

# Royal County of Berkshire Pension Fund

## Funding Strategy Statement

**Employer Consultation Period: 22 December 2025 – 30 January 2026**

*Approved by Pension Fund Committee: xxx March 2026*

## Table of Contents

Section A – Purpose of the fund and the FSS.....	3
A1 Introduction.....	3
A2 Aims and objectives of the FSS.....	3
A3 Monitoring and review of the FSS.....	4
Section B: Key funding principles .....	5
B1 Funding target.....	5
B2 Managing risk .....	9
B3 Main actuarial assumptions.....	9
B4 Links to the Investment Strategy Statement (ISS) .....	12
B5 How employer contributions are calculated.....	13
B6 Prepayment policy .....	13
B7 Primary rate of employers' contribution .....	14
B8 Secondary rate of the employers' contribution.....	14
B9 Payment of additional contributions.....	15
B10 Actuarial valuation.....	15
B11 Review of employer contributions between valuations .....	16
B12 Fund approach to managing surpluses and deficits.....	16
B13 Employer covenant.....	16
B14 Guarantors .....	17
B15 Admission bodies.....	18
B16 Links to Pension Administration Strategy .....	19
Section C: Employer events.....	20
C1 Joining the fund and employer contribution rate setting and monitoring.....	20
C2 Preparing for exit and events which may trigger termination .....	23
C3 Deferred debt agreements or debt spreading arrangements.....	25
C4 Suspension notices .....	26
C5 Partial terminations.....	26
C6 Bulk transfers (both to or from the LGPS) .....	26
Annex A: Contribution review policy .....	27
Annex B: Deferred debt agreement and debt spreading arrangement policies.....	34
Annex C: Exit Credit Policy .....	45
Annex D: Managing Risks .....	46
Annex E: Glossary .....	51

## Section A – Purpose of the fund and the FSS

### A1 Introduction

This is the Funding Strategy Statement (FSS) for the Royal County of Berkshire Pension Fund (the Fund), part of the Local Government Pension Scheme (LGPS). It has been prepared by Royal Borough of Windsor and Maidenhead in our capacity as Administering Authority of the Fund.

We have prepared this statement:

- in accordance with Regulation 58 of the LGPS Regulations 2013 as amended (the Regulations);
- with regard to the guidance ([Guidance for Preparing and maintaining a Funding Strategy Statement \(FSS\)](#)) jointly produced by the Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Ministry of Housing, Communities and Local Government (MHCLG); and
- having taken advice from the Fund Actuary, Barnett Waddingham.

This statement should be read in conjunction with our Investment Strategy Statement (ISS) [here](#).

Employers and other relevant parties have been consulted during the development of this FSS, in line with the Engagement Plan..

This FSS was approved by the Pension Fund Committee on **xx March 2026** on the recommendation of the Head of Pension Fund and following consultation with our employers.

We have included an explanation of the key terminology used in this document in Annex E: Glossary.

#### A1.1 Contact details

Any queries relating to this FSS should be directed to the Head of Pension Fund, Jo Thistlewood at [Jo.Thistlewood@RBWM.gov.uk](mailto:Jo.Thistlewood@RBWM.gov.uk).

### A2 Aims and objectives of the FSS

The aims and objectives of this FSS are to:

- Enable our Fund Actuary to undertake appropriate funding calculations for the Fund, whether as part of a triennial actuarial valuation exercise or otherwise, which also meet the requirements of the LGPS Regulations and guidance and their professional obligations;
- Establish a clear and transparent fund-specific strategy that will identify how our employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set employer contributions to ensure the solvency and long-term cost efficiency of the Fund are met in the context of fiduciary duty;
- Explain how we seek to balance the interests of different employers; and
- Explain how we deal with conflicts of interest and references other policies/strategies.

They have been set in the context of fiduciary duty and requirement to pay pension benefits according to the LGPS and wider regulations.

Our aims in relation to long-term funding are to:

- Achieve solvency by managing employers' liabilities effectively and ensuring that sufficient resources are available to meet all benefit payments as they arise;
- Achieve long-term cost efficiency by ensuring that employer contribution rates are not set at a level that gives rise to additional costs;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to not taking undue risks) at reasonable cost to our employers; and
- Seek returns on investment within reasonable risk parameters.

### A2.1 Conflicts of interest

There is a potential conflict of interest in that the FSS is prepared by the Administering Authority which is itself an employer in the Fund. We will ensure that the contents of the FSS are not unduly influenced by any one employer by undertaking a consultation which is extended to all employers.

The Fund's Conflict of Interest Policy is available on request from the Pension Fund [info@berkshirepensions.org.uk](mailto:info@berkshirepensions.org.uk)

## A3 Monitoring and review of the FSS

The FSS will be monitored annually, and it will be reviewed before the completion of the next actuarial valuation of the Fund unless circumstances suggest an earlier review would be desirable or required.

Examples of when we may wish to review the FSS include:

- Material changes to the LGPS benefit structure or regulations;
- Significant changes to our investment strategy;
- Significant changes to our membership profile;
- Such significant changes to the number, type, or individual circumstances of any employers 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);
- A material change in the affordability of contributions and/or employer(s) financial strength which has an impact on the future solvency of the Fund;
- Recommendations from MHCLG/Government Actuary's Department (GAD); or
- On the advice of the Fund Actuary.

In a review of the FSS, we would consider whether an update to the FSS was required (and consequently whether an update to the ISS was also required). If we felt an update was required, we will consider communicating with those employers specifically impacted by any changes.

## Section B: Key funding principles

### B1 Funding target

Employer contribution rates are required by Regulations to be set by an actuarial valuation exercise and securing the solvency and long-term cost efficiency of our Fund is a regulatory requirement. The Regulations also state it is desirable to maintain as nearly constant a B7 Primary rate of employers' contribution as possible and the Fund aims to achieve this. A key principle in determining employer contribution rates is to establish a funding target, with employer contribution rates then set to meet that target over an agreed period.

The past service funding level (often referred to as simply the funding level) is the ratio of assets to liabilities in respect of accrued past service.

We define the funding target as having at least sufficient assets in the Fund to meet the accrued past service liabilities (i.e. a funding level of 100%). The basis used to determine the value of accrued pension liabilities may depend on the type of employer. Further details are presented in the Table 1: Summary of funding approach table.

The Fund Actuary can then assess how the value of the assets held by the Fund compares to the funding target and calculate the past service funding level.

We have many different employers in our Fund, and our strategy seeks to strike the right balance between affordable, stable contributions whilst also recognising that failure of an employer to pay contributions, can lead to financial consequences for other employers. More information on the funding target for different employers is set out in the Table 1: Summary of funding approach table.

#### B1.1 How we determine employer defined benefit obligations

Members' benefits are payable many years into the future and positive investment returns can help make the benefits more affordable for employers. Investment returns are not guaranteed or known in advance so the assumed future rate of investment return (also known as the discount rate) is the key assumption the Fund Actuary makes in calculating the liabilities. In general:

- the lower the investment return over a time period the higher the required contributions to the Fund over that time period and vice versa;
- the higher the assessed risk an employer (or group of employers) may cease to exist in future and be unable to meet their obligations to the Fund, the lower the assumed rate of future investment return may be, whilst recognising this must be balanced with affordability considerations; and
- the time period over which it is appropriate to consider the contributions and investment return may vary depending on the circumstances of an employer (or group of employers).

There are broadly three categories of employer according to the Regulations:

- Schedule 2 Part 1 ("Scheduled") bodies which must admit eligible employees to the LGPS (for example County and District councils, police and fire bodies and academies);
- Schedule 2 Part 2 ("Resolution") bodies which designate employees or posts as being eligible to join the LGPS (for example town and parish councils);
- Schedule 2 Part 3 ("Admission") Bodies which
  - participate by virtue of paragraph 1(d)<sup>1</sup> (generally where a service has been outsourced to a private sector contractor) – "Transferee Admission Bodies" (TABs) and
  - meet the criteria in paragraphs 1(a) to (c) or 1(e) are typically referred to as Community Admission Bodies (CABs) (for example Charities and Housing Associations).

We aim to be fair and consistent across our employers, so for all employers within a category, unless justified by a covenant assessment or agreed with the Fund Actuary, we will:

- adopt the same maximum periods to recover any deficit or surplus;
- apply the same minimum employer contribution rate;
- use the same funding basis to set the employer contributions for the actuarial valuation;
- use the same cessation basis in the event of an employer exit; and
- apply the same maximum terms for any deferred debt agreement and debt spreading arrangements.

---

<sup>1</sup> of Part 3 of Schedule 2 to the Regulations

**Table 1: Summary of funding approach**

Below we have summarised the funding approach to participating employers in the Royal County of Berkshire Pension Fund (the Fund). Please note pass-through employers are not included as they pay a contribution rate in line with individual pass-through agreements.

Employer Category	Council Related	External Guarantee	TAB with Guarantor	TAB (Pass-through)	Tier 3 Employer (no guarantee)	Tier 3 Employer (with security guarantee)	Deferred Employer
<b>Definition</b>	Employers with tax raising powers. Local authority or a related employer.	Employers who do not have a guarantee with another employer in the Fund but who do have a guarantee of last resort from the DfE.	Contractors with responsibility for their members.	Contractors where the funding risk has been retained by the letting authority.	Employers who do not have a guarantee with another employer in the Fund, so should they cease responsibility would pass to the Fund.	Employers who do not have a guarantee with another employer in the Fund but who have some form of external guarantee.*	Employers who have ceased participation in the LGPS as an active employer but continue to contribute into the Fund through a DDA.
<b>Types of employer within category</b>	Unitary Authorities Town Councils Parish Councils Fire Authorities Schools (non-academy)	Academies FE Colleges	Transferee Admission Bodies (full risk transfer route)	Transferee Admission Bodies (pass-through route)	Community Admission Bodies Housing Associations	Community Admission Bodies Housing Associations	Ceased employers who have a DDA extension
<b>Valuation basis for funding</b>	Ongoing basis	Ongoing basis	Ongoing basis	n/a	Projected cessation basis**	Projected cessation basis**	Projected cessation basis**
<b>Details of pooling approach</b>	Pool for each Unitary Authority, otherwise individually funded	Pool for Academies Pool for Colleges	None - individually funded	n/a	None - individually funded	None - individually funded	None
<b>Primary contribution rate</b>	Open Primary rate (of pool)	Open Primary rate (of pool)	Open/Closed Primary rate	Letting Employer Primary rate (default) - other approaches possible	Projected cessation basis**	Projected cessation basis**	n/a
<b>Approach to recovering a funding deficit</b>	Pooled secondary contributions. Max recovery period 14 years	Pooled secondary contributions. Max recovery period 14 years	Max recovery period 14 years. If closed, then shorter of EFWL*** and contract end date	n/a	EFWL*** plus 5 years	EFWL*** plus 5 years	Term length
<b>Surplus Retention Limit (% funding position)</b>	115%	115%	115%, unless contractor is closed and expected to cease within next valuation cycle	n/a	None	115%	None

<b>Approach to spreading a funding surplus</b>	Negative secondary rates are possible on funds exceeding surplus retention limit. Negative secondaries are not possible if the FL is less than the surplus retention limit. Max surplus spread period 14 years.	Negative secondary rates are possible on funds exceeding surplus retention limit. Negative secondaries are not possible if the FL is less than the surplus retention limit. Max surplus spread period 14 years.	Negative secondary rates are possible on funds exceeding surplus retention limit. Negative secondaries are not possible if the FL is less than the surplus retention limit. Max surplus spread period 14 years.	n/a	Negative secondary rates are always possible. Max surplus spread period 14 years.	Negative secondary rates are possible on funds which exceed surplus retention limit. Negative secondaries are not possible if the FL is less than the surplus retention limit.	Negative secondary rates are always possible. Max surplus spread period 14 years.
<b>Minimum total contribution rate</b>	12.5% in line with max member contribution rate	12.5% in line with max member contribution rate	0% - contribution holiday possible	12.5% in line with max member contribution rate	0% - contribution holiday possible	0% - contribution holiday possible	0% - contribution holiday possible
<b>Cessation basis</b>	Ongoing basis	Full cessation basis	Ongoing basis	n/a	Full cessation basis	Full cessation basis	n/a

\*The purpose of the security is to protect the Fund against a loss should the employer default. The financial value of the security should therefore be at least equal to the full cessation deficit as at 31 March 2025.

\*\*The projected cessation basis is more prudent than the ongoing basis but not as prudent as the full cessation basis. It is set such that the employer will be fully funded on the full cessation basis after a set time period and therefore appropriate for active employers that are going to cease without any guarantor or security. Further information on the projected cessation basis is contained in section B3.4.

\*\*\*EFLW is the expected future working lifetime of the active membership of the participating employer.



## B2 Managing risk

Whilst our funding strategy aims to satisfy the funding objectives of ensuring sufficient assets to meet liabilities and stable levels of employer contributions, there are risks that may impact on the ability of the strategy to meet our funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

We maintain a risk register, available on the Fund's [website](#), where recent developments are reported. More detail of the various funding-specific risks can be found in Annex D: Managing Risks

## B3 Main actuarial assumptions

To value liabilities, the Fund Actuary needs to make assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and employee turnover etc.

The assumptions adopted at the valuation can be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimated value of the amount of benefits and contributions payable.

A summary of our methodology to determine and monitor the actuarial assumptions is explained below. Financial assumptions are based on a particular date and consider average market yields over the six months straddling the relevant date. The relevant date may be the date of the valuation, or the date an employer joins or leaves the Fund.

### B3.1 Retail Prices Index (RPI) inflation

To measure the future level of price inflation over the long-term, we use the 20-year point on the Bank of England implied RPI inflation curve. A fixed inflation risk premium deduction of 0.3% p.a. is made to the assumption.

### B3.2 Consumer Prices Index (CPI) inflation (future revaluation and pension increases)

Pension increases, both in payment and the rate of revaluation applied to pension accounts, are linked to changes in the level of the CPI. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. Based on analysis undertaken by the Fund Actuary, a deduction of 0.4% p.a. is made to the RPI assumption to derive the CPI assumption as at 31 March 2025. This deduction will taper down to 0.2% p.a. by February 2030 when it is anticipated that the RPI will be aligned with the Consumer Prices Index including owner occupiers' housing costs (CPIH).

### B3.3 Pay increases

As some of the benefits are still linked to final pay, the Fund Actuary needs to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with

pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted was CPI plus 1.0% p.a. which includes allowance for promotional increases.

### B3.4 Future investment returns/ discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to present day values. The discount rate that is applied to all projected liabilities reflects an estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the relevant date.

The discount rate is this rate of return with an adjustment for prudence. The adjustment for prudence has the effect of, all else being equal, increasing the value of liabilities.

The adjustment for prudence for the ongoing discount rate:

The level of prudence incorporated within the ongoing discount rate is a fixed deduction which has been set using modelling carried out by the Fund Actuary.

The level of "prudence" in the ongoing discount rate has been determined based on a success probability of 67% which translates to a fixed deduction of 1.3% p.a. for all employers.

The adjustment for prudence is higher if the discount rate is used to value liabilities where the employer is leaving the fund. Further detail is given in C2.1 Process for determining the position on termination section.

For employers who do not have a guarantee with another employer in the Fund, a projected cessation basis is used for the funding valuation of the Scheme Employer's section of the Fund, which is set to target a fully funded position on the Full cessation basis described in the Process for determining the position on termination section. This basis is likely to lead to higher employer liabilities and contributions during the period until the last active member leaves, but is designed to reduce the likelihood of large and potentially unexpected exit payment on leaving the Fund.

The projected cessation basis uses two discount rates. For the period under which the employer is assumed to be an active employer within the Fund, the ongoing discount rate is used to discount the projected benefit cashflows. Thereafter, the discount rate used on termination applies, when the employer is expected to have left the Fund and the residual liabilities have defaulted back to the Fund. The period under which the employer is assumed to participate in the Fund is based on the expected future working life of the employer's current active membership. The expected future working life is the best estimate of the assumed future participation of the employer. To ensure, in the balance of probability, the employer will have ceased by the end of the switch period, we add an additional five years to the expected future working lifetime when determining the assumed period of participation in the Fund.

### B3.5 Demographic assumptions

The demographic assumptions adopted are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

### B3.6 Valuation assumptions

The key assumptions used in the 2025 actuarial valuation as at 31 March 2025 are summarised below:

**Table 2: Actuarial assumptions**

Assumptions	Assumptions used for the 2025 valuation	
Financial assumptions (p.a.)		
CPI inflation		2.7%
Salary increases		3.7%
Discount rate		5.3%
Demographic assumptions		
Post-retirement mortality	Base table	S4 Series
	Multiplier (male/female)	100%/100% for pensioners 100%/105% for dependants
	CMI Model / long-term rate	2024 / 1.5% p.a.
	Initial addition parameter	0%
	Smoothing parameter	7
	Overlay half-life	1 year
Retirement assumption		Weighted average
Pre-retirement decrements		GAD 2020 scheme val: no salary scale, 50% multiplier to ill-health rates and 115%/115% multiplier to pre-retirement mortality rates (M/F)
Ill Health assumed proportion in each tier (T1/T2/T3)		75% / 15% / 10%
50:50 assumption		Member data
Commutation		50% Max
Family statistics		
	% with qualifying dependant	75% (M) / 65% (F)
	Age difference	Males 3 years older

Further information on the assumptions used will be set out in the Fund's valuation report which will be available on the Fund's website by 31 March 2026.

### B3.7 Actuarial methods

The actuarial method for open employers is the projected unit method and for closed employers is the attained age method. These are explained further in the section B7 Primary rate of employers' contribution.

### B3.8 Asset valuation

When considering funding levels and setting contributions, the asset value used is the market value of the assets at the valuation date, adjusted to reflect average market conditions during the six months straddling the

valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities. For the 2025 valuation this led to assets being taken into account for funding purposes at 102% of the market value.

The Fund's assets are effectively unitised and notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid). For funding pools, the assets and liabilities are pooled together and calculated as if the funding pool were a single employer.

### B3.9 Employer pooling and risk sharing

The Fund operates several funding pools where employers share risks. This may impact the calculation of an employer's assets and is explained further in the section C1.4 Pooling of individual employers.

## B4 Links to the Investment Strategy Statement (ISS)

Our ISS is available [here](#).

The funding strategy and the investment strategy are strongly connected. The funding strategy relies on contributions to maintain financial stability, and the investment strategy aims to generate returns that support long-term sustainability.

The main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return anticipated to be achieved by the long-term strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

After employer and employee contributions, investment returns are the third key pillar of LGPS funding. We must be able to pay benefits when they are due. The payments of benefits are met from a combination of contributions (through the funding strategy) and asset return and income (through the investment strategy). Should investment performance or income fall below projected levels, it may be required to increase employer contributions to compensate to meet the cost of the benefits. Hence the required investment returns to meet the discount rate assumption set out in the FSS are considered in setting the strategic asset allocation.

A summary of the asset classes and allocation from the most recent ISS is shown below:

**Table 3: Summary of strategic asset allocation**

Asset Class	Target Allocation
Global Equity	50%
Private Equity	15%
Fixed Income	1.5%
Credit	12.5%
Real Estate	7.5%

Infrastructure	12.5%
Cash	1%

The Fund's [Investment Strategy Statement](#) states that the Fund considers the long-term ability of the Fund to meet pension and other benefit obligations in full as they fall due as a priority in setting its strategic asset allocation. As a results, a high degree of importance is placed on ensuring the expected return on the assets is sufficient to do so and does not have to rely on an excessive level of risk.

The Fund has an agreed set of Risk Appetite Statements against which the strategic asset allocation is modelled. The Risk Appetite Statements cover the funding level, employer contributions, and liquidity within the investment portfolio

## B5 How employer contributions are calculated

The total contribution rates an employer must pay is the primary contribution rate plus the secondary contribution rate. The primary and secondary contribution rates are discussed in the sections below. The table in section B1 Funding target above summarises how the primary and secondary contribution rates are set including the bases used under different circumstances of the valuation or joining or leaving the fund.

The contribution rates that an employer must pay as calculated as part of the actuarial valuations will be communicated to the employers in the late Autumn of the valuation year through an initial results report written by the Fund Actuary.

The contribution rates that an employer must pay when they join the Fund will be calculated by the Fund Actuary and communicated via the Fund upon joining.

### B5.1 Frequency of employers' contributions

Contributions must be paid monthly unless we agree to a special arrangement following discussion with the Fund Actuary. Where contributions are based on a percentage of pay, the amounts paid by employers will fluctuate in line with payroll each month.

For all employers, the primary and secondary contributions they are required to pay along with the frequency of payment will be certified by the Fund Actuary in the Rates and Adjustment Certificate. The latest certificate can be found [here](#).

## B6 Prepayment policy

The administering authority has agreed to allow a discount to major scheduled bodies who pay their total secondary contributions up front, as long as the payment is received by the end of the April of the appropriate period. The discount applied is notified to employers and set out in the Rates and Adjustment certificate. The discount factor is:

- 3% for paying all three deficit contribution payments by the end April 2026
- 1% for paying one year of deficit contributions by the end of April of the associated period.

Employers should discuss with and gain agreement from the administering authority before making up front payments at the discounted rate.

## B7 Primary rate of employers' contribution

The funding level considers past service, but the Fund Actuary must also calculate the cost of benefits which will be earned in the future by active members.

The primary rate of an employer's contribution, as defined in Regulation 62(5), is the level of contributions required, expressed as a percentage of the pay of active members, which, together with employee contributions, is expected to cover the cost of benefits accruing in future.

The calculation of the primary rate ignores any past service surplus or deficit but allows for any employer-specific circumstances such as whether an employer is open or closed and includes the employer's share of administration costs.

The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates.

Our approach to setting the primary rate depends on specific employer circumstances, including the strength of the employer covenant and guarantor arrangements which determine the employer categorisation (as set out in the B1 Funding target section above). If an employer has any risk sharing arrangements, then the primary rate will depend on the arrangement in place, and if the employer is part of a pooling arrangement, then the primary rate may be set to be the same as other employers in the pool. It may also depend on whether an employer is an "open" employer – one which allows new employees access to the Fund, or a "closed" employer – one which no longer permits new employees access to the Fund.

For open employers, in general, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, in general, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

For employers who do not have a guarantee with another employer in the Fund, a projected cessation basis is used to determine the primary contribution rate. See further information on this in Section B3.4.

Our [Pension Administration Strategy](#) requires employers to tell us if they have stopped admitting new employees to the Fund so we can monitor the open or closed status of each employer.

## B8 Secondary rate of the employers' contribution

Whilst one of our funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, we know that at any particular point in time, the value of the assets is unlikely to be equal to the value of accrued liabilities, depending on how the actual experience of the Fund compares to the actuarial assumptions. This means there will be a past service surplus or deficit which can lead to an adjustment to employers' contributions. This contribution adjustment is referred to as the secondary rate, as defined in Regulation 62(7). The secondary rate is a positive or negative adjustment to the primary rate to arrive at the total contribution rate each employer is required to pay.

Secondary contributions can be certified as a percentage of payroll or as monetary amounts (which can be fixed or nominal amounts).

There is a potential conflict of interest whereby a single employer i.e. the Administering Authority of the Fund, is leading the process of setting the adjustments to the primary rate. The Fund manages this conflict of interest by consulting with all employers on the contents of the FSS which sets out how secondary contribution rates are set for all categories of employer.

## B9 Payment of additional contributions

Employers will usually be expected to make additional contributions into the Fund under the following circumstances:

- Where an employee under Regulation 30(7) becomes entitled to an immediate unreduced pension because of redundancy or business efficiency, we will request the Employer make a strain payment to cover the anticipated cost of the additional pension entitlement;
- Where an employee makes Additional Pension Contributions (APC), at the employer's discretion, they may make an additional payment to the Fund under a cost sharing arrangement with the member.

The employer is required to inform the fund if any of these situations occur, in line with our [Pension Administration Strategy](#).

## B10 Actuarial valuation

As required by Regulation 62 (1) of the LGPS Regulations 2013, an actuarial valuation of all LGPS funds is carried out every three years.

The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

The most recent actuarial valuation of the Fund was undertaken as at 31 March 2025. The results of the 31 March 2025 valuation can be found in the **Fund's valuation report**, which includes:

- An actuarial valuation of the assets and liabilities of the Fund;
- The funding level of the Fund as at the valuation date;
- The primary rate for the whole fund which is the weighted average (by payroll) of the individual employers' primary rates
- The financial and demographic actuarial assumptions used to value the pension liabilities, including details of the sensitivity of the results to a small change in the assumptions used;
- The valuation report must demonstrate how the demographic assumptions have been set with reference to the actual events affecting Fund members since the previous valuation;
- A Rates and Adjustments certificate outlining the minimum contributions payable by employers in the Fund; specifying both the primary rate and secondary rate of the employer's contribution for each of the three years beginning on 1st April following the year in which the valuation date occurs; and
- Summarised information of the actuarial valuation in the form of a "dashboard" which is agreed between the actuarial firms and GAD.

The valuation documentation must be provided to the Administering Authority before the first anniversary of the valuation date.



## B11 Review of employer contributions between valuations

The Fund's Contribution review policy can be accessed in Annex A: Contribution review policy.

## B12 Fund approach to managing surpluses and deficits

As set out in Section A – Purpose of the fund and the FSS, our aim is to ensure employers' contributions are set to meet the Regulatory requirements of achieving solvency and long-term cost efficiency but also for the primary rate to be as stable as possible.

We aim to keep primary (and also total) contribution rates stable by:

- asking the Fund Actuary to adopt a discount rate (or assumed investment return) derived from the expected investment return on the Fund's assets;
- reviewing the level of prudence, i.e. the gap between the discount rate (or assumed investment return) and the expected investment return, at each valuation; and
- operating funding pools which increases the stability of contribution rates compared to calculating individual contribution rates for each employer, particularly for small employers.

Where there is a deficit for any individual employer, the secondary contribution rate is generally calculated to pay off the deficit over a maximum period of 14 years.

Where there is a surplus for any individual employer, the secondary contribution may include an adjustment to run off the surplus over a minimum period of 14 years or the remaining participation period in the Fund.

The period adopted for individual or groups of employers will depend on:

- The significance of the surplus or deficit relative to the liabilities;
- The B13 Employer covenant of the employer/group (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Details for different categories of employers are shown above.

## B13 Employer covenant

The Pensions Regulator defines employer covenant as *"the extent of the employer's legal obligation and financial ability to support the scheme now and in the future"*.

There is no prescribed way for an LGPS fund to assess and allow for employer covenant within their funding approach. In considering employer covenant as part of our funding strategy we will look to profile and better understand our participating employers, particularly by sector or size.

In reviewing the employer covenant, we look to:

- assess each employer's obligation and ability to support their ongoing LGPS commitments, in the context of any guarantees or security in place;
- reappraise the "riskiness" of employers, given their updated funding position;
- further integrate covenant insights into funding and investment strategy;



- ensure contributions are set appropriately; and
- put in place pragmatic procedures to monitor employers going forward.

The Fund's approach to allowing for employer covenant is set out below.

In certain circumstances, an employer is obliged to notify the Fund about any changes as set out in our [Pension Administration Strategy](#). These include:

- an insolvency event.
- a merger or acquisition with another employer.
- a significant change in D&B score.

The employer should contact the Deputy Head of Pension Fund via email [info@berkshirepensions.org.uk](mailto:info@berkshirepensions.org.uk).

## B14 Guarantors

A guarantor of an employer in the LGPS is a formal promise by a party other than the Scheme employer, to meet any pension obligations not met by the Scheme employer. There are different types of guarantee that can be provided:

- A "subsuming guarantor" will assume future responsibility for the pension liabilities and assets following the exit of the Scheme employer. The exiting employer is generally still expected to meet any exit payment due. This is the situation for private contractors where the letting authority will be the "subsuming guarantor".
- An "external guarantor," such as the Department for Education, provides a guarantee that the exit payment will be made to the Fund in the scenario that the exiting employer cannot make it. This a one-off payment, the external guarantor does not assume future responsibility for the pension liabilities and assets of the exiting employer.
- A "physical guarantee", often referred to as security. may provide the Fund the opportunity to call on the asset backing the guarantee in the event that the exiting employer cannot make the exit payment.
- A "guarantor of last resort" will be responsible for pension liabilities if the Scheme employer fails to meet its pension obligations to the Fund. The guarantor is liable to cover any exit payment and assume responsibility for pension obligations when all other avenues have been exhausted.

We will consult with guarantors on any proposed changes that significantly increase the risk of costs provided under the original guarantee.

### B14.1 Guarantor treatment for key funding activities

Guarantors will be treated consistently to other Scheme employers for funding purposes as follows:

- For new employers joining the Fund, the new employer should notify us of any guarantor in place and in the case of admission bodies, the existence and type of guarantor will be specified in the admission agreement, where admission is not a pass-through arrangement;
- The guarantee for LGPS liabilities provided by the Department for Education for further education bodies and academy trusts is taken into account in setting the contribution rates for those employers covered by the guarantee (which we understand includes any admission bodies participating under a pass-through arrangement);

- Guarantors are subject to the same notifiable events process as employers. Notifiable events are set out in in our [Pension Administration Strategy](#); and
- For exiting employers, we will carry out a cessation valuation of the employer's liabilities and the existence of a guarantor will affect the actuarial valuation basis used to determine the final cessation valuation. More detail can be found in section C2.1 [Process for determining the position on termination](#).

## B15 Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of employees from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Further details on how to join the fund are provided in section C1 [Joining the fund and employer contribution rate setting and monitoring](#) and on the Fund's website under the section "[Scheme admissions](#)".

### B15.1 Security required by admission bodies

Under the Regulations, the Administering Authority must assess the risk a proposed new admission body poses to the Fund should the admission body become insolvent or go out of business.

For any proposed new admission bodies who are not joining the Fund using a pass-through arrangement, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and Administering Authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the Administering Authority.

This security may cover some or all of the following:

- 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 will agree with the employer the security required upon admission to the Fund.

## B15.2 Risk sharing arrangements

Subject to agreement with the Administering Authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The Administering Authority may consider risk sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk sharing arrangements should be sought where required.

## B15.3 Pass-through arrangements

New admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority. This is commonly known as a pass-through arrangement.

We may consider risk sharing arrangements if the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. All information regarding risk sharing arrangements should be shared with the Fund. Legal and actuarial advice in relation to risk sharing arrangements should be sought where required.

As part of the risk sharing agreement, the following information should be documented:

- whether the new admission body remains responsible for pensions costs that arise from above average pay increases, including the effect on service accrued prior to contract commencement;
- redundancy and early retirement decisions, including ill-health retirements; and
- treatment of the admission body on exit.

The arrangement should not lead to any undue risk to the other employers in the Fund.

For any new admission bodies as a result of an outsourcing by an academy trust or a further education body, we understand that where pass-through provisions are in place, the liabilities remain covered by the Department for Education Guarantee.

## B16 Links to Pension Administration Strategy

The membership data provided by employers is used by the Fund to calculate the contributions due from the employers, on joining the fund, terminating the fund or between actuarial valuations. Membership data is

required for the actuarial valuations, and also when the employer joins or terminates the Fund. The quality of the data could influence the contributions that an employer is required to pay.

The Fund's Pension Administration Strategy can be found [here](#).

DRAFT

## Section C: Employer events

### C1 Joining the fund and employer contribution rate setting and monitoring

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate, unless the new employer joins a funding pool. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

When a new employer wants to join the Fund, this should be approved by the Deputy Head of Pension Fund, as delegated to by the Pensions Committee. The new employer will automatically join the appropriate employer category or funding pool as set out in the table in the section Table 1: Summary of funding approach, unless representations are made by the employer to the Fund via the Deputy Head of Pension Fund. Further details about joining the Fund can be found [here](#).

A new employer must provide membership data where the data is as at the date of joining the Fund. The data should be of good quality as it is used by the Fund Actuary to calculate the funding level and employer contribution rates on joining – if applicable.

#### C1.1 Resolution bodies

Under Schedule 2 Part 2 of the Regulations, there are a number of employers who can join the LGPS by way of making a resolution. Examples of such bodies are parish and town councils, entities connected with a local authority and urban development corporations. These bodies are typically expected to participate in the Fund for an indefinite period, over which the new resolution body employer is required to pay contributions into the Fund in respect of its employees who join the LGPS. Typically, town and parish councils are pooled with their geographic Unitary Authority for valuation purposes, meaning that they will pay the same employer contribution rate as the Unitary Authority.

#### C1.2 Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of employees from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

There are two main ways for the Fund to approach a new admission body joining the Fund.

- 1) Pass-through arrangement **(Default)**
- 2) Full risk transfer

More detail around the full risk transfer approach and the pass-through approach are set out below.

#### Pass-through arrangements

From 1 April 2023, the default approach for admission bodies joining the Fund is the pass-through route. Under a pass-through arrangement, the letting employer retains the pensions risk. The admission body is responsible for paying the agreed contribution rate and additional costs as set out in each admission agreement e.g.

redundancy and early retirement costs. By default, new pass-through admissions will pay contributions in line with the primary rate of contribution paid by the letting employer, which will be revisited as part of each new triennial actuarial valuation completed. Other contributions rates are possible on a case-by-case basis.

Pass-through arrangements are allowed for at the actuarial valuation by allocating any deficit/liabilities covered by the risk sharing arrangement to the relevant responsible employer.

Where the new employer is entering the Fund with pass-through provisions, the actual contribution rate payable (the pass-through rate) may differ from the ongoing cost of accrual and is a matter of commercial negotiation between the new employer and the letting authority. The employer will need to pay any expenses charged to them by the Fund as part of the Fund's pensions administration strategy. The ongoing cost of accrual will be calculated again at each triennial valuation, and it may be reviewed more regularly as participation in the Fund draws to a close.

### **Funding at start of contract (full risk transfer only)**

Before 1 April 2023, the default approach was a full risk transfer. Under a full risk transfer the admission body becomes responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. The Administering Authority may consider requests for a full risk transfer from new admission bodies and letting employers.

Under a full risk transfer, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

### **Contribution rate**

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

For new employers participating under a pass-through arrangement, the default approach will be for the new employer to pay the same primary contribution rate as the letting authority.

Depending on the details of any risk sharing arrangement, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement and agreed between the new employer and the letting authority.

### C1.3 New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

#### Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities. The new academy will join the existing academy pool, with the academy pool funding level.

#### Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2025 valuation.

Where an academy joins an existing multi-academy trust in the Fund, additional contributions will be certified for the multi-academy trust in respect of the academy.

### C1.4 Pooling of individual employers

Each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

The funding pools adopted for the Fund are summarised in the table below:

**Table 4: Funding pools adopted**

Pool	Type of pooling	Funding positions	Contribution rate
Academies	Past and future service pooling	All employers in the pool will have the same funding level	All academies in the pool pay the same total contribution rate
Colleges (excluding UWL)	Past service pooling only	All employers in the pool will have the same funding level	All colleges in the pool pay the same secondary rate but pay a primary rate bespoke to their position



## Unitary Authorities

Local Authorities (Unitary Authorities) also participate in funding pools. The Unitary Authorities are not pooled with each other. However, associated employers such as local authority schools (non-academy), town councils and parish councils are pooled for funding purposes with their geographically respective Unitary Authority. Full pooling (both past and future service pooling) is used, and therefore a common contribution rate is used within each Unitary Authority pool. Secondary contributions may be calculated on a percentage of salary basis or in terms of certified lump sum payments, which may differ by employer category within the funding pool.

## Treatment of employers in a pool (excluding pass-through arrangements)

When an employer joins a pool, it will be allocated a notional amount of assets so that the employer has the same funding level as the other employers in the pool at the date of joining. Any transferring assets in excess of this will get shared between the other employers in the pool.

When an employer leaves a pool, it will be allocated a notional amount of assets so that the employer has the same funding level as the other employers in the pool at the date of leaving.

## Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. In this scenario, employers will be consulted with before this change is made. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool. Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, to ensure the pooling arrangement remains appropriate. The Fund will define the criteria for employers to be a part of a pool or not.

There may be a scenario where an employer may request to be excluded from the pool but this is only likely to be granted at the discretion of the Fund following discussion with the Fund Actuary.

## C2 Preparing for exit and events which may trigger termination

A cessation valuation may be required for many reasons, including:

- the last active member ceasing participation in the Fund
- the contract / admission agreement expiring
- Insolvency or wind up of the admission body
- Termination of a deferred debt agreement (DDA)
- A breach of the contract e.g. failure to pay contributions within the required period

If an employer wants to leave the Fund, they should notify the Fund via the Deputy Head of Pension Fund by email at [info@berkshirerpensions.org.uk](mailto:info@berkshirerpensions.org.uk).

An employer should provide membership data to the Fund at the date of termination. The Fund needs the membership data before it can calculate the termination position. An employer can provide data at an earlier



date to obtain an indicative termination position. If the termination takes place at a different date or if there are any changes to the membership from the data supplied, the termination position should be recalculated. The membership data should be of good quality as it affects the termination position and the amount an employer needs to pay or receive when exiting the Fund.

When a Scheme employer exits the Fund they become an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer or the exit credit payable to the exiting employer. The exit position will be determined using membership data relating to the date of exit.

## C2.1 Process for determining the position on termination

The Fund needs to protect the security of the remaining employers when assessing the position of the exiting employer. In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing actuarial assumptions depending on the employer and the specific details surrounding the employer's termination.

Different valuation approaches are taken depending on the details surrounding the exit of the employer. This generally comes down to the following two questions:

- **What is happening to the active members?**  
For example, at the end of many outsourced contracts, the members may continue in employment with a new contractor. Alternatively, members may be made redundant or transferred to a defined contribution scheme with the same employer.
- **Is there an employer in the Fund willing to underwrite the future pension liabilities?**  
For example, there may be a guarantor that is compelled to or volunteers to be responsible for any future deficits, or the exiting employer may be entering into a deferred debt agreement (DDA) with the Fund.

The Fund classifies a termination into the following scenarios:

**Table 5: Cessation scenarios**

Ongoing cessation	Any remaining active employees are transferred to another employer in the Fund and the deferred and pensioner liabilities are also picked up by another employer in the Fund (which is usually the same employer as the destination for the active members but may not be). The funding position under this scenario is essentially the current ongoing funding position.
Full cessation	No employer in the Fund will be responsible for the Employer's residual liabilities after the Employer's exit from the Fund. Therefore, an approach using a relative high level of prudence is required to reduce the risk that the assets held in respect of the Employer's liabilities are not sufficient to pay for the members' benefits. Any members eligible for unreduced early retirement benefits on redundancy are assumed to become entitled to these.

For any employer exiting on the ongoing cessation scenario, their valuation will be carried out under the same method and assumptions as the ongoing funding basis. i.e. the funding basis as set out in section B3 Main actuarial assumptions.

For any pass-through employer exiting the Fund, provided all contributions have been made as required and any additional costs or expenses have been paid, the pass-through employer will have no further responsibility for the pensions obligations. In particular, the pass-through employer will not be responsible for any funding deficit, or entitled to receive any surplus, that has emerged during their participation in the Fund.

For any employer exiting under a full cessation scenario, a more prudent discount rate is adopted than for the ongoing basis. All other assumptions are as for the ongoing funding basis. The more prudent discount rate is determined as follows.

A stochastic analysis was used to assess the "success probabilities" of certain levels of prudence as part of the 2025 valuation. The default approach to calculating the cessation position will be using a discount rate based on the success probability of 80%. This corresponds to a 3.7% prudence adjustment in the discount rate assumption. If we are satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

It may be appropriate for alternative success probabilities to be adopted, or different discount rate approaches to be taken, to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect our views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the Administering Authority.

The level of prudence will remain fixed over the inter-valuation period.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless we agree with the other parties involved that an alternative approach is permissible. Alternative approaches are set out in the Fund's policy for entering into, monitoring and terminating a DDA or DSA is set out in the DSA and DDA policy in Annex B: Deferred debt agreement and debt spreading arrangement policies.

Any surplus in the Fund in respect of the exiting employer may be treated differently to an exit payment, subject to the agreement between the relevant parties and any legal documentation. The LGPS (Amendment) Regulations 2018 allow administering authorities to make an exit credit payment to exiting employers. The Fund's exit credit policy is here Annex C: Exit Credit Policy.

The decision made by the Administering Authority is final, however if the employer wishes to appeal the decision then they should contact the Head of Pension Fund, by email at [info@berkshirerpensions.org](mailto:info@berkshirerpensions.org), clearly setting out the reason for their appeal. This will be reviewed in conjunction with the Fund Actuary.

### C3 Deferred debt agreements or debt spreading arrangements

Where a valuation reveals a deficit and an exit payment is due on termination, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the Administering Authority, the Administering Authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading arrangement (DSA) under Regulation 64B.

The Fund's policy for entering into, monitoring and terminating a DDA or DSA is set out in the DSA and DDA policy in Annex B: Deferred debt agreement and debt spreading arrangement policies.

## C4 Suspension notices

When the last active member leaves an employer in the Fund, normally under Regulation 64A this would result in a termination event for the employer and an exit valuation produced by the Fund Actuary. However, Regulation 64(2A) allows the suspending of their liability to pay an exit payment.

The Fund will grant a suspension notice if the Fund reasonably believes the employer is likely to have one or more active members contributing into the Fund within three years of the original cessation date. Were a suspension notice issued to a Scheme employer, and after a three-year period no further active members are enrolled, then a cessation valuation should be undertaken by the Fund Actuary, at the date the last active member left the Fund. The calculation will be carried out on the relevant cessation basis described above.

## C5 Partial terminations

A partial termination is where an employer exits the fund for deferred and pensioner members but seeks to remain a participating employer for active members.

The Fund will not permit any employer in the Fund to complete a partial termination from the Fund apart from under exceptional circumstances.

## C6 Bulk transfers (both to or from the LGPS)

Bulk transfers of employees into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds.

A bulk transfer involves a group of employees changing to a new employer in a different Fund or moving along with their existing employer to a new Fund. It is usually triggered by a contract being transferred, a service being restructured, or a merger or acquisition involving an LGPS employer.

If ten or more members move from one LGPS Fund to another LGPS Fund they are covered by Regulation 103 of the Local Government Pension Scheme Regulations 2013.

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

The employer is responsible for making the Fund aware of any such bulk transfer as per the [Pension Administration Strategy](#).

The Fund Actuary for each fund is responsible for negotiating the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general, we will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis). The terms must be acceptable to both Funds and if the Funds and their actuaries cannot reach an agreement then a third actuary is required to step in to determine a reasonable solution.

Membership data will be required in respect of members transferring and this will be agreed by both Funds involved.

The Fund actuaries will agree a calculation of the transfer amount and it is the original Fund's responsibility to facilitate payment of the transfer amount to the receiving Fund.

## Annex A: Contribution review policy

### Introduction

This document sets out The Royal County of Berkshire Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal triennial funding valuations. The Royal County of Berkshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, The Royal Borough of Windsor and Maidenhead, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rates and adjustments certificate setting out the contribution rates payable by each Scheme employer for a three-year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation date will remain payable for the triennial period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Department for Levelling Up, Housing and Communities (DLUHC), and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation, then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing those assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

### The contribution review process

The events that may trigger a review are set out in the 'Triggering a contribution review' section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance, but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

## Timeline where initiation is made by the Administering Authority

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the 'Triggering a contribution review section'), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 28 days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 3 months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further detail of the appeals process for the Scheme employer is set out in the 'Appeals process' section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

## Timeline where initiation is made by the Scheme employer

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the 'Triggering a contribution review section'.

The administering authority will aim to provide a response to the Scheme employer within 28 days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

## Responsibility of costs

Where we have initiated the review of contributions, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is apart from any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the Administering Authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

## Triggering a contribution review

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

- (i) it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- (ii) it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Conditions (i) and (ii) are triggered by the Administering Authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It should be noted that the conditions above are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

### (i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of employees
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the Fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform us of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, we may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if we become aware of any events that we deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

### (ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution.
- Provision of, or removal of, security, bond, guarantee or other form of indemnity by a Scheme employer.
- A change in a Scheme employer's immediate financial strength.
- A change in a Scheme employer's longer-term financial outlook.
- Confirmation of wrongful trading.
- Conviction of senior personnel.



- Decision to cease business.
- Breach of banking covenant.
- Concerns felt by the Administering Authority due to behaviour by a Scheme employer, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the Administering Authority over a significant period of time.

### (iii) request from the Scheme employer for a contribution review

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Any requests not arising from either of these conditions will not be considered by the administering authority. Requests by a Scheme employer are limited to one review per calendar year.

Except for any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored into the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next rates and adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

## Information required from the Scheme employer

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:
  - Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change.
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
  - The most recent annual report and accounts for the Scheme employer.
  - The most recent management accounts.
  - Financial forecasts for a minimum of three years.
  - The change in security or guarantee to be provided in respect of the Scheme employer's liabilities.

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case-by-case basis.

## Assessing the appropriateness of a review

following general considerations will be considered by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case-by-case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process are set out later in this document.

### Appropriateness of a review due to change in liabilities

This will be subject to the following considerations in addition to the general considerations set out above and:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the Administering Authority's assessment of the ability of the Scheme employer to meet its obligations.

### Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist.
- The perceived change in the value of the indemnity to the Administering Authority, relative to the size of the Scheme employer's liabilities.



It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case-by-case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.

## Method used for reviewing contribution rates

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

	General approach
Member data	<p>In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point.</p> <p>In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment.</p> <p>Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.</p>
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.
Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Funding target	The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.

Surplus/deficit recovery period	The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.
---------------------------------	---

The Fund Actuary will be consulted throughout the review process and will be responsible for providing a revised rates and adjustments certificate. Any deviations from the general approach set out above will be agreed by the administering authority and the Fund Actuary.

## Appeals process

In the event of any dispute relating to this policy and the administering authority's use of the new powers set out in The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020, Scheme employers will have a right of appeal under the 'normal' Internal Dispute Resolution Procedures (IDRP) as set out in Regulations 74 to 79 of the LGPS Regulations 2013. A guide to the IDRP process along with an application form can be found here. (Please note the process will be adapted to account for the nature of the appeal being made by a Scheme employer as opposed to being made directly by a Scheme member).

## General Principles

A Scheme employer may appeal against any decision taken by the administering authority to change, amend or update their employer contribution rate at any time in line with this policy. The administering authority will have regard to the following principles at all times:

- i) The process and any amendments to the appeals process will be subject to consultation with employers;
- ii) The appellant will be granted a reasonable period to make any appeal following a decision by the administering authority in order to prepare the basis of their appeal;
- iii) The process, including the timescales and requirements for evidence will be easily accessible, clearly signposted and transparent; and
- iv) Any review of a decision will be considered independently from those directly involved in the original decision.

In making an appeal, the Fund employer will be required to evidence one of the following:

- i) A deviation from the published policy or process by the administering authority that has led to their appeal; and/or
- ii) Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the administering authority.

## Annex B: Deferred debt agreement and debt spreading arrangement policies

### Introduction

This document sets out The Royal County of Berkshire Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers, these may be referred to elsewhere as employer flexibilities policies.

The Royal County of Berkshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the Administering Authority to enter into a DDA with the employer while Regulation 64B enables the Administering Authority to enter into a DSA.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the Administering Authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the Administering Authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

This policy document sets out the Administering Authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the Administering Authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the Administering Authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued on 2 March 2021 by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities dated 5 March 2021.

### Approach for exiting employers

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The Administering Authority makes the exiting employer aware an exit payment is due by providing a revised rates and adjustments certificate in the form of a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's Funding Strategy Statement (FSS).

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the Administering Authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the Administering Authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted to the Head of Pension Fund, via [info@berkshirepensions.org.uk](mailto:info@berkshirepensions.org.uk) within 21 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 28 days as per the Fund's Pension Administration Strategy.

Where possible, the Administering Authority encourages employers who are approaching exit to engage with the Administering Authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

## Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years, a suspension notice may be more appropriate;
- the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the Administering Authority may be willing to defer crystallisation of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The Administering Authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;
- the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pensions risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;
- the employer has ample resources to make the payment within the near future but not immediately; and/or

- the employer is deemed to have a very weak covenant and so the Administering Authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The Administering Authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA from an exiting employer the Administering Authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the DDA or DSA was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

### Management of costs

On receiving a request, the Administering Authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the Administering Authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the Administering Authority will keep the exiting employer up to date with any increases. The Administering Authority will provide information on how and when payments should be made.

### Internal dispute resolutions

Whether a DDA or DSA is agreed or not is ultimately the decision of the Administering Authority. In the event of any dispute from the employer, please refer to the Fund's internal dispute resolution procedures document which is available from the Pension Fund's [website](#).

## Deferred Debt Agreements (DDAs)

### Entering into a DDA

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

### Information required from the employer

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts.
- latest management accounts.
- financial forecasts.
- details of position of other creditors.

This is not an exhaustive list and the Administering Authority may request further evidence. In particular, the Administering Authority may commission a covenant assessment if insufficient evidence is provided.

## Assessing the proposal

The Administering Authority will make a decision on whether to enter into a DDA within the sooner of 21 days of receiving a request or when the Pension Fund Committee are next scheduled to sit to take such a decision, but this may vary to reflect specific circumstances, for example if the Administering Authority chooses to request a covenant assessment, the process may take longer.

To reach a decision the Administering Authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The Administering Authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the Administering Authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the Administering Authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the Administering Authority will consult with the exiting employer as required under the Regulations. If the Administering Authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the Administering Authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the Administering Authority has concerns about the level of risk arising due to the DDA, the Administering Authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.



## Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the Administering Authority and the exiting employer and will be set out in a formal legal agreement.

The Administering Authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the Administering Authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the Administering Authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as those arising from an employer discretion, or strain costs as a result of ill health retirements as employers will no longer be able to remain in the ill health pool;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the Administering Authority;
- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the Administering Authority and provided to the deferred employer;
- promptly provide all such information that the Administering Authority may reasonably request in order to administer and manage the agreement; and
- give notice to the Administering Authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

## Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the Administering Authority. The Administering Authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there

was an improvement in the employer's circumstance then the Administering Authority and employer may agree to amend the terms of the agreement.

The Administering Authority will monitor a DDA in the following ways:

### Changing funding position

The Administering Authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review, the Administering Authority may engage with the deferred employer to discuss a possible review of the DDA.

### Changing employer covenant

The Administering Authority monitors the level of covenant of its Scheme employers on an ongoing basis. In particular, the Administering Authority commissions an employer risk review report from the Fund Actuary each actuarial valuation cycle which includes obtaining credit ratings from credit rating agencies.

Once an employer enters into a DDA, the Administering Authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the Administering Authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the Administering Authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the Administering Authority to assist with monitoring the level of covenant, for example by providing information requested by the Administering Authority in a timely manner.

### Timeliness of payments

The agreement will set out whether payments are made on a monthly or annual basis, and the Administering Authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

### Strength of guarantee or security

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the Administering Authority will check there has been no change to the security at agreed regular intervals and as a minimum as part of each actuarial valuation. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

### Notifiable events from the deferred employer

The deferred employer has a responsibility to make the Administering Authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the Administering Authority at any time throughout the agreement to enable the Administering Authority to consider whether a review of the agreement should be carried out.



## Terminating a DDA

### Events that may terminate a DDA

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrolls new active members;
- the duration of the agreement elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the Administering Authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

### Process of termination

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The Administering Authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy). All fees associated with the termination are to be paid by the exiting employer.

Once the exit payment and any associated fees have been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's FSS.

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable as determined by the Administering Authority and in line with the Fund's exit credit policy.

## Debt Spreading Arrangements (DSAs)

### Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the Administering Authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

### Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts.
- latest management accounts.
- financial forecasts.
- details of position of other creditors.

This is not an exhaustive list and the Administering Authority may request further evidence. In particular, the Administering Authority may commission a covenant assessment if insufficient evidence is provided.

### Assessing the proposal

The Administering Authority will make a decision on whether to enter into a DSA within 21 days of receiving a request but this may vary to reflect specific circumstances, for example if the Administering Authority chooses to request a covenant assessment, the process may take longer.

To reach a decision the Administering Authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- any legal advice as appropriate;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The Administering Authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the Administering Authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the Administering Authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a DDA but the Administering Authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the Administering Authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the Administering Authority will consult with the exiting employer as required under the Regulations. If the Administering Authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the Administering Authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the Administering Authority has concerns about the level of risk arising due to the DSA, the Administering Authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

### Setting up a DSA

The Administering Authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 14 days of agreeing the structure of the schedule of payments with the exiting employer.

### Monitoring a DSA

Over the term that the cessation debt payment is spread, the Administering Authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the Administering Authority may alter the structure of the schedule at any time if there is a change in the exiting

employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case-by-case basis and set out in a side agreement as required.

The Administering Authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the Administering Authority then the DSA may be reviewed and/or terminated.

### Changing employer covenant

The Administering Authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the Administering Authority to assist with monitoring the level of covenant, for example by providing information requested by the Administering Authority in a timely manner.

### Timeliness of payments

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the Administering Authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

### Strength of guarantee or security

If a particular schedule of payments has been agreed between the Administering Authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the Administering Authority will regularly check that there has been no change to the security. The frequency of these reviews may reduce as the level of outstanding debt reduces. The Administering Authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

### Notifiable events from the exiting employer

The exiting employer has a responsibility to make the Administering Authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the Administering Authority at any time throughout the agreement to enable the Administering Authority to consider whether a review of the agreement should be carried out.

## Terminating a DSA

### Events that may terminate a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

In the event that the Administering Authority believes that the exiting employer may not be able to make any of their remaining payments, the Administering Authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

### Process of termination

In the event of a DSA being amended or terminated the Administering Authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the Administering Authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the Administering Authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a DDA.

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

DRAFT

## Annex C: Exit Credit Policy

This is the Exit Credit policy for The Royal County of Berkshire Pension Fund (the Fund), part of the Local Government Pension Scheme (LGPS). It has been prepared by Royal Borough of Windsor and Maidenhead in our capacity as Administering Authority of the Fund.

The LGPS (Amendment) Regulations 2018 allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case-by-case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between us, the exiting employer and the guaranteeing employer (if relevant).

Having regard to any relevant considerations, we will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This is on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit.
- We do not need to enquire into the precise risk sharing arrangement adopted by an employer but we must be satisfied that the risk sharing arrangement has been in place before we will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable is subject to a maximum of the actual employer contributions paid into the Fund as certified in the Fund's rates and adjustments certificates, up to any cap arrangements that may have been in place and excluding any additional payments such as strain payments.
- As detailed in the Funding Strategy Statement, the Fund Actuary may adopt differing approaches when assessing whether an exit debt is payable by the employer, depending on the specific details surrounding the employer's cessation scenario.
- We will pay out any exit credits within six months of the cessation date where possible. We may agree to a longer time with the exiting employer where necessary. For example if the employer does not provide us with all the relevant information within one month of the cessation date, we will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, we have the discretion to take into account any other relevant factors in the calculation of any exit credit payable and we will seek legal advice where appropriate.

### Applications for adjudication and disagreements

An exiting employer, or other employers affected by the decision (such as guarantors), will be able to make representations if there is any conflict or difference of opinion regarding the amount of an exit credit paid or the process by which it was determined. In this situation, the review and adjudication provisions set out in Regulations 74-78 of the LGPS Regulations 2013 will apply.

## Annex D: Managing Risks

### Investment risks

The main financial risk is that the investment strategy fails to deliver the discount rate or assumed rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

The Pension Fund Committee regularly monitors the investment returns achieved and receives advice from the investment consultants and officers on investment strategy.

The Pension Fund Committee may also seek advice from the Fund Actuary on valuation related investment matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### Demographic risks

The Fund Actuary makes an allowance for future improvements in life expectancy when calculating the liabilities. The main demographic risk is that the assumptions underestimate future longevity, noting that the Fund Actuary has advised that an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

Information on pensioner deaths in the Fund is reviewed by the Fund Actuary at each actuarial valuation and the assumptions for how long members will live in retirement in future are adjusted as needed. For the past three funding valuations, we have commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

In addition, in 2009 the Fund entered into a longevity insurance contract which covers all pensions in payment at the end of July 2009. This contract means the Fund pays a premium to the insurer and the insurer pays the actual pension amounts due. This contract is designed to mitigate the risk of members living longer than anticipated.

The liabilities of the Fund can also increase by more than planned as a result of the additional financial costs of early retirements, including ill-health retirements. The administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

### Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these



climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

Our policy in this area is included in our [Investment Strategy Statement](#).

When considering funding issues related to climate change, we have regard to the key principles document for preparing climate scenario analysis, agreed by the actuarial firms who act as fund actuary for the LGPS funds and approved by GAD, MHCLG and SAB. The relevant information will then be provided to GAD by our Fund Actuary for the purpose of their reporting under Section 13 of the Public Service Pensions Act.

As part of the 2025 valuation we have commissioned scenario analysis to assess the resilience of the funding strategy against climate change risk over the agreed period. The quantitative analysis will involve at least two alternate scenarios to test if the funding strategy is sufficiently robust and any potential contribution impacts. We will also undertake a qualitative analysis to identify any potential actions the Fund is taking to improve resilience to climate change. The Fund Actuary will produce a report on the climate analysis and will also summarise the analysis/commentary in the final valuation report.

The climate risk analysis is integrated into our funding strategy by having regard to the climate analysis when setting the prudence level to include in the discount rate assumptions.

We will assess the implications of climate risk on funding strategy at least as part of each actuarial valuation.

## Maturity risk

The maturity of a fund (or of an employer) is an assessment of the balance between active (contributing) members and pensioner members as well as how close on average the non-pensioner members are to retirement. The more mature the fund or employer, the greater proportion of its membership that is near or in retirement. For a mature fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

We consider the cashflow profile of the Fund alongside the level of maturity: as the Fund matures, the value of pensions in payment increases compared to contributions being paid in for active members. This increases the risk of the Fund having to sell assets to meet its benefit payments.

The Fund Actuary provides us with cashflow projections at each triennial valuation to help to inform our investment strategy and to better understand our cashflow position.

As part of the employer covenant review process, we may ask individual employers about decisions that could affect the maturity profile (e.g. plans to close to new employees or redundancy exercises). This information may be used to inform the process in setting the contribution rates.

## Regulatory and compliance risks

The benefits provided by the LGPS and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the LGPS and changes to the tax regime which may affect the cost to individual employers participating in the LGPS as well as members, whose behaviour may change if tax relief on pension contributions is reduced/removed.

To mitigate this risk, we participate in any consultation process of any proposed changes in Regulations and seek advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- As a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- Changes to the State Pension Age changing the benefits.

At the time of preparing this FSS, specific regulatory risks of particular relevance to our funding strategy are in relation to the McCloud/Sargeant judgments and recent consultations as discussed in the sections below.

### McCloud/Sargeant judgments

Following the McCloud and Sargeant cases the transitional protections implemented when the new career average schemes were introduced to public service pension schemes, were found to constitute unlawful age discrimination. In the case of the LGPS, a new underpin was introduced for qualifying members, covering benefits relating to the period from 1 April 2014 to 31 March 2022. The McCloud remedy became law on 1 October 2023.

As part of the 2025 valuation, the Fund will determine an allowance for the McCloud underpin for eligible members as determined by the LGPS McCloud remedy regulations. An estimate for the McCloud ruling was included in the 2022 valuation for active members, but not for deferred or pensioner members. There is a risk that McCloud data provided for the 2025 valuation will not be good quality or be incomplete. However, the Fund Actuary is able to make informed estimates if sufficient data is not provided.

### Devolution and Local Government Reorganisation

On 16 December 2024, the Government published the English Devolution White Paper. The paper invited proposals for reorganisation in areas where there are two tiers of local authority creating new unitary councils with final deadlines in September and November 2025. Whilst any changes are not expected before 2027, this falls within the period of the 2025 valuation Rates and Adjustments certificate so we will need to consider the cessation of some councils and the establishment of new employers which participate in the Fund as part of the 2025 valuation. The risk is that the new and ceasing employers are not treated appropriately for funding purposes, including the approach to exit valuations and setting contribution rates. To mitigate this risk, we will ensure we consult appropriately with employers, including officers elsewhere in the Council, during the 2025 valuation to understand the expected outcome and agree the approach to funding issues.

### New Fair Deal

A consultation is expected on New Fair Deal, which is expected to change how pensions are protected for outsourced workers, introducing the concept of the letting authority being the "deemed employer" for LGPS members employed by contractors and formally removing the option for service providers to offer a broadly comparable scheme instead of continued LGPS membership for transferred employees. This proposed consultation will not affect the 2025 valuation, although we will need to revisit this FSS to ensure our approach to any new arrangements is appropriate.

### Consultation: Fit for the Future

On 29 May 2025, the Government issued its response to the Fit for Future consultation. One requirement will be to move all listed assets to "under the management of the pool" by 31 March 2026. There is a risk that moving assets will result in a different (lower) net investment return to that assumed by the valuation. This risk is

mitigated by our prudent approach to setting the discount rate, and use of various mechanisms to deliver greater stability in employer contributions if the funding position in 2028 is lower than expected due to higher investment costs/lower investment returns.

### Consultation: Access and Fairness

On 15 May 2025, the Government published a wide-ranging consultation. Key proposals include backdated equalisation of eligibility for survivor pensions and making some unpaid leave automatically pensionable at employers' costs. Technical amendments are also proposed including changes to the McCloud remedy. There is a risk that outcomes from this consultation increase the cost benefits due under the LGPS which could worsen the Fund's funding position. It is likely that back-payments will need to be made to individual members and therefore individual employers may be affected differently. Implementing the changes will also increase administration costs and put further pressure on resource.

### Employer risks

Many different employers participate in the Fund. Accordingly, we recognise that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

The introduction of a Department for Education guarantee for further education bodies has helped reduce the overall level of employer risk. To further mitigate this risk, we monitor the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and take advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admission bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund.

In addition, we keep in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, we have the most up to date information available on individual employer situations. We also keep individual employers briefed on funding and related issues.

### Economic risks

Economic risks due to global events such as the conflict in Ukraine and the Middle East and pandemics could lead to instability in the economy and lead to high inflation which could cause unaffordable contribution increases for employers. High unemployment could lead to reduced contributions to the Fund and a change in the maturity of the membership profile meaning that contribution rates were no longer appropriate. A valuation is carried out every three years using updated membership data, and updated assumptions based on market conditions at the time of the valuation. Using updated membership data for valuation ensures the maturity of employers is priced into the employer contributions and updated market conditions takes account of the collective views of investors in the financial markets of the expectation of future inflation due to global events.

## Employer data quality risks

There is a risk that the member data provided to us is inaccurate and leads to employer contribution rates which are greater or lower than required to cover the liabilities being accrued and a longer or shorter period than intended to reach a target funding level. In particular there is a risk that the administration software does not provide complete McCloud data for the 2025 valuation. To mitigate this risk, our Fund Actuary carries out a detailed analysis of the data provided for the valuation and we agree an appropriate course of action where gaps or (potential) errors are identified, which includes measures to reduce the risk of underestimating the liabilities. The Fund Actuary has also advised that the effect of the absence of complete McCloud data should not have a material effect on the funding position at whole fund or employer level.

## Governance risks

The Pension Regulator's (TPR's) General Code of Practice (the Code) merged ten of its existing codes of practice into one (including the public service pension code) and came into force on 28 March 2024. The Code covers TPR's expectations on governance and best practice. The Code itself does not create new legal obligations but is framed around legal obligations which funds must comply with. In not having a separate code for the public sector, there is a risk that Funds might not comply with all aspects of the Code intended to apply to the LGPS. However, Funds should already be complying with the majority of the Code which is framed around existing legal requirements. Schemes are not expected to comply with the Code from the date it came into force.

## Orphan liabilities

Orphan liabilities do not have a specific employer responsible for their liabilities in the Fund. New orphaned liabilities can arise from existing employers in the Fund ceasing their participation, where the residual liabilities are not subsumed by another employer in the Fund. There is a risk that orphan liabilities cause a significant increase in the costs for the remaining employers in the Fund. To mitigate this risk, when an employer ceases to participate in the Fund and the liabilities become orphaned, a cessation valuation is likely to be carried out on a more prudent basis than the ongoing basis and the ceasing employer is liable to pay an exit payment if in deficit. In addition, our Fund Actuary reviews all orphan liabilities as part of the valuation and the assets notionally allocated to employers are adjusted to ensure that these are fully funded on an ongoing basis.

## Long-term employer covenant alongside shorter-term affordability

When considering deficit payments or exit payments, there is a risk that the initial affordability is low but there is the prospect of increased affordability in future. In extreme cases the payments due to the Fund may cause the immediate insolvency of an employer. The Fund makes use of the employer flexibilities which came into force on 23 September 2020 as set out in its Annex B: Deferred debt and debt spreading agreement policies, to work with employers exiting the Fund.

## Annex E: Glossary

This Glossary has been copied from Annex D of the FSS guidance [here](#) but supplemented with some additional terms as used in this FSS.

### Actuarial certificates/rates and adjustments certificate

A statement of the contributions payable by each scheme employer. A statement of the contributions payable by the employer. Following the actuarial valuation exercise, 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.

### Data

For GAD to carry out its function under Section 13 of the Public Service Pensions Act 2013, GAD will request data to be provided by the local administering authorities/local fund actuaries, and it is assumed that this data will be provided promptly and accurately.

### 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.

## Discount rate

A prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy.

## 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 compared with the liabilities.

## Funding Pool

Where the Fund identifies a group of employers with similar characteristics, it is possible to form a pool for these employers. Employers within a pool will pay the same contribution rates and share risks.

## Fund valuation date

The effective date of the triennial fund valuation.

## GAD

Government Actuary's Department

## 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.

## Inflation Risk Premium

An adjustment to RPI inflation to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

## Local Pension Board

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

## MHCLG

Ministry of Housing, Communities and Local Government

## 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 rate of the employers' contribution

The primary rate for each employer is that employer's future service contribution rate, which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer (including any risk sharing arrangements operated by the Administering Authority), the actuarial method chosen and/or the employer's covenant. The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates.

## SAB

Scheme Advisory Board

## Secondary rate of the employers' contribution

The secondary rate is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the valuation date falls. The secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are required to pay is the sum of the primary and secondary rates. The actuary should also disclose the secondary rates for the whole scheme in each of the three years beginning with 1 April in the year following that in which the valuation date falls. These should be calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.



## 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.

## Solvency

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at "such level as to ensure that the scheme's liabilities can be met as they arise". It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service.

Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
  - employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
  - there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

If the conditions above are met, then it is expected that the fund will be able to pay scheme benefits as they fall due.

## Long-term cost efficiency

The notes to the Public Service Pensions Act 2013 state that Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, GAD may have regard to the following considerations:

- the implied average deficit recovery period.
- the investment return required to achieve full funding over different periods, e.g. the recovery period.
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future.
- the extent to which the required investment return above is less than the Administering Authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.