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London Pensions Fund Authority
Funding Strategy Statement

March 2026

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London Pensions Fund Authority Funding Strategy Statement

Section A – Purpose of the Fund and the FSS

Introduction

This is the Funding Strategy Statement (FSS) for the London Pensions Fund Authority Pension Fund (the Fund), part of the Local Government Pension Scheme (LGPS). It has been prepared by London Pensions Fund Authority (LPFA) 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) and is available on our website.

Employers in our Fund and other key stakeholders have been consulted of this FSS, in line with **Annex A: Engagement plan**.

This FSS was approved by our Board on the recommendation of Jo Donnelly (Chief Executive Officer and Senior LGPS Officer) and following consultation with our employers.

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

Contact details

Any queries relating to this FSS should be directed to ems@lpfa.org.uk.

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 in the future
- 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 and
- Explain how we seek to balance the interests of different employers.

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.

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

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 Primary rate of employers' contribution as possible and we aim to achieve this as much as possible. 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 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 while also recognising that failure of an employer to pay contributions can lead to financial consequences for other employers. We set individual funding targets for each employer, taking into account their covenant strength, funding level and maturity. These targets are reviewed as part of each valuation and aligned to the Fund's overall risk management approach.

How we set employer funding targets

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.

To reflect employer specific risk, the Fund applies a sliding scale of discount rates based on employer covenant strength, with stronger employers receiving a higher discount rate and weaker employers subject to a higher degree of prudence. 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
- Schedule 2 Part 2 (Resolution) bodies which designate employees or posts as being eligible to join the LGPS
- Schedule 2 Part 3 (Admission) bodies which participate by virtue of paragraph 1(d)[1] (generally where a service has been outsourced to a private sector contractor) – "Transferee Admission Bodies" 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, transparent and proportionate across all employers. Funding arrangements are tailored to each employer's circumstances including covenant strength, funding status and exit risk. However, where appropriate and consistent with the Fund' s policies, we aim to:

- Apply maximum recovery periods aligned to employer risk
- Determine employer contribution rates using covenant based discount rate assumptions and prudence margins
- Apply the same minimum employer contribution rate
- Use a standard cessation basis in line with the Fund's Admission & Cessation policy
- Apply consistent maximum terms for any deferred debt arrangement and debt spreading agreement

Managing risk

While 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 these 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 that is regularly reviewed by the LPFA Board, and where recent developments are reported. More detail of the various funding-specific risks can be found in **Annex B: Managing Risks**.

1 Of Part 3 of Schedule 2 to the Regulations

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.

Retail Prices Index (RPI) inflation

To measure the future level of RPI price inflation over the long-term, the Fund Actuary uses the 20-year point on the Bank of England implied RPI inflation curve as a starting point. Adjustments are made to this to allow for impacts such as the assumed size of any inflation risk premium and any distortions arising from the shape of the full Bank of England inflation curve compared to the 20-year point. At 31 March 2025, an inflation risk premium deduction of 0.3% p.a. was made to the assumption. No adjustment was made for the shape of the RPI curve.

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. As such, an assumption for CPI is derived by making a deduction from the RPI assumption. RPI is expected to be around 1% per annum (p.a.) higher than CPI up to 2030, and then 0.2% p.a. higher than CPI thereafter. Based on the Fund Actuary's analysis, the average RPI/CPI gap as measured at 31 March 2025 is such that a fixed deduction of 0.4% p.a. is appropriate to make to the RPI assumption to derive the CPI assumption. This deduction is expected to reduce as we get closer to 2030 and will be kept under review by the Fund Actuary.

Pay increases

As some of the benefits are still linked to final pay, the Fund Actuary needs to make an assumption on 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.

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. For the 2025 valuation, the best-estimate of future investment returns is assessed by the Fund Actuary as 6.6% p.a. The ongoing discount rate for the strongest employers (Covenant Grade A) is then derived by applying an explicit margin for prudence to this best-estimate return, resulting in a discount rate of 5.2% p.a. The prudence margin acts as a buffer to protect the Fund against potential adverse future experience. This has been determined by considering the impact of qualitative and quantitative factors on the uncertainty of achieving the expected future investment returns, for example the economic and geopolitical climate and future mortality trends.

The adjustment for prudence for the ongoing discount rate depends on the covenant grade applied to the employer in accordance with the Fund's Employer Risk Management Policy. A higher margin for prudence is applied where the employer is assessed as posing a higher risk to the Fund.

The discount rate for an employer with covenant grade A includes a level of prudence appropriate for an employer with a government guarantee. The discount rate for an employer with covenant grade D has significantly more prudence as their circumstances mean it's likely they will become an exiting employer; this is the relevant discount rate for a cessation valuation for employers ceasing participation the Fund.

The discount rate assumptions as at 31 March 2025 are set out below.

Covenant Grade	Discount Rate (p.a)	Relative to best estimate (p.a)
A	5.2%	(1.4%)
B1	4.9%	(1.7%)
B2	4.6%	(2.0%)
C1	4.3%	(2.3%)
C2	4.0%	(2.6%)
D	3.5%	(3.1%)

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 do not depend on the individual employer's individual circumstances.

Valuation assumptions

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

Assumptions	Assumptions used for the 2025 valuation
Financial assumptions	
CPI inflation	2.7%
Salary increases	3.7%
Discount rate	5.1%[2]
Demographic assumptions	
Post-retirement mortality	
Base table	2024 Club Vita tables
Multiplier (male/female)	105% / 100%
CMI Model / long-term rate	2024 / 1.50% p.a.
Initial addition parameter	0%
Half-life parameter	1 year
Retirement assumption	Weighted average
Pre-retirement decrements	GAD 2020 tables: no salary scale, 40% multiplier to ill-health rates, 80% withdrawal
IH assumed proportion in each tier (T1/T2/T3)	90% / 5% / 5%
50:50 assumption	Member data
Commutation	50% Max
Family statistics	
% with qualifying dependant	75% (M) / 65% (F)
Age difference	3 years

2 The discount rate shown (5.1%) is the weighted average across all employers. Individual employer discount rates range from 5.2% to 3.5% depending on covenant category (see Future investment returns/ discount rate).

Further information on the assumptions used is explained in the Fund's valuation report which can be found on the Fund's website.

Minimum risk basis

In addition to the ongoing valuation, which is based on the assumptions set out above, the liabilities of each employer are also assessed on an alternative "minimum risk" basis. The purpose of this minimum risk valuation is to assess the level of assets that would be required in the event that the employer ceases participation in the Fund and responsibility for the liabilities is not passed to another employer.

The assumptions adopted for the minimum risk valuation are the same as for the ongoing valuation, except that:

- The employer is assumed to cease participation in the Fund on the valuation date and all active members are assumed to become deferred pensioners
- The minimum risk discount rate is determined with reference to the Fund's Strategic Asset Allocation, applying an additional level of prudence and an allowance for expenses. The minimum risk discount rate at the valuation date was 3.5% p.a. The additional prudence included in the discount rate reflects the increased risk on cessation, where the reliance on the employer is removed, providing an appropriate buffer against adverse future experience.

Projected cessation basis

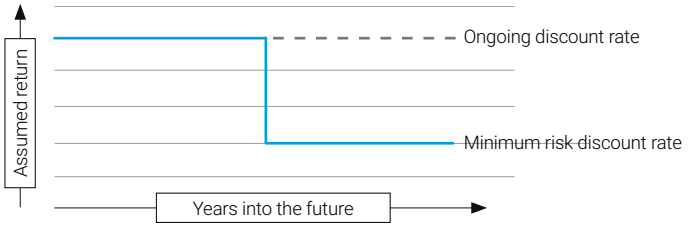
Where an employer is assessed as being closed to new entrants, it is likely that the number of active members will reduce over time until none remain. When the last active member leaves pensionable service, the employer ceases participation in the Fund and we will follow the process set out in our Admission and Cessation policy.

In some cases, this may require employers to make an exit payment to the Fund sufficient to result in full funding on a minimum risk basis. The amount of the payment is dependent on the specific circumstances of the employer, but it can be large relative to ongoing contributions.

In order to avoid a large and potentially unexpected exit payment, a "projected cessation" approach can be adopted for the valuation. Under this approach the discount rate is set as follows.

Future year	Investment returns assumed to be received during the year
Years between the valuation date and when the last active member is expected to leave service	The ongoing discount rate applicable for the employer's covenant grade
Years in which no active members are expected to remain in service	The minimum risk discount rate

This is also illustrated graphically below.



The period of time until the last active member is expected to leave service is determined by the Fund Actuary, based on professional judgement, the membership profile of the employer's remaining active members, and the demographic assumptions adopted for the valuation.

This approach is likely to result in higher employer liabilities and contributions during the period until the last active member leaves service but can significantly reduce the amount of the exit payment required when the employer ceases participation in the Fund.

Actuarial methods

The actuarial method for open and closed employers is the projected unit method. These are explained further in the section 'Primary rate of employers' contributions' (page 7).

Asset valuation

For the purpose of 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).

Links to the Investment Strategy Statement (ISS)

Our ISS is available on the Fund website.

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:

Asset class	Strategic Asset Allocation
Public Equities	50%
Private Equity	5%
Fixed Income	2.5%
Credit	15%
Infrastructure	13%
Real Estate	10%
Environmental Opportunities	3%
Cash	1.5%
Total	100%

Our investment beliefs, long term return expectations and solvency objective are embedded within our Fund's strategic asset allocation, which is designed to generate sufficient returns to meet the funding objective while managing risk. The discount rate assumption adopted for the valuation reflects these expectations.

How employer contributions are calculated

The total contribution rates an employer must pay are the primary contribution rate plus the secondary contribution rate. The primary and secondary contribution rates are discussed in the sections below. The Funding Target section (page 3) summarises how the primary and secondary contribution rates are set including the bases used under different circumstances of the valuation, or joining or leaving our 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 our Fund will be calculated by the Fund Actuary and communicated by our Employer Management Services upon joining.

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 that they are required to pay, along with the frequency of payment, will be certified by the Fund Actuary in the Rates and Adjustment Certificate.

Prepayment policy

We will consider requests by employers to pay their secondary contributions up front and a discount might be applied. The discount will only apply if the payment is received by the end of April in a particular Scheme year (i.e. the discount for the 2026-27 contributions would only apply if the lump sum payment was made by 30 April 2026). The discounts are 1.5% for an annual payment in advance or 4.5% for paying three years of contributions in advance. We must agree before employers make any upfront payments at the discounted rate as we need to advise the Fund Actuary so it can be reflected in the Rates and Adjustment Certificate.

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 which determines the employer categorisation (as set out in our Employer Risk Management Policy). 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 employers that are closed to new entrants, the primary rate will be based on the Projected Unit Method of calculation with an appropriate control period, where the control period is the period over which the membership is assumed to age. The control period may reflect the length of a contract, the time to the next valuation, or the expected time to cessation as determined by the Fund Actuary.

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.

Secondary rate of the employers' contribution

The secondary contribution rate is an adjustment to the primary rate intended to affect the employer's funding position. For the 2025 valuation, our approach to setting the secondary rate in respect of each employer depends on the funding position. The secondary rate will be:

- Positive (i.e. deficit contributions) where the employer's funding level is less than 100%
- Negative (i.e. a reduction to contributions) where the employer's funding level is greater than 115%
- Nil where the employer's funding level is between 100% and 115%.

These three possible outcomes are described in the section titled, 'Our approach to managing surpluses and deficits' opposite.

Payment of additional contributions

Employers may 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 as a result of redundancy or business efficiency, we may request the employer make a strain payment to cover the anticipated cost of the additional pension entitlement (see Strain costs section page 9)
- Where an employee makes Additional Voluntary Contributions (AVC), at the employer's discretion, they may make an additional payment to the Fund under a cost sharing arrangement with the member
- Where an employer awards a member with additional pension.

The employer is required to inform the Fund if any of these situations occur, in line with our Pension Administration Strategy.

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, and the results can be found in the Valuation Report on the Fund's website, 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.

Review of employer contributions between valuations

Our Fund's Contribution Review Policy can be accessed on the Fund website.

Our approach to managing surpluses and deficits

As set out in Section A - Purpose of the Fund and the FSS (page 2), 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 and including appropriate margins for prudence
- Applying a sliding scale of discount rates by employer covenant, to reflect different levels of risk
- Aiming to implement a maximum change in total contribution of 2% p.a of pensionable pay, in either direction, when an employer is in surplus, to support stability when changes in contribution rates are introduced
- Where appropriate, the Fund may agree to set employer contribution rates on a stable basis across the three-year valuation period, or to apply an alternative profile of contributions (for example, a lower rate in earlier years and higher rates later), provided that total contributions payable over the period are unchanged
- Setting a minimum funding level above which surplus can be used to reduce contributions, this level is currently set at 115% and will be reviewed at each valuation along with the period over which any surplus above this level will be spread.

Where the employer funding level is less than 100%

In this situation, there is a valuation deficit that must be addressed. A positive secondary rate will be calculated in order to address the deficit over time. These contributions are expressed as cash sums, increasing each year in line with the assumed rate of pensionable pay increases. We will consider requests to express the contributions as a percentage of pensionable pay where the employer is open to new entrants and can demonstrate a stable or increasing active membership and pensionable payroll.

Secondary rate contributions will be set using the following process in order:

- Where the valuation is carried out using a projected cessation basis, contributions will be spread over the remaining period until the last active member is expected to leave service
- Where a Deferred Debt Agreement or other funding agreement is in place, contributions are set in line with that agreement
- Secondary rate contributions will be set such that the employer's total contributions (where an employer was in deficit at the last valuation) are maintained at the existing level (increasing in line with the assumed rate of pensionable pay increases) where this is expected to address the deficit over a period of less than 10 years from the valuation date
- Where an employer's admission agreement has a remaining term of less than 10 years (for example where the admission agreement is linked to an outsourcing contract), the secondary rate contributions will be spread over the remaining term of the admission agreement
- In all other cases, secondary rate contributions will be spread over a period of 10 years from the valuation date. The default position is that the full deficit repair contributions calculated at the valuation are payable from the start of the period with no restriction to the change in total contributions this introduces. However, where an immediate increase in contributions would be demonstrably unaffordable, we may, at our discretion, agree limited smoothing on a case-by-case basis. Any such use of discretion will be documented and reviewed at each valuation.

Where the employer funding level is greater than 115%

In this situation, we consider that the liabilities are sufficiently well funded that employer contributions can be reduced by setting a negative secondary contribution rate. Negative secondary contribution rates are expressed as a percentage of pensionable pay. There is no option to express the negative secondary rate as a cash sum.

The secondary rate contributions will be set by identifying the amount of assets in excess of 115% of the liabilities, spread over a 10-year period. The maximum negative secondary rate is -10% of pensionable payroll.

To support the aim of stable employer contributions, where an employer is in surplus, we will normally limit changes in total contribution rates to a maximum of 2% p.a. of pensionable pay in either direction. Illustrative examples:

- If the funding position at the valuation indicates that total employer contributions should reduce by 7%, the reduction will be phased in with a 2% reduction in the first year, 2% in the second and 2% in the third year
- If the funding position at the valuation indicates that total employer contributions should reduce by 5%, the reduction will be phased in with 2% in the first year, 2% in the second, and 1% in the third year
- If the employer had negative secondary contributions of -7% at the last valuation but the current valuation indicates negative secondary contributions of -2%, the increase in contributions will be phased in with 2% in the first year, 2% in the second, and 1% in the third year. This example assumes no change in primary rates.

In all cases, the funding level will be reassessed at the next valuation and, under the current policy, the total contribution changes would again be capped at 2% p.a. We will review this policy at the next valuation.

We retain ultimate discretion not to apply any of the above processes where doing so may increase the risk to the Fund. For example, where there has been a deterioration of covenant, significant change in membership profile or significant change in funding level for an individual employer, or to maintain stability.

Where the employer has an admission agreement that is guaranteed by another entity, that entity's consent to the secondary rate will be required.

Where the employer funding level is greater than 100% and less than 115%

In this situation, there is no deficit to address, and the surplus is not sufficiently large for us to consider it appropriate to reduce employer contributions. In taking this stance, we are seeking to strike a balance between the desire for contribution stability and the need to take a prudent long-term view of funding liabilities.

However, where the 2% p.a. of pensionable pay cap applies, the secondary rate may not be nil while the contribution rate transitions from the previous valuation contribution rate to the current valuation contribution rate. For example:

- If the employer had negative secondary contributions of -7% at the last valuation but the current valuation indicates a funding position that is between 100% and 115%, i.e. no negative secondary contributions, the increase in contributions will be phased in with 2% in the first year, 2% in the second, and 2% in the third year. This example assumes no change in the primary contribution rate but if there was a change in the primary rate, this would be included in the 2% p.a. cap. The funding level would then be reassessed at the next valuation.

Employer covenant and Guarantors

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".

To administer our Fund effectively, it is important that we identify, assess, and where possible mitigate the risks to which the LPFA, and by extension all the employers contributing to our Fund, are exposed. One such risk is that individual employers are unable to make payments to our Fund when required, which could ultimately result in additional contributions being required by the remaining employers. Under LGPS Regulations, if one employer is unable to pay their contributions, the other employers must ensure that the pensions benefits are covered which may require additional contributions.

The Fund's approach to allowing for employer covenant and guarantors is set in the Employer Risk Management Policy which can be accessed on the Fund website. This policy outlines how we identify, assess, and manage this risk for the benefit of all the employers in our Fund as a whole.

As part of the 2025 valuation, we engaged those employers that required a covenant assessment to help better understand the financial position of our employers, and where appropriate, allowed us to seek further information from employers for the assessment. Employers are provided with a covenant scorecard alongside their valuation results.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of employees from an existing employer in our 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.

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.

Further details on joining the Fund, including risk-sharing and pass-through agreements, are provided in the Admission & Cessation Policy which can be accessed on the Fund website.

Links to 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 leaves the Fund. The quality of the data could have an effect on the contributions that an employer is required to pay.

The Fund's Pension Administration Strategy can be accessed on the Fund website.

Strain costs

Where activities such as waiving early retirement reductions and redundancy or business efficiency retirements increasing the Fund's liabilities, a strain cost may apply. The Fund will determine whether a strain cost payment is required to cover the anticipated cost of the additional pension. Strain costs related to ill-health and death benefits are allowed for in the valuation assumptions, and actual vs expected experience is considered at each valuation to refine these assumptions.

To support employers in managing the costs of their pension arrangements, we may provide a strain cost allowance for those in a sufficient surplus position, such that an immediate payment is not required. Where an employer's funding level at the valuation date is at least 115% and it's covenant rating is A or B1, a limited allowance to cover strain costs that arise over the inter-valuation period, up to a limit, will be available to cover strain costs that would have been payable immediately.

Employers below the 115% funding threshold are not eligible for this allowance. Employers with fewer than 10 active members are also excluded. In such cases, strain costs must be met as they arise, although the Fund retains discretion to review individual circumstances. Employers wishing to request such a review should contact the Employer Management Services at ems@lpfa.org.uk.

The Fund will provide eligible employers with details of their strain cost allowance once the valuation has been completed. Estimated strain costs must be obtained by the employer prior to any decisions being taken on member benefits. If the employer proceeds, the Fund will provide the employer with details of their strain cost allowance balance. Should an employer exceed their strain cost allowance, any further strain costs must be paid as they occur.

Where a strain cost allowance is applied, the additional liabilities arising will be included in the next valuation and, all else being equal, will reduce the employer's funding level. This may in turn result in higher employer contributions being required in the future.

This allowance does not extend to other additional pension costs such as those arising from Additional Pension Contributions (APCs) or augmentation exercises, which must continue to be met in full by the employer. Please contact the Employer Management Services at ems@lpfa.org.uk for further detail on how the allowance is determined.

Employer events

Employers may join or exit the Fund for a range of reasons. These events have funding implications and are managed in line with the Fund's Admission and Cessation Policy, which sets out the detailed process and criteria for entry, exit and post cessation arrangements. Employers typically join the Fund either as Scheduled or Admission bodies.

An employer becomes an exiting employer in various circumstances, including where it no longer has any active members, ceases participation due to contract expiring or terminates under the terms of an admission agreement. Other triggers may include the insolvency or winding up of the employer, termination of a deferred debt arrangement (DDA) or a failure to meet contribution obligations.

Further details on the admission and cessation process are set out in the Admission and Cessation Policy which can be accessed on the Fund website.

Annex A: Engagement plan

Introduction

This is the Engagement plan for the London Pensions Fund Authority Pension Fund (the Fund). It has been prepared by the London Pensions Fund Authority in our capacity as Administering Authority of the Fund.

This Engagement plan sets out details on how we will engage with key stakeholders during the review and publication of the revised Funding Strategy Statement (FSS). In accordance with Regulation 58 of the Regulations, we must keep the FSS under review and consult with such persons considered appropriate following a material change in the FSS. The FSS has been drafted with the Fund Actuary as part of the actuarial valuation of the Fund as at 31 March 2025, in accordance with Regulation 62 (6)(c).

The FSS for the Fund has been revised to take into account the "Guidance for Preparing and maintaining a Funding Strategy Statement (FSS)" issued in January 2025. In particular, the January 2025 guidance requires the creation of this Engagement plan.

A key activity when reviewing and developing the FSS is the communication and engagement activities with the appropriate persons during the consultation period and allowing suitable timescales for active participation. This includes employers, guarantors and the Local Pensions Board (LPB).

Key parties

The key parties who have input to the FSS are the Administering Authority, the Fund Actuary, the LPFA Board and the LPB. Key stakeholders to the Fund are scheme employers and their guarantors, and scheme members. These roles are explained further below:

The Administering Authority

The Administering Authority for the Fund is the London Pensions Fund Authority. The FSS is owned and adopted by the Administering Authority.

The Fund Actuary

The Fund Actuary is Barnett Waddingham and provides advice to us on the content of the FSS.

The LPFA Board

The LPFA Board has a duty to protect the benefits of the LGPS members, overseeing the direction of investments and monitoring liabilities. A key role for the LPFA Board is to approve the FSS.

The Local Pensions Board

The Local Pension Board has a duty to assist in the oversight of governance and administration of the Fund.

Scheme employers

In addition to the Administering Authority , there are a number of other Scheme employers participating in the Fund.

Guarantors of scheme employers

Some Scheme employers are guarantors to other Scheme employers in the Fund. The Department for Education provides the guarantee for LGPS liabilities in the event of an academy trust closure and most further education bodies. The Department for Culture, Media and Sport provides a letter of support for some employers receiving Grant-in-Aid as a primary source of funding.

Scheme members

Active Scheme members are required to make contributions into the Fund as set out in the Regulations. Members receive benefits from the Fund.

Timetable

The timescales of the revision of the FSS are designed to be consistent with the actuarial valuation of the Fund as at 31 March 2025. We shared the proposed FSS and this Engagement plan with the LPFA Board for discussion at their meeting of 30 September 2025.

Following approval of the proposed FSS and availability of the valuation results, we will instigate the consultation process.

Proposed engagement with employers and guarantors

The proposed FSS, together with the proposed Contribution Review Policy, Employer Risk Management Policy, the Admission and Cessation Policy, and the Pension Administration Strategy will be made available via links provided in the email to all policy contacts of employers, main contacts at guarantors, and the LPB.

The consultation will close on Friday 19 December 2025. We already maintain accurate and up to date contacts of all the policy contacts of employers and main contacts at guarantors. The email will state that responses are to be made by using our online survey tool. The survey will help the Fund collate responses with comments being optional.

We will hold an in-person employer forum on 24 November 2025, which will include a session on the FSS. This will set out the purpose of the FSS and walk through the key changes to the actuarial assumptions and their impact on funding and contributions. Slides will be available on request for those who are unable to attend.

For the avoidance of doubt, Scheme members will not be consulted on the revisions to the FSS.

Outcome of the consultation response

We will consider feedback provided during the consultation and, where appropriate, incorporate this into the final FSS that will be sent to the LPFA Board for approval. A written response will be shared with those that responded to the consultation on the key themes and any changes to the assumptions and/or funding strategies in the final FSS. Following this, we will share with all employers a summary of the consultation outcome alongside the final FSS and related policies. Employers will also receive their final covenant grade, valuation results and an employer return form.

Publication

Once the valuation is complete, the final FSS and related policies will be published on the Fund's website. Copies will be sent to members of the LPB. Hard copies will also be made available to interested parties on request at the discretion of the administering authority.

Annex B: 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 LPFA Board regularly monitors the investment returns achieved and receives advice from the investment advisers and officers on investment strategy.

The Board 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. As in previous valuations, we have commissioned a bespoke longevity analysis from Club Vita in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

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. We monitor 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 pension 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 pension fund or employer, the greater proportion of its membership that is near or in retirement. For a mature pension 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 our Fund alongside the level of maturity: as our Fund matures, the amount of pensions in payment increases, compared to contributions being paid in for active members. This increases the likelihood of having to sell assets in order to meets our 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.

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. It is also impacted by 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 determined 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. For the 2025 valuation, a similar approach was followed as up-to-date McCloud data was not available.

New Fair Deal

On 13 October 2025 the Government issued its Access and Protections consultation which includes proposals to implement New Fair Deal in the LGPS. As expected, the proposals will change how pensions are protected for outsourced workers. It is proposed that admission agreements will not be needed in future, through introduction of the concept of the letting authority being the "deemed employer" for LGPS members employed by contractors and that the option for service providers to offer a broadly comparable scheme instead of continued LGPS membership for transferred employees will be removed other than in "exceptional circumstances". The consultation closed on 22 December 2025 and, as the new arrangements were not in place during the 2025 valuation process, we may 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. This includes a set of five 'minimum standards' that LGPS pools must put in place by 31 March 2026. Whilst our pool, Local Pension Partnership Investments (LPPI), already meets these requirements, there is a risk that increasing the number of partner funds in the pool could result in a temporary deterioration in service and investment focus to the Fund. 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, we regularly monitor the covenant of those employers that do not have a government guarantee and engages with these employers where required.

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. 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. For example, complete McCloud data was not available for the 2025 valuation. However, the Fund Actuary has advised that the effect of incomplete 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 with which pension funds must comply. 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 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 carried out on a more prudent basis than the ongoing basis. 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 our Fund may cause the immediate insolvency of an employer. We make use of the employer flexibilities which came into force on 23 September 2020 as set out in our Admission & Cessation Policy, to work with employers exiting our Fund.

Annex C: 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.

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.

The LPFA Board

As the statutory administering authority of the LGPS under the LGPS Regulations 2013, the Board is responsible for managing and administering the LPFA Fund on behalf of members and employers. This includes setting the Fund's overall strategy, overseeing how the Fund is invested and funded, and making sure that pensions are administered and paid in line with the law.

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.

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; Instead, 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.