

# Oxfordshire Pension Fund Funding Strategy Statement March 2026

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# 1 Purpose of the Oxfordshire Pension Fund and the funding strategy statement

This document sets out the Funding Strategy Statement (FSS) for Oxfordshire Pension Fund.

The Oxfordshire Pension Fund is administered by Oxfordshire County Council, known as the Administering Authority. Oxfordshire County Council worked with the Fund's Actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2026.

There's a regulatory requirement for Oxfordshire County Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact [mark.smith@oxfordshire.gov.uk](mailto:mark.smith@oxfordshire.gov.uk)

## 1.1 What is the Oxfordshire Pension Fund?

The Oxfordshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The Administering Authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a fair and transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations
- ensure fairness and minimise cross-subsidies between different generations of taxpayers

The Fund will engage with employers when developing funding strategy in a way which balances the risk appetite of stakeholders.

## 1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

### Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

### Designating employers (otherwise known as Resolution bodies)

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme

### Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

The Scheme Advisory Board refer to three different tiers of employers which may participate in the LGPS, specifically:

- Tier 1 – Local Authorities (including contractors participating in the LGPS with Local Authority backing)
- Tier 2 – Academy Trusts and Further Education Institutions (Colleges)
- Tier 3 – Standalone employers with no local or national taxpayer backing. Include universities, housing associations and charities.

#### 1.4 How is the funding strategy specific to the Oxfordshire Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

#### 1.5 How often is the Funding Strategy Statement reviewed?

The FSS is reviewed in detail at least every three years ahead of the triennial actuarial valuation and an annual check is carried out in the intervening years.

Amendments to the FSS may be in the following circumstances:

- material changes to the scheme benefit structure (e.g. HM Treasury-led)
- on the advice of the Fund Actuary
- Significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond FSS expectation
- if there have been significant changes to the Fund membership and/or Fund maturity profile
- if there have been significant or notable changes to the number, type, or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure) which could materially impact cashflow and/or maturity profile and/or covenant)
- if there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS.
- recommendations from MHCLG/GAD.

In undertaking such reviews, the Administering Authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (e.g. pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the ISS
- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process and ensuring any communication regarding a review won't necessarily lead to rates changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

Any amendments will be consulted on, approved by the Pensions Committee and included in the Committee meeting minutes.

This Funding Strategy Statement is effective from 1 April 2026 and is expected to remain in force until 31 March 2029 at the latest, unless an interim review is carried out prior to then.

#### **1.6 Links to Administration Strategy**

The Fund maintains an Administration Strategy Statement which outlines the responsibilities, standards and procedures for employers and the Fund. A copy of this can be found [here](#).

Adherence with the requirements of the Administration Strategy Statement is crucial to ensure the well-running of the pension Fund and any failure to do so may lead to uncertainty around the value of an employer's liabilities and the need for prudent assumptions to fill any data gaps.

#### **1.7 Actuarial valuation report**

[LGPS Regulations](#) (specifically Regulation 62) require an actuarial valuation to be carried out every three years, under which contribution rates for all participating employers are set for the following three years. This Funding Strategy Statement sets out the assumptions and methodology underpinning the 2025 actuarial valuation exercise. The actuarial valuation report sets out 1) the Actuary's assessment of the past service funding position, and 2) the contributions required to ensure full funding by the end of the time horizon. The Rates and Adjustments certificate shows the contribution rates payable by each employer (which may be expressed as a percentage of payroll and/or monetary amounts).

## PART A – Key Funding Principles

### 2 How does the Fund calculate employer contributions?

#### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer total contribution rates are determined by a mandatory actuarial valuation exercise and are made up of the following elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the Fund's expenses.

The fund actuary uses a methodology known as Asset Liability Modelling to set employer contribution rates. Under this methodology, for a given proposed employer contribution rate, the model projects future asset and liability values for the employer under 5,000 different simulations of the future economic environment. Each simulation – generated by Hymans Robertson's Economic Scenario Service (ESS) model - has a different path for future interest rates, inflation rates and the investment return on different asset classes. This approach allows the fund actuary to understand the potential range of future funding outcomes that could be achieved via payment of that contribution rate.

The fund has set *funding strategy criteria* for each employer in the fund which must be satisfied in order for a given employer contribution to be deemed acceptable. The funding strategy criteria are specified in terms of the following four parameters:

- **the target funding level** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the target funding level
- **the funding basis** – the set of actuarial assumptions used to value the employer's (past and future service) liabilities.
- **the likelihood of success** – the proportion of modelled scenarios where the target funding level is met.

For example, an employer's funding strategy criteria may be set as follows:

*The employer must have at least a **80% likelihood** of being **120% funded** on the **ongoing participation basis** at the end of a **20 year** funding time horizon*

The funding strategy criteria used by the fund are set out in Table 2. Further detail on the ESS and on the funding bases used by the fund are set out in [Appendix E](#).

The target funding level may be set greater than 100% as a buffer against future adverse experience. This may be appropriate for long term open employers, where adverse future funding experience may lead to future contribution rises.

This approach takes into account the maturing profile of the membership when setting employer contribution rates. The approach taken by the Fund Actuary helps the Fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

## 2.2 The contribution rate calculation

Certain Fund employers (such as academies and admission bodies with pass-through arrangements) participate within funding pools, as described in Sections 2.5 and 2.6. Where this applies the contribution rate will be calculated for the pool as a whole using the parameters in Table 2. This results in each employer in their respective pool paying the same contribution rate (in % of pay terms).

**Table 1: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies				CABs and designating employers		TABs*
	Sub-type	Local authorities, Police	Universities	Academies	Colleges	Open to new entrants	Closed to new entrants
<b>SAB Tier</b>	<b>Tier 1</b>	<b>Tier 3</b>	<b>Tier 2</b>	<b>Tier 2</b>	<b>Tier 3</b>	<b>Tier 3</b>	<b>Tier 1</b>
<b>Funding basis**</b>			Ongoing			Ongoing, but may move to low-risk exit basis	Ongoing
<b>Target funding level***</b>	100%	100%	100%	100%	100%	100%	100%
<b>Minimum likelihood of success</b>	80%	80%	80%	80%	80%	85-90%	80%
<b>Maximum time horizon</b>			20 years			Average future working lifetime	Same as the letting employer
<b>Primary rate approach***</b>		The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay					
<b>Secondary rate</b>		The difference between the total contribution rate payable (determined as per 2.1) and the primary rate. Negative adjustments are expressed as a percentage of payroll and positive adjustments can be expressed as a percentage of payroll or monetary amounts (for mature closed employers).					
<b>Stabilised contribution rate?</b>	Yes	Yes	No	No	No	No	No
<b>Treatment of surplus</b>	Covered by stabilisation arrangement			Reductions may be permitted by the Administering Authority			
<b>Recognising covenant</b>	Stabilisation arrangement			Adjust likelihood of success and/or target funding level			
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement				Up to 3 years		None

\* Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority (in most cases this is set equal to the letting authority's total contribution rate). The Fund's policy on pass-through arrangements is available [here](#).

\*\*See [Appendix E](#) for further information on funding bases.

\*\*\* Higher (or lower) Target Funding Levels may be adopted in certain circumstances to reflect employers with different funding characteristics (eg to reflect asset-to-payroll gearing ratios)

\*\*\*\* The Primary Rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates.

The Fund manages funding risks as part of the wider risk management framework, as documented in the Fund's risk register. The funding-specific risks identified and managed by the Fund are set out in [Appendix D – Risks and Controls](#).

### 2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund Actuary, the Administering Authority believes a stabilised approach is a prudent longer-term strategy.

**Table 2: current stabilisation approach**

Type of employer	Council	University
Maximum contribution increase per year	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The Administering Authority may review them between valuations to respond to membership or employer changes.

Phasing of contribution rates may be possible at the discretion of the Administering Authority.

### 2.4 Links to investment strategy

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the Administering Authority.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

The investment strategy is designed allowing for the funding position determined on an appropriate and prudent basis, with the objective of achieving the funding objective for each employer group of the specific time horizon.

The Fund's current strategic investment strategy as at 31 March 2025 is summarised in the table, with full details available at [\[link\]](#).

Asset class	Allocation
UK Equities	15%
Global Equities (unhedged)	32%
EM equities (unhedged)	4%
Private Equity	10%
Property	8%
A Credit (4 year maturity)	4%
Index linked gilt (24 year maturity)	7%
Multi Asset Credit (sub investment grade)	5%
Private Lending	5%
Infrastructure Debt	5%
Cash	5%

## 2.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that Funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#)).

## 2.6 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's contribution review policy is available [here](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

## 2.7 What is pooling?

The Administering Authority operates funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. Employers which are closed to new entrants aren't usually allowed to enter a pool.

Employers in a pool share all pension funding risks (including individual membership experience). This means that full cross-subsidy exists between employers within the pool. If pooled employers choose to leave the pool then their future funding position and contribution rates could be higher or lower than their contribution rate as a member of the pool.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified.

If a pooled employer ceases (or plans to cease) participation in the Fund its funding will be immediately removed from the pool.

## 2.8 What are the current contribution pools?

- **Designating employers** - Town & Parish councils are pooled together.
- **TABs** (pass-through) – employers participating under a pass-through agreement are pooled with the letting authority.

## 2.9 Administering Authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the Administering Authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Administering Authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The Fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the Fund's prepayment policy available [here](#).

### 2.10 Non cash funding

Should any employer wish to provide non-cash assets in lieu of contributions, the Fund will fully consider this request based on specialist advice, and take steps to manage any conflict of interest that may arise.

### 2.11 Managing surpluses and deficits

The funding strategy is designed to ensure that all employers are at least fully funded on a prudent basis at the end of their own specific time horizon. The uncertain and volatile nature of pension scheme funding means that it is likely there will be times when employers are in surplus and times when employers are in deficit. The funding strategy recognises this by 1) including sufficient prudence to manage the effect of this over the time horizon, and 2) making changes to employer contribution rates to ensure the funding strategy objectives are met.

Fluctuations in funding positions are inevitable over the time horizon, due to market movements and changing asset values, which could lead to the emergent of deficits and surplus from time to time, and lead to changes in employer contribution rates.

Table 1 sets out the Fund's approach to setting contribution rates for each employer group.

## 3 What additional contributions may be payable?

### 3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the Administering Authority agrees.

### 3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer is responsible for paying the funding strain, which may be a large sum. In general, this will be picked up as part of future employer contributions.

Where an employer participates within a pool (as detailed in 2.6), ill health strain risk is spread across all employers within the pool.

The Administering Authority does not offer any further arrangements to mitigate this risk (other than pooling for certain employers). Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs increasing future employer contributions.

## 4 How does the Fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The Fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund Actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

### 4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix E](#), the Fund Actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### 4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on contribution rates.

## PART B – Employer Events

### 5 What happens when an employer joins the Fund?

#### 5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer, the existence of any guarantee, and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

#### 5.2 New academies

New academies join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Newly established academies do not transfer active members from a locally maintained school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund Actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully Fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%. The council's estimated funding level will be based on market conditions on the day before conversion.

The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy's contribution rate (where not joining an existing MAT or the academies pool) is based on the current funding strategy (set out in section 2) and the transferring membership.

Academies joining an existing MAT within the Fund will be pooled with this MAT and will fully share all risks and costs. Academies within a MAT pay the same total contribution rate. If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT (unless it is not possible to identify all deferred and pensioner members of the transferring academy).

The Fund's policies on academies may change based on updates to guidance from the Ministry of Housing, Communities and Local Government or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's Academies Policy is available [here](#).

#### 5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a

replacement contractor.

There is flexibility for outsourcing when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the Administering Authority or in the contract admission agreement. However, in general, the funding arrangements are set up as one of the following two options:

**(i) Pass-through admissions**

The fund's preference is that all new admission bodies will be set up via a pass-through arrangement. The fund's pass-through policy is available [here](#).

**(ii) Other admissions**

Liabilities for transferring active members will be calculated by the Fund Actuary on the day before the outsourcing occurs. New contractors will then be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

**5.4 Other new employers**

There may be other circumstances that lead to a new admission body entering the Fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

**5.5 Risk assessment for new admission bodies**

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund Actuary assesses this because the assessment must be carried out to the Administering authority's satisfaction.

After considering the assessment, the Administering Authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund's admissions policy is available [here](#).

## 6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another Fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is available [here](#).

## 7 What happens when an employer leaves the Fund?

### 7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The Administering Authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor

On cessation, the employer may be permitted to enter into a deferred debt arrangement (DDA) and become a deferred employer in the Fund (as detailed in Section 7.4). If no DDA exists, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the Fund leaves the scheme.

### 7.2 What happens on cessation?

The Administering Authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The Actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix E](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix E](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation.
  - Where the guarantor is a guarantor of last resort (i.e. where the guarantee will cease to have effect after the cessation event and final settlement), this will have no effect on the cessation valuation.
  - If this isn't the case (i.e. if the guarantee continues to apply in respect of the former employer's obligations post cessation), cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms. This is known as 'subsumption' of the assets and liabilities.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund Actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and may be deducted from the cessation surplus or added to the cessation deficit. This improves

efficiency by reducing transactions between employer and Fund.

The cessation policy is available [here](#).

### **7.3 How do employers repay cessation debts?**

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a DDA, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

Further details are set out in the cessation policy available [here](#).

### **7.4 What if an employer has no active members?**

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid, in which case the other Fund employers will be required to contribute to the remaining benefits. The Fund Actuary will apportion the liabilities on a pro-rata basis at the formal valuation.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down, in which case the Fund Actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis at the formal valuation.

### **7.5 What happens if there is a surplus?**

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the Administering Authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is set out within section 3.3 of the fund's cessation policy, available [here](#).

### **7.6 Partial cessations**

The Fund does not accept partial cessations.

## 8 What are the statutory reporting requirements?

### 8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department (GAD) to report on LGPS Funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report includes advice on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

### 8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other Funds. Either:

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level
- or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Administering Authority may consider absolute and relative factors.

Relative factors include:

- comparing LGPS Funds with each other
- the implied deficit recovery period
- the investment return required to achieve full funding after 20 years.

Absolute factors include:

- comparing Funds with an objective benchmark
- the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
- how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
- the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
- how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

Standard information about the Fund's approach to solvency of the pension Fund and long-term cost efficiency will be provided in a uniform dashboard format in the valuation report to facilitate comparisons between Funds.

# Appendices

## Appendix A – The regulatory framework

### A1 Why do Funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require Funds to maintain and publish a Funding Strategy Statement (FSS). According to the Ministry for Housing, Communities and Local Government (MHCLG) the purpose of the FSS is to document the processes the Administering Authority uses to:

- *establish a **clear and transparent Fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the desirability of maintaining as constant and stable primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013*
- *ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Fund are met.*
- *explain how the Fund balances the interests of different employers.*
- *explain how the Fund deals with conflicts of interest and references other policies/strategies.*

To prepare this FSS, the Administering Authority has used guidance jointly prepared by the Scheme Advisory Board (SAB), MHCLG, and by the Chartered Institute of Public Finance and Accountancy (CIPFA) dated January 2025.

The Fund has a fiduciary duty to scheme members and obligations to employers to administer the scheme competently to keep employer contributions at an affordable level. The funding strategy statement sets out how the Fund meets these responsibilities.

### A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “*persons the authority considers appropriate*”. This should include ‘*meaningful dialogue... with council tax raising authorities and representatives of other participating employers*’.

The consultation process included issuing a draft version to participating employers and invitation to attend an open employers’ forum. The Administering Authority should circulate the CIPFA guidance, and consult on actual funding policy and methodologies, before preparing and issuing a draft. The draft should include an estimate of the impact of any variations from the previous funding strategy.

The fund also shared the draft FSS with the Department for Education and consulted on the changes made and the implications of the fund’s funding policies on academy employers as part of the FSS consultation.

### A3 How is the FSS published?

The FSS is emailed to participating employers and employee and summaries are issued to members and a full copy is included in the Fund’s annual report and accounts. Copies are freely available on request and is published on the website at [www.oxfordshire.gov.uk/pensions](http://www.oxfordshire.gov.uk/pensions).

### A4 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund’s approach to funding liabilities. It isn’t exhaustive – the Fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The Fund’s annual report and accounts also includes up-to-date

Fund information.

You can see all Fund documentation at [www.oxfordshire.gov.uk/pensions](http://www.oxfordshire.gov.uk/pensions).

## Appendix B – Roles and responsibilities

### **B1 The Administering Authority is required to:**

1. Operate a pension Fund.
2. Collect employer and employee contributions, investment income and other amounts due to the pension Fund as stipulated in LGPS Regulations.
3. Have an escalation policy in situations where employers fail to meet their obligations.
4. Pay from the pension Fund the relevant entitlements as stipulated in LGPS Regulations.
5. Invest surplus monies in accordance with the relevant regulations.
6. Ensure that cash is available to meet liabilities as and when they fall due.
7. Ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments.
8. Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default.
9. Manage the valuation process in consultation with the Fund's Actuary.
10. Prepare and maintain an FSS and associated funding policies and SIP/ISS, after proper consultation with interested parties.
11. Monitor all aspects of the Fund's performance and funding, and amend the FSS/ISS accordingly.
12. Establish a policy around exit payments and payment of exit credits/debits in relation to employer exits.
13. Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer.
14. Enable the local pension board to review the valuation and FSS review process and as set out in their terms of reference.
15. Support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

### **B2 Individual employers are required to:**

1. Ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations).
2. Provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.
3. Pay all ongoing contributions, including employer contributions determined by the Actuary and set out in the rates and adjustments certificate, promptly by the due date.
4. Develop and regularly review a policy on certain discretions and exercise those discretions as permitted within the regulatory framework.
5. Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain.

6. Notify the Administering Authority promptly of all changes to active membership that affect future funding.
7. Pay any exit payments on ceasing participation in the Fund timely provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

**B3 The Fund Actuary should:**

1. Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency based on the assumptions 26 set by the Administering Authority and having regard to the FSS and the LGPS Regulations.
2. Provide advice so the Fund can set the necessary assumptions for the valuation.
3. Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
4. Provide advice and valuations to the Fund so that it can make decisions on the exit of employers from the Fund.
5. Provide advice to the Fund on bonds or other forms of security against the financial effect on the Fund of employer default.
6. Assist the Fund in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations.
7. Ensure that the Fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the Fund.
8. Identify to the Fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the Fund and other clients.

**B4 Local Pension Boards (LPB):**

Local Pension Boards have responsibility to assist the Administering Authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. It will be for each Fund to determine the input into the development of the FSS (as appropriate within Fund's own governance arrangements) however this may include:

1. Assist with the development and review the FSS.
2. Review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation.
3. Assist with the development of and review communications in relation to the FSS.

**B5 Employer guarantors:**

1. Department for Education - To pay cessation debts in the case of academy cessations (where the obligations are not being transferred to another MAT) and to consider using intervention powers if an academy is deemed to be in breach of the regulations.
2. Other bodies with a financial interest (outsourcing employers)

**B6 Other parties:**

1. Internal and external investment advisers ensure the Investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement.
2. Investment managers, custodians and bankers play their part in the effective investment and dis- investment of Fund assets in line with the ISS.
3. Auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements.
4. Governance advisers may be asked to advise the Administering Authority on processes and working methods.
5. Internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures.
6. The Ministry for Housing, Communities and Local Government, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Glossary

### **Actuarial certificates**

A statement of the contributions payable by the employer (see also rates and adjustments certificate). The effective date is 12 months after the completion of the valuation.

### **Actuarial valuation**

An investigation by an Actuary, appointed by an Administering Authority into the costs of the scheme and the ability of the Fund managed by that authority to meet its liabilities. This assesses the funding level and recommended employer contribution rates based on estimating the cost of pensions both in payment and those yet to be paid and comparing this to the value of the assets held in the Fund. Valuations take place every three years (triennial).

### **Administering Authority (referred to as ‘the Fund’)**

A body listed in Part 1 of Schedule 3 of the regulations who maintains a Fund within the LGPS and a body with a statutory duty to manage and administer the LGPS and maintain a pension Fund (the Fund). Usually, but not restricted to being, a local authority.

### **Admission agreement**

A written agreement which provides for a body to participate in the LGPS as a scheme employer

### **Assumptions**

Forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation, and investment returns,

### **Code of Practice**

The Pensions Regulator’s General Code of Practice.

### **Debt spreading arrangement**

The ability to spread an exit payment over a period of time

### **Deferred debt agreement**

An agreement for an employer to continue to participate in the LGPS without any contributing scheme members

### **Employer covenant**

The extent of the employer’s legal obligation and financial ability to support its pension scheme now and in the future.

### **Funding level**

The funding level is the value of assets compares with the liabilities. It can be expressed as a ratio of the assets and liabilities (known as the funding level) or as the difference between the assets and liabilities (referred to as a surplus or deficit).

**Fund valuation date**

The effective date of the triennial Fund valuation.

**Guarantee / guarantor**

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**Local Pension Board**

The board established to assist the Administering Authority as the Scheme Manager for each Fund.

**Non-statutory guidance**

Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents

**Notifiable events**

Events which the employer should make the Administering Authority aware of

**Past service liabilities**

The cost of pensions already built up or in payment

**Pension committee**

A committee or sub-committee to which an Administering Authority has delegated its pension function

**Pensions Administration Strategy**

A statement of the duties and responsibilities of scheme employers and Administering Authorities to ensure the effective management of the scheme

**Primary and secondary employer contributions**

Primary employer contributions meet the future costs of the scheme and Secondary employer contributions meet the costs already built up (adjusted to reflect the experience of each scheme employer). Contributions will therefore vary across scheme employers within a Fund.

**Rates and adjustments certificate**

A statement of the contributions payable by each scheme employer (see actuarial certificates)

**Scheme Manager**

A person or body responsible for managing or Administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each Fund has a Scheme Manager which is the Administering Authority.

## Appendix D – Risks and controls

### D1 Managing risks

The Administering Authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

A summary of the key Fund-specific risks and controls is set out below. For more details, please see the fund's risk register.

### D2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	<p>Anticipate long-term returns on a prudent basis to reduce risk of under-performing.</p> <p>Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three-year valuations for all employers.</p> <p>Roll forward whole Fund liabilities between valuations.</p>
Inappropriate long-term investment strategy.	<p>Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance.</p> <p>Operate various strategies to meet the needs of a diverse employer group.</p>
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	<p>Focus valuation on real returns on assets, net of price and pay increases.</p> <p>Use inter-valuation monitoring to give early warning.</p> <p>Invest in assets with real returns.</p> <p>Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.
Orphaned employers create added Fund costs.	<p>Seek a cessation debt (or security/guarantor).</p> <p>Spread added costs among employers.</p>

**D3 Demographic risks**

Risk	Control
Pensioners live longer, increasing Fund costs.	<p>Set mortality assumptions with allowances for future increases in life expectancy.</p> <p>Use the Fund Actuary's experience and access to over 50 LGPS Funds to identify changes in life expectancy that might affect the longevity assumptions early.</p>
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.	<p>Monitor at each valuation, consider seeking monetary amounts rather than % of pay.</p> <p>Consider alternative investment strategies.</p>
Deteriorating patterns of early retirements	<p>Charge employers the extra cost of non ill-health retirements following each individual decision.</p> <p>Pool small employers to facilitate the sharing of ill health risk.</p> <p>Monitor employer ill-health retirement experience.</p>
Reductions in payroll cause insufficient deficit recovery payments.	<p>Buy-out employers in the stabilisation mechanism to permit contribution increases.</p> <p>Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

**D4 Regulatory risks**

Risk	Control
Changes to national pension requirements or HMRC rules.	<p>Consider all Government consultation papers and comment where appropriate.</p> <p>Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known.</p> <p>Build preferred solutions into valuations as required.</p>
Time, cost or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis	Take advice from the Actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.
Changes to employer participation in LGPS Funds leads to impacts on funding or investment strategies.	<p>Consider all Government consultation papers and comment where appropriate.</p> <p>Take advice from the Fund Actuary and amend strategy.</p>

**D5 Governance risks**

Risk	Control
<p>The Administering Authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.</p>	<p>The Administering Authority develops a close relationship with employing bodies and communicates required standards.</p> <p>The Actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its advisers.</p> <p>Advice is delivered through formal meetings and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements like peer review.</p>
<p>The Administering Authority fails to commission the Actuary to carry out a termination valuation for an admission body leaving the Fund.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of changes.</p> <p>CABs' memberships are monitored and steps are taken if active membership decreases.</p>
<p>An employer ceases to exist with insufficient funding or bonds.</p>	<p>It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body.</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Requiring a bond to protect the Fund, where permitted.</p> <p>Requiring a guarantor for new CABs.</p> <p>Regularly reviewing bond or guarantor arrangements.</p> <p>Reviewing contributions well ahead of cessation.</p>

**Risk****Control**

An employer ceases to exist, so an exit credit is payable.

The Administering Authority regularly monitors admission bodies coming up to cessation.

The Administering Authority invests in liquid assets so that exit credits can be paid.

**D6 Employer covenant assessment and monitoring**

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy. The Fund will determine appropriate security and other covenant protections to manage employer risk where necessary.

Any change in covenant over the inter-valuation period may lead to a contribution rate review.

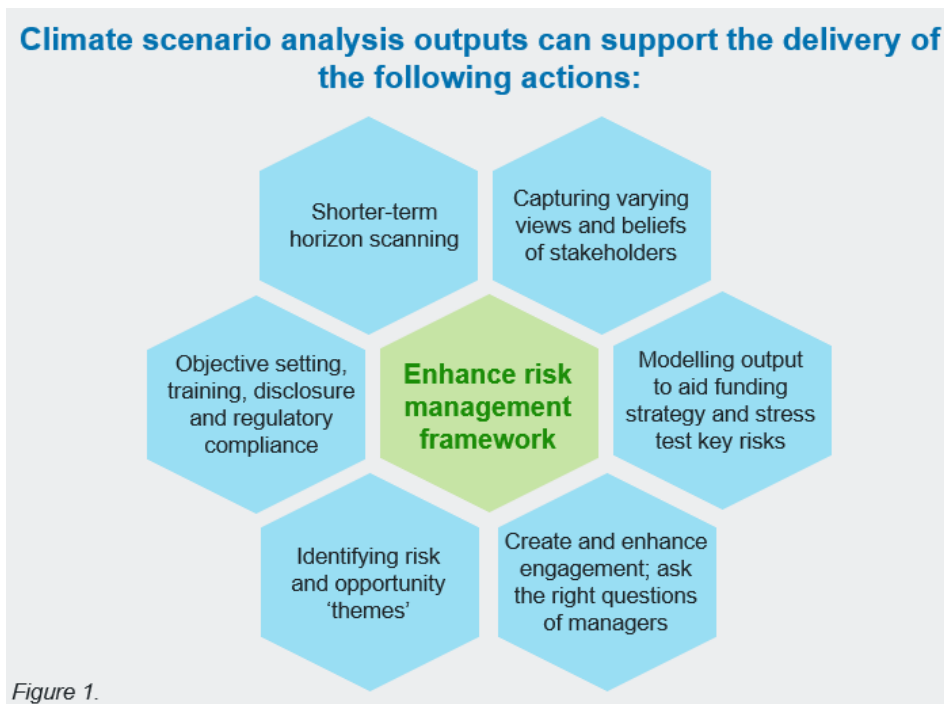
**D7 Climate risk and TCFD reporting**

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has carried out climate scenario analysis incorporating both stress testing, and narrative-based scenario analysis for the local authority employers at the 2025 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific extreme, downside risk (in this instance a food shock) and constructing a narrative around potential policy and market response, noting these may be sub-optimal. This approach allows consideration to be given to the impact of sudden, severe downside risks in the short term, the interdependencies that arise and potential immediate actions. Coupling this approach with stress testing (to better understand the impact of possible climate scenarios) has allowed the Fund to incorporate a range of outcomes that may arise and assess the resilience of the Fund under these scenarios.

The results show that:

1. When considering climate scenario stress tests, the Fund appears to be generally resilient to different climate scenarios, with generally modest impacts versus the base case modelled
2. The results of the downside, narrative analysis suggest that the Fund is likely to be resilient in the face of some severe downside risk events (in comparison to the base case), but not all.

Climate scenario analysis helps assess risks and tests the resilience of current and long-term strategies under various scenarios. This helps to identify vulnerabilities across both assets and liabilities. Identification of these vulnerabilities can inform risk management processes (see figure 1), helping the Fund ensure appropriate controls and mitigations are in place. Scenario analysis therefore supports informed decision making, and may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.



The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund’s assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy which was last agreed by Pensions Committee in September 2024.

**D8 Gender Pension Gap reporting**

The government published its consultation “Local Government Pension Scheme in England and Wales: Access and Fairness” in May 2025. One of the proposals as part of this consultation was to include gender pension gap reporting in the 2025 valuation report. Regulation around reporting will be laid down in March 2026 and as such, the Fund has reported on the gender pension gap in the 2025 valuation report (appendix 11).

Reporting has been included for active members, pensioner members and by employer using the local government pension scheme funds account return (SF3) categorisation.

## Appendix E – Actuarial assumptions

The key outputs from an employer's funding valuation are its contribution rate requirement (see Section 2 for further details) and its funding level (see Section 4). For both calculations the fund actuary requires actuarial assumptions.

The fund typically reviews and sets the actuarial assumptions used for funding purposes as part of the triennial valuation. Those assumptions are then used until the next triennial valuation (updated for current market conditions where appropriate).

The fund has reviewed the actuarial assumptions used for funding purposes as part of the 2025 valuation. These are set out below.

### E1 What are actuarial assumptions?

Actuarial assumptions are required to value the fund's liabilities because:

- There is uncertainty regarding both the timing and amount of the future benefit payments (the actual cost can't be known until the final payment is made). Therefore to estimate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments
- The assets allowed to an employer today are a known figure. However, the future investment return earned on those assets and future cashflows into the fund are uncertain. An assumption is needed about what those future investment returns will be

There are two types of actuarial assumptions that are needed to perform an actuarial valuation: financial assumptions determine the expected amount of future benefit payments and the expected investment return on the assets held to meet those benefits, whilst demographic assumptions relate primarily to the expected timing of future benefit payments (i.e. when they are made and for how long).

All actuarial assumptions are set as best estimates of future experience with the exception of the discount rate assumption which is deliberately prudent to meet the regulatory requirement for a 'prudent' valuation.

Any change in the assumptions will affect the value that is placed on future benefit payments ('liabilities'), but different assumptions don't affect the actual benefits the fund will pay in future.

### E2 What funding bases are operated by the Fund?

A *funding basis* is the set of actuarial assumptions used to value an employer's (past and future service) liabilities. The fund operates two funding bases for funding valuations: the ongoing participation basis and the *low-risk* exit basis. All actuarial assumptions are the same for both funding bases with the exception of the discount rate – see further details below.

### E3 What funding bases are operated by the Fund?

#### Discount rate

The discount rate assumption is the average annual rate of future investment return assumed to be earned on an employer's assets from a given valuation date.

The fund uses a risk-based approach to setting the discount rate which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions') and the Fund's investment strategy.

The discount rate is determined by the prudence level. Specifically, the discount rate is calculated to be:

*The average annual level of future investment return that can be achieved on the Fund's assets over a 20 year period with a x% likelihood.*

The prudence level is the likelihood. The prudence levels used by the fund are as follows:

Funding basis	Prudence level
Ongoing participation	80%
Low-risk exit	90%

### CPI inflation

The CPI inflation assumption is the average annual rate of future Consumer Price Index (CPI) inflation assumed to be observed from a given valuation date. This assumption is required because LGPS benefit increases (in deferment and in payment) and revaluation of CARE benefits are in line with CPI.

The fund uses a risk-based approach to setting the CPI inflation assumption which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions').

The CPI inflation assumption is calculated to be:

*The average annual level of future CPI inflation that will be observed over a 20 year period with a 50% likelihood.*

### Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 0.0% above the CPI inflation assumption plus a promotional salary scale.

### E4 Further detail on the calculation of financial assumptions

The (ongoing participation basis) discount rate and CPI inflation assumptions are calculated using a risk-based method. To assess the likelihood associated with a given level of investment return or a given level of future inflation, the fund actuary uses Hymans Robertson's propriety economic scenario generator; the *Economic Scenario Service (or ESS)*. The model uses statistical distributions to project a range of 5,000 different possible outcomes for the future behaviour of different asset classes and wider economic variables, such as inflation.

The table below shows the calibration of the model as at 31 March 2025 for some sample asset classes and economic variables. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years. Yields and inflation refer to the simulated yields at that time horizon.

Annualised total returns									Economic Variables				
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	CorpMediu m A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	3.5%	1.7%	2.2%	0.1%	-0.5%	0.2%	2.5%	2.2%	1.4%	1.2%	1.5%	4.8%
	50th %'ile	4.3%	4.5%	4.3%	8.2%	8.2%	6.8%	4.9%	3.8%	2.4%	2.8%	2.4%	5.8%
	84th %'ile	5.1%	7.5%	6.2%	16.4%	16.9%	14.1%	7.1%	5.3%	3.3%	4.3%	3.3%	7.1%
10 years	16th %'ile	3.6%	2.7%	4.2%	2.5%	2.1%	2.3%	4.5%	1.3%	0.8%	0.8%	0.8%	3.9%
	50th %'ile	4.6%	4.7%	5.4%	8.6%	8.5%	7.3%	6.0%	3.0%	2.1%	2.5%	2.1%	5.3%
	84th %'ile	5.8%	6.9%	6.5%	14.6%	14.8%	12.7%	7.3%	4.6%	3.3%	4.1%	3.3%	7.1%
20 years	16th %'ile	3.1%	2.9%	5.0%	3.8%	3.7%	3.5%	5.5%	1.0%	-0.5%	0.7%	-0.5%	1.6%
	50th %'ile	4.5%	4.6%	5.8%	8.4%	8.3%	7.3%	6.5%	2.5%	1.2%	2.3%	1.3%	3.6%
	84th %'ile	6.3%	6.4%	6.5%	12.9%	13.1%	11.3%	7.4%	4.2%	3.0%	3.9%	3.0%	6.2%
	<b>Volatility (Disp) (1 yr)</b>	<b>0%</b>	<b>7%</b>	<b>5%</b>	<b>16%</b>	<b>19%</b>	<b>15%</b>	<b>7%</b>	<b>1%</b>		<b>1%</b>		

The ESS model is recalibrated monthly. The fund actuary uses the most recent calibration of the model (prior to the valuation date) to set financial assumptions for each funding valuation.

### E5 What demographic assumptions are used by the fund?

The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in the assumptions that apply to them.

#### Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2024 version of the continuous mortality investigation (CMI) model published by the actuarial profession. The core parameters of the model apply, however, the starting point has been adjusted by +0.25% (for males and females) to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

#### Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 65 this is assumed to be 55% for males and 54% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	55% of maximum tax-free cash
50:50 option	0% of members will choose the 50:50 option.

#### Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	356	671	0.00	0.00	0.00	0.00
25	117	0.17	235	443	0.00	0.00	0.00	0.00
30	131	0.20	167	314	0.00	0.00	0.00	0.00
35	144	0.24	130	246	0.10	0.07	0.02	0.01
40	151	0.41	105	198	0.16	0.12	0.03	0.02
45	159	0.68	99	186	0.35	0.27	0.07	0.05
50	167	1.09	81	153	0.90	0.68	0.23	0.17
55	173	1.70	64	120	3.54	2.65	0.51	0.38
60	174	3.06	57	107	6.23	4.67	0.44	0.33

### Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	282	411	0.00	0.00	0.00	0.00
25	117	0.10	190	277	0.10	0.07	0.02	0.01
30	131	0.14	159	232	0.13	0.10	0.03	0.02
35	144	0.24	137	200	0.26	0.19	0.05	0.04
40	151	0.38	114	166	0.39	0.29	0.08	0.06
45	159	0.62	107	155	0.52	0.39	0.10	0.08
50	167	0.90	90	131	0.97	0.73	0.24	0.18
55	173	1.19	67	98	3.59	2.69	0.52	0.39
60	174	1.52	54	79	5.71	4.28	0.54	0.40