report

1. The purpose of this report is to seek the Committee's approval of the Fund's Funding Strategy Statement (FSS).
2. The Committee is also asked to note the Fund's final valuation report that includes the Rates and Adjustments Certificate.

Background

3. 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.
4. The major purpose of the actuarial valuation is for the Fund Actuary to set employer contribution rates for a three-year period, which 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.
5. The 31 March 2025 valuation assumptions were approved by Pensions Committee at the 27 June 2025 meeting, and these assumptions have been used in the calculation of the contribution rates for the employers.
6. 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.
7. 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.

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

FSS Proposed Changes – Pre Consultation

9. 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).
10. The main points to note in the 2025 draft FSS are detailed below. One area is new, but most are designed to show the Fund's current approach more explicitly in the FSS. The FSS is included as Appendix A.
11. Table 2.2. The contribution rate calculation is a fundamental element of the FSS and the table at section 2.2 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.
12. The table at 2.5 (Employer open or closed status) 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 in section 2.2) and additional security requested.
13. Section 2.6 shows the approach to Alternative Investment Strategies 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 covers the approach to reviewing Contributions Between Valuations. The circumstances under which 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 details the 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 covers cessation events. 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 covers partial cessations which is where an employer seeks to cease responsibilities for a certain element of its liabilities. In general, the Fund does not allow employer partial cessations as the ongoing pension risk then falls on remaining Fund 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 and for the new 'corridor' approach to exit calculations as discussed at Committee on 30th January 2026 (see further details in the report). The final changes have been incorporated into the final FSS.
22. 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
23. In February 2026 Government published proposed changes to tackle the historic gender pensions gap (GPG). This will become a new Government requirement so in preparation the FSS includes a new section on GPG reporting.

Corridor Approach

24. As detailed in the Cessation Corridor Approach Report presented to Committee on the 30 January 2026, 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 prudence 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).

Consultation Replies

33. All the Fund employers and the Department for Education (DfE) were invited to comment on the Fund's draft Funding Strategy Statement (FSS).
34. Employers were reminded throughout the consultation period, and it was also discussed at the Fund AGM in December 2025.
35. At the time of writing, 84 out of 205 employers (41%) replied to the consultation - which is viewed as a very successful response rate and is a

significant increase in employer engagement from previous valuations. At the 2022 valuation there was a small number of replies and all related to a wider general understanding of the document. No employers made suggested changes to the 2022 FSS.

36. To help collect high-level view on the 2025 FSS content and accessibility, the Fund carried out a survey of employers who responded. These employer replies are shown in the table below (and summarised in Appendix 1 of the report Appendix B).

- 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 nor disagree	Disagree	Strongly disagree
Question 1	10%	66%	24%	0%	0%
Question 2	13%	58%	28%	1%	0%
Question 3	12%	63%	23%	2%	0%
Question 4	10%	72%	16%	2%	0%

37. Several employers and the DfE also replied formally with further comments, and the main themes are incorporated below. The Fund only needs to consider the replies received and does not have to make changes to the FSS. However, some changes are proposed following the replies received.

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

FSS Consultation Themes

39. The following is a summary of the themes within the consultation responses. Officers have provided a single Fund response to the consultation replies contained in Appendix B.

3% of pay cap on the secondary rate.

40. Employers in the Education 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.

41. However, the selection of the 3% cap was not based on explicit modelling output and was more a principles-led decision given the competing funding objectives the Fund is seeking to balance – with the 3% effectively being an extension of the stabilisation policy and parameters. After review, Officers and the Fund Actuary retain the view the 3% cap is fair and reasonable for the 2025 valuation. This approach to setting the cap on reductions to secondary rates in this valuation cycle is aimed at balancing efficiency (reflecting the improved funding position) with stability and prudence, recognising the long-term nature of the Fund and the need for intergenerational fairness between current and future employers and members. It is intended to reduce the risk of contribution volatility between valuations, to avoid the Fund moving from surplus to deficit if market conditions or experience diverge from assumptions, and to support longer-term cost efficiency by smoothing changes in contribution requirements.
42. Officers recognise that the Fund's improved funding position and associated surplus will naturally prompt questions about the speed at which contribution reductions should be implemented. The Fund's funding position is sensitive to future investment returns and economic conditions. In particular, the improved funding position is driven in part by the higher expected rate of return at the 2025 valuation (6.1% per year), compared to 4.4% in the 2022 valuation. If investment returns or other experience are materially worse than assumed, releasing surplus too quickly through large immediate contribution reductions increases the risk that deficits re-emerge at a future valuation, requiring sharper contribution increases.

Minimum likelihood of success

43. 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%.
44. The minimum likelihood of success level between 80% to 85% was questioned by the Fund's two Universities as part of the consultation responses. Following constructive and positive engagement with these employers, Fund Officers and University colleagues worked with an independent third-party covenant specialist firm, to assess the risk to the Fund.
45. Following the outcome of the independent reviews, both Universities have been reassessed with a lower likelihood of success than originally considered (but not lower than 80%). An annual review of the Universities funding position, to support ongoing covenant assessment, will take place.

Mid-Valuation Employer Requests for Rate Reviews

46. The Funds FSS – Appendix H sets out the Fund’s approach to reviewing contribution rates between triennial valuations.
47. Officers will consider requests on a case-by-case basis referring to relevant Regulations or guidance, seek actuarial and legal advice, and the Fund’s FSS. Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

Pension Board Comments

48. The draft FSS was considered by the Leicestershire Pension Board on the 4 February 2026.
49. The Pension Board Chair supported the 3% cap on the secondary rate, noting it will be kept under review in future. The Vice Chair was happy for the 3% cap to be put forward to Committee but requested information to help provide confidence in whether it was “too prudent or not”, understanding stability and efficiency are a fine balance. If modelling of different rates was available Committee would benefit from having those to consider, noting some employers have put forward differing opinions or feedback.
50. Quantitative and qualitative factors are considered when setting employer rates and help guide and support the decision to use a 3% cap. The full response to the Board is included in Appendix C.

Investment Strategy

51. Officers have taken the decision to continue to utilise a single investment strategy to provide a consistent investment approach for all employers – as opposed to facilitating multiple investment strategies to accommodate bespoke employer risk management solutions. If multiple investment strategies are adopted, then administration and oversight costs of the investment strategy would increase significantly alongside reporting and overall complexity.
52. Protection assets may provide lower volatility; however, 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 cost, complexity, returns and risk

Governance Audit Trail

53. To evidence effective decision making and governance throughout the valuation, the Fund has maintained a governance audit trail. This documents the key decisions and decision-makers that have affected valuation outcomes.
54. Throughout the valuation, key decisions have been brought to Committee to discuss and approve – such as setting assumptions, funding strategy and contribution rates. The valuation governance audit trail acts as a summary of these formal decisions, provides transparency of the process to oversight bodies (and other scrutineers) and helps the Fund to demonstrate best practice. A summary of the 2025 valuation governance audit trail is contained in Appendix D.
55. The Sections highlighted in green in Appendix D relate to the final stages of the valuation process in March 2026.

Fund's Valuation Report – Includes the Rates and Adjustments Certificate

56. The conclusion of the Fund's 2025 valuation is the Fund's Valuation Report, including the Rates and Adjustments (R&A) Certificate. This details all the Fund's employers and their final employer contribution rates that are payable from April 2026 to March 2029. This is included as Appendix E.
57. The average primary and secondary contribution rates at 2022 and 2025 valuations are shown below.

	2022 (average)	2025 (average)	Difference (average)
Primary – new benefits	23.1%	16.7%	(6.4%)
Secondary – past service	4.1%	3%	(1.1%)

58. Employer groups 2025 average valuation rates (primary, secondary and total) are shown in the following table. The 2022 averages are also shown for comparison.

Employer Group	2025 Primary (average)	2025 Secondary (average)	2025 Total (average)	2022 Primary (average)	2022 Secondary (average)	2022 Total (average)
Stabilised	16.6%	7.3%	23.9%	22.9%	7%	29.9%
Colleges	16.9%	(3%)	13.9%	24.5%	0%	24.5%
Universities	16.7%	(3%)	13.7%	23.9%	1.2%	25.1%
Academies	17.1%	(1.4%)	15.7%	23.6%	1.5%	25.1%

Resolution Bodies (Town and Parish Councils)	18%	(1.7%)	16.3%	24.3%	(0.9%)	23.4%
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59. The stabilised employer rates are higher due to the Fund's stabilisation mechanism. The approach graduates increase in rates when funding levels have been lower, and graduates decreases when funding is higher. This approach has been used for several valuations.
60. At the 14 March 2025 meeting, Pension Committee approved the full 6% reduction was applied from April 2026 to give a greater immediate financial benefit, rather than being stepped over three years. This was included in the report to Committee in September 2025.
61. Admission bodies generally have a nil total rate due to their period in the scheme being linked to the commercial contract and their strong funding position.
62. In addition to the R&A, the report also includes appendices on climate and the new proposed requirement for gender pension gap reporting.
63. It is important to note, approval of the FSS is mandatory as it provides the methodology and detail, used in the Fund's valuation report and calculation of the employer rates.
64. The Fund Actuary has an independent statutory responsibility to sign the Fund's 2025 valuation report by the 31 March 2026, setting employer rates from 1 April 2026 to 31 March 2029. The Fund is also required by statute to update its FSS so that it reflects current CIPFA guidance (issued in January 2025).
65. In the event that the FSS is not approved, the Fund Actuary would still produce its independent valuation report. This would be a qualified report stating that the new contribution rates are based on an updated FSS that has yet to be approved by the Fund but has been subject to consultation with employers. This explicit qualification would be required as the Fund Actuary must carry out a valuation with regard to the Fund's FSS (under Regulation 62(6)(c)).
66. Failure to approve the updated FSS may constitute a breach of the LGPS Regulations. Officers, in line with the Fund's breaches policy and The Pensions Regulator guidance, would assess whether it is likely to be of material significance and, if so, must report it to the regulator. The Fund would also feel obliged to report the breach to MHCLG as the Responsible Authority for the LGPS. The lack of approval would attract scrutiny from other external oversight bodies (SAB, GAD and MHCLG). In particular, GAD undertakes a national "section 13" benchmarking exercise of valuation results across all funds and would be likely to flag the Fund (due to having a

qualified report) for further investigation and the governance failure. This could lead to MHCLG using its powers of intervention and direction reserved to them under Section 13 of the Public Services Pension Act 2013.

67. Officers appreciate the significant Fund surplus at the 2025 valuation has raised questions and challenges from employers. Officers understand approval of the FSS does not constitute all employers agreeing with all underlying methodology and assumptions. As part of Committee's fiduciary duty, Committee is being asked to approve the FSS as the Fund's statutory funding framework for the valuation cycle; employer concerns can continue to be managed through the mechanisms set out in the FSS (e.g., reviews between valuations) without undermining the statutory timetable.

Timeline

68. The final stages of the valuation timeline are set out below:

Date	Topic	Stakeholder
March 2026	Finalise FSS	Committee
April 2026 to March 2029	Employer rates to be implemented	Fund employers

Recommendation

69. It is recommended that the Committee approves the Fund's Funding Strategy Statement, coming into force from 1 April 2026.

70. It is recommended that the Committee notes the Fund's 2025 Valuation Report.

Equality and Human Rights Implications

71. 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

72. 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 Funding Strategy Statement (FSS) – April 2026

Appendix B – Fund's FSS Consultation Summary

Appendix C – Fund's response to Pension Board – February 2026

Appendix D – Governance Audit Trail

Appendix E – Fund Valuation Report 2025

Background Papers

Local Pension Committee 30 January 2026 – Cessation Corridor Approach
<https://democracy.leics.gov.uk/documents/s194294/Report%20FSS%20Cessation%20Corridor%20Approach%20January%202026.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

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

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