

# 2025 Actuarial Valuation Funding Strategy Statements and Employer results schedules

## Frequently Asked Questions

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**Funding Strategy**

A business of Marsh McLennan

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# Introduction

This Frequently Asked Questions (FAQ) document provides a general overview of the typical questions asked by employers when being consulted on the Funding Strategy Statement (FSS) or when presented with an individual employer results schedule as part of a triennial actuarial valuation exercise.

The document does not include specific comment directly linked to your individual LGPS fund but is designed to provide you with further background information to help you navigate the FSS and results schedule that will help you engage with your fund around the valuation results being provided and respond to the consultation.

Should you have any fund specific questions that can't be answered by this document or the other supporting information provided to you by the fund then please contact the Fund in the first instance.

**Questions 1 to 15 cover the FSS and 16 to 29 cover the individual results schedule.**

## Section 1

# Funding Strategy Statement

**Questions 1 to 12 cover the FSS itself. Questions 13 to 27 cover your individual results schedule.**

## 1. What is the Funding Strategy Statement (FSS)?

The Funding Strategy Statement (FSS) is a key document for a Local Government Pension Scheme (LGPS) fund that sets out the Fund's approach to funding its pension liabilities. Its primary purpose is to establish a clear and transparent strategy for how the fund will meet its long-term obligations to pay pensions to members. The FSS outlines the methods and assumptions used to assess the fund's financial position, including how contributions from employers and employees are determined to ensure the fund remains financially sustainable. It balances the need to provide secure benefits with the affordability of contributions, taking into account the specific circumstances of the fund's employers and members.

Additionally, the FSS plays a crucial role in promoting consistency and communication between the fund's actuary, administering authority, and participating employers. It sets out the framework for managing risks related to funding, such as investment performance and demographic changes, and guides decisions on contribution rates and deficit recovery and surplus management plans. By doing so, the FSS helps maintain the financial health of the fund, ensuring that it can meet its pension promises while managing costs prudently over time. In line with the LGPS Regulations, this document is reviewed regularly by the administering authority and updated regularly to reflect changes in the fund's circumstances, regulatory requirements, and economic conditions.

## 2. How often is the FSS reviewed?

The FSS will typically be reviewed at least every three years. This review usually coincides with the triennial actuarial valuation of the fund, where the actuary will assess the fund's financial position and determine employer contribution rates. However, the FSS may also be reviewed and updated more frequently if there are material changes to the policies outlined in the FSS. This ensures the FSS remains relevant and effective in guiding the fund's approach to meeting its pension liabilities.

## 3. Why is the Administering Authority consulting with Employers?

LGPS Regulations require that administering authorities consult with "persons it considers appropriate" when preparing, maintaining and publishing its funding strategy. As employers are directly affected by the funding policies set out in the FSS, the administering authority is consulting with employers (and other key stakeholders) on the proposed changes as it is important for employers to understand the approach taken to determining the contributions they pay. Consulting employers ensures their views and circumstances, such as their financial position, covenant strength, long term budgeting requirements and workforce profile are considered when setting contribution rates and funding policies. This collaborative

approach helps balance the need for the fund’s long-term sustainability with the affordability of contributions for employers.

Moreover, employer consultation promotes transparency and trust between the administering authority and the participating employers. It allows employers to provide input on key assumptions and funding strategies, helping to avoid misunderstandings or disputes later on; it ultimately ensures that the FSS is prepared in a way that is fair, reasonable, and aligned with the interests of both the fund and its employers.

## **4. How long is the consultation period?**

The typical consultation period for the FSS in an LGPS pension fund is usually around 30 days. This period allows employers and other stakeholders sufficient time to review the proposed FSS, provide feedback, and raise any concerns or questions. The consultation duration may vary slightly depending on the administering authority’s policies or specific circumstances, but a one-month consultation is generally considered standard practice to ensure meaningful engagement and compliance with regulatory expectations.

## **5. How do I make sense of all these technical words?**

The FSS is usually issued alongside the valuation results schedule for an LGPS pension fund. The employer specific valuation results schedule provides detailed information on the outcomes of the triennial actuarial valuation, including funding levels, employer contribution rates, and deficit/surplus recovery plans. Issuing the FSS together with the valuation results helps employers and other stakeholders understand the context and rationale behind the funding strategy, making the overall funding position and future contribution requirements clearer and more transparent. This combined issuance supports effective communication and informed decision-making among all parties involved.

The FSS also includes a glossary to support understanding of the terms being used.

## **6. How has the FSS been prepared?**

In January 2025, the Ministry for Housing Communities and Local Government (MHCLG) in conjunction with CIPFA and the LGPS Scheme Advisory Board published updated guidance for “Preparing and maintaining a Funding Strategy Statement (FSS)”. The last guidance was produced in 2016. The new guidance can be found here –

[lgpsboard.org/images/Guidance/FSS guidance Final January 2025.pdf](https://lgpsboard.org/images/Guidance/FSS%20guidance%20Final%20January%202025.pdf)

In conjunction with the Actuary, the administering authority has prepared the FSS in line with this new guidance and therefore the layout will be different to what you may have seen before.

## 7. What is included in the FSS?

In line with the new guidance, the FSS is now split into four sections:

**Section A** – The Purpose of the Fund and the FSS: What are the aims and purpose of the Fund in relation to long-term benefit funding.

**Section B** – Key Funding Principles: How the aims and purpose from Section A are to be achieved in practice.

**Section C** – Employer Events: An overview of the events that could impact an employer's funding circumstances and those of the Fund.

**Appendices** – This will include various policies that may impact an employer's participation in the Fund and may be referred to in Section C.

## 8. Are the policies included in the Appendix just linked to the 2025 valuation?

No, alongside policies that directly impact the outcomes from the 2025 valuation and the contribution outcomes proposed, the policies included will cover all areas of funding that may impact your participation in the Fund, from entry to exit.

## 9. What are the main changes to funding strategy at the 2025 valuation?

The FSS explains the funding strategy in detail. Please refer to the supporting documents provided by the Fund which summarise the key changes from 2022.

## 10. Has the funding position improved since the 2022 valuation?

As widely reported in the media, since the 2022 valuation, funding positions of LGPS funds have shown improvements, significantly in some cases. These improvements have been typically driven by changes in the economic outlook and the expectations of future investment returns, which have served to reduce the value of the underlying liabilities.

These changes will allow many administering authorities to facilitate reductions in proposed employer contribution rates, although this is not guaranteed (see 11 below). The improvements in funding position will vary from fund to fund (and from employer to employer within each fund) but should provide an opportunity for administering authorities to manage funding risks in a way that will help provide contribution rate sustainability for employers in the future.

## 11. Will all employers see the same change in contribution rates?

Not all employers in the fund are likely to see the same change in contribution rates at the 2025 valuation. While the overall funding position may have improved, the impact on



individual employers' contribution rates will vary based on several factors specific to each employer.

Although varying from fund to fund, key factors influencing differences in contribution changes will typically include:

- **Employer Covenant Strength:** Employers with stronger financial positions and more secure ongoing operations may benefit from more favourable funding assumptions and contribution rates compared to those with weaker covenants or uncertain futures.
- **Demographic Profile:** The age, service length, and retirement patterns of an employer's workforce affect the valuation of their liabilities. Employers with older or longer-serving members may have higher liabilities, influencing contribution requirements.
- **Funding Position at Previous Valuation:** Employers starting from different funding levels (surplus or deficit) will experience different changes in contribution rates. Those with larger deficits may see smaller reductions or even increases if their funding position has not improved as much.
- **Risk Appetite and Funding Strategy:** Depending on their own circumstances, some employers may opt for different deficit recovery periods or funding strategies, affecting how quickly deficits/surpluses are addressed and thus their overall contribution rates.
- **Changes in Membership and Payroll:** Variations in the size and composition of an employer's active membership and payroll can impact contribution calculations.
- **Liability Experience:** Differences in actual pension experience, such as early retirements or salary growth, compared to assumptions used in the previous valuation can lead to adjustments in contributions.

In summary, while the overall funding improvement may lead to contribution rate reductions on average, individual employer contributions will reflect their unique circumstances, funding history, and the funding strategy applied in line the funds policies that are set out in the FSS. This tailored approach helps balance affordability with the need to maintain the fund's long-term sustainability.

## 12. When will the new contribution rates come into effect?

Once agreed, the new employer contribution rates will typically come into effect on 1 April 2026 and will be formally certified in the Actuary's formal report on the 2025 actuarial valuation in the schedule to the Rates and Adjustment Certificate. This report will be signed off by the Actuary by 31 March 2026.

## 13. Will these rates be effective for the next three years or could they change mid valuation cycle?

The agreed employer contribution rates are typically effective for a three-year period, aligning with the triennial actuarial valuation cycle. During this period, the contribution rates set at the valuation are expected to remain in force to provide stability and predictability for both the fund and employers.



However, subject to the policies of the fund that are in place as set out in the FSS, certain conditions could trigger a review of these rates before the end of the three-year period. Such triggers include significant changes in an employer's circumstances—such as a change in the employer's covenant strength, a large change in membership numbers or profile, or a material change in payroll. Additionally, if there are regulatory or legislative changes impact funding requirements, a review may be warranted. The administering authority and actuary may also initiate a review if they identify risks that could affect the fund's ability to meet its liabilities under the current contribution arrangements. This flexibility helps ensure that contribution rates remain appropriate and fair throughout the inter-valuation period.

Please refer to the FSS for further details of when such reviews could take place.

## **14. Should we seek professional advice?**

There is no requirement for employers to seek their own independent professional advice when responding to the FSS consultation and considering their own valuation outcomes. Depending on their circumstances, and the significance of pension contributions as part of their overall budget, some employers may seek such advice to help them better understand their valuation outcomes and what the implications may be around their overall risk management and participation in the fund and subsequent decision making.

## **15. Are there any other resources available?**

Yes – please refer to the supporting information provided to you by the Fund, including explanatory videos around the 2025 valuation that have been prepared by the actuary covering the overall process, the FSS and the results schedule. Links to the videos are below.

**[LGPS Valuation Process](#)**

**[LGPS Funding Strategy Statement](#)**

**[LGPS Employer Results Schedule](#)**

## Section 2

# Individual Employer Results

### 16. What is the funding basis?

The funding basis is the set of assumptions used by the actuary to calculate the balance sheet and contribution requirements. The Actuary has to make assumptions as the pension costs aren't known in advance. These assumptions depend on many different factors, for example the investment returns achieved by the Fund's assets, how much pensions increase in the future (i.e. inflation), how long members will live, etc. The standard approach adopted by the Actuary when setting the valuation contribution outcomes is the "ongoing funding" basis i.e. it assumes employers are not exiting the Fund in the immediate future. Further details of the basis can be found in the accompanying Funding Strategy Statement.

### 17. Why is my termination position better worse than my balance sheet position?

Where an employer has no guarantor employer in the Fund to take responsibility for pension costs after exit, funds may assess the final termination position using different ("stronger") assumptions, which result in higher liabilities, sometimes referred to as a "low risk" funding basis. The purpose is to ensure that the assets left in the Fund, after any top up termination payment (equal to the termination deficit) is paid, are sufficient to protect other Fund employers (all of whom would become responsible for the exiting employer's "orphaned" members, including any additional costs that arise if the ultimate experience for the members is more costly than expected).

### 18. What contributions will be paid in total?

The contribution rates payable will be shown on the first page of the schedule. Employers will pay a combination of a "primary rate" (future service) towards the cost of new benefit accrual in the future. In addition, there will be a "secondary rate", which will be a contribution towards removing any funding deficit, an offset to the primary rate to reflect any surplus or could even be nil.

Total contributions will be subject to a minimum of zero.

### 19. I have a surplus – why do I not have surplus offsets applied to my contributions?

Please refer to the Fund's policy around surplus management, which will be typically included in the FSS– in some cases only surplus above a certain level may result in a surplus offset contribution, or the availability of surplus offsets may be linked to the covenant / type of employer.

## **20. Why will the recovery period have changed compared to 2022?**

There is typically an expectation that recovery periods for deficit contributions will reduce by three years relative to the 2022 valuation (i.e. the end date will be the same). However, for some funds there will be a minimum period that applies or the change in recovery period will be driven by a desire to ensure contribution rate stability for the employer. Please refer to the Fund's policies as set out in the Funding Strategy Statement in relation to how recovery periods are set.

For those employers in surplus, a different approach may be taken to setting the surplus period and so please refer to the Fund's surplus management policy for further details (again found in the Funding Strategy Statement).

## **21. Why do the valuation results show a deficit when the accounting figures I've been sent this year showed a surplus?**

The accounting figures provided will have been assessed on a prescribed set of assumptions that differ to those used by the actuary to assess the contributions payable as part of the valuation process. The balance sheet positions will therefore be different. It's important to remember that the accounting figures do not impact the contributions you will pay. Further information on the differences can be found in the supporting information that will have been provided to you alongside your accounting figures.

## **22. Why does the primary rate increase when the membership gets older?**

All else being equal, the cost of providing new benefit accrual – expressed as a % of pay – is higher for older members. The reason for this is that there is a shorter period between the valuation date and the member's expected retirement date during which investment returns can be achieved on any contributions paid into the Fund by the employer (and the member).

## **23. Why can pay increases impact the balance sheet position when the scheme is no-longer a final salary scheme?**

Whilst new benefit accrual is linked to Career Average Earnings, some active members in the Fund will have benefits accrued that are still linked to their Final Pay (eligibility will be driven by when they joined the Fund). Significant pay increases awarded therefore (over and above the level assumed by the Actuary) can still impact the liabilities to emerge and any balance sheet position / contribution requirements assessed.

## **24. Will ill-health retirements and active member deaths have an adverse impact on the funding position?**

Not necessarily. In some funds, a self-insurance "captive" arrangement may be in place where ill-health retirement experience and the costs associated with ill-health retirements are

pooled amongst the employers in the “captive” arrangement. Should an arrangement be in place for your fund, the results schedule will refer to whether you meet the eligibility criteria for the arrangement and further details of the arrangement will be set out in the FSS.

Similarly, some funds may also operate a death-in-service “captive” arrangement – again details will be shown on the schedule and in the FSS if such an arrangement exists within your fund.

## **25. Why do the active membership numbers not tie in with the actual number of staff we employ?**

The Actuary's assessment of the liabilities will be based on membership records, not membership numbers. Therefore, if a member has three separate employments, this will be represented by three records in the active data provided to the Actuary. When considering gender pay/pension figures, it is the number of individuals, not the number of records, that will be considered.

Membership data is also as at 31 March 2025, the valuation date, and therefore may have changed since then.

Data quality is important, and you are encouraged to raise any questions about the data quoted with the Fund should you believe this to be incorrect given the impact it will have on the contributions that you pay.

## **26. How are members contribution rates determined?**

Member contribution rates in the LGPS are set in line with the underlying Regulations and not by the Actuary. For members in the main section of the scheme contribution rates will be between 5.5% and 12.8% of pay depending on the individual's rate of pay. For those members in the 50/50 section of the Scheme, the contribution rate will be halved. Further details can be found [here](https://www.lgpsmember.org/your-pension/the-essentials/your-contributions/).

<https://www.lgpsmember.org/your-pension/the-essentials/your-contributions/>

## **27. Where can I find out more information about our gender pay / pension gap?**

If required, the Actuary can provide further background information in relation to the gender pay / pension gap figures quoted on the schedule. Please refer to the Fund in the first instance and a quote for this work can be provided to you to consider.

## **28. What if the proposed contribution rates are unaffordable?**

If you have concerns over the level of contributions being proposed in your results schedule, then please contact the fund in the first instance and set out the reasons for this e.g. evidence that supports the unaffordability of the contributions, so further dialogue can take place.

## **29. What happens if the assumptions aren't borne out in practice?**

If events turn out worse than has been assumed in the funding basis, for example investment returns are lower, then at the next valuation due in 2028, the deficit will increase/surplus reduce, all else remaining equal, and employer contributions could increase as a result. The reverse is also true if experience is better than assumed in the funding basis.

The assumptions aim to be prudent to reduce the risk that experience is worse than assumed but the prudent assumptions applied do not mean that this is guaranteed.



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