

London Borough of Hammersmith and Fulham Pension Fund

Funding Strategy Statement

April 2026

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1 Purpose of the London Borough of Hammersmith and Fulham Pension Fund and the funding strategy statement

This document sets out the funding strategy statement (FSS) for the London Borough of Hammersmith and Fulham Pension Fund.

The London Borough of Hammersmith and Fulham Pension Fund is administered by the London Borough of Hammersmith and Fulham, known as the administering authority. The London Borough of Hammersmith and Fulham worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2026.

There's a regulatory requirement for the London Borough of Hammersmith and Fulham to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact pensions@lbhf.gov.uk.

1.1 What is the London Borough of Hammersmith and Fulham Pension Fund?

The London Borough of Hammersmith and Fulham Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

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

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

1.3 Who is the FSS for?

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

Different types of employers participate in the fund:

Scheduled bodies

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

Designating employers (otherwise known as Resolution bodies)

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

Admission bodies

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

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

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

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

1.4 How is the funding strategy specific to the London Borough of Hammersmith and Fulham Pension Fund?

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

1.5 How often is the Funding Strategy Statement reviewed?

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

Amendments to the FSS may be in the following circumstances:

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

In undertaking such reviews, the administering authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (e.g. pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the ISS

- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process and ensuring any communication regarding a review won't necessarily lead to rates changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

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

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

1.6 Links to Administration Strategy

The fund maintains an Administration Strategy Statement which outlines the responsibilities, standards and procedures for employers and the fund. A copy of this can be found in the link below:

[Pension Administration Strategy | Hammersmith and Fulham Pension Fund](#)

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

1.7 Actuarial valuation report

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

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

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

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

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

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix E](#).

The total contribution rate for each employer is then based on:

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

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

The employer must have at least a 80% likelihood of being 100% funded on the ongoing participation basis at the end of a 20 year funding time horizon

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

This approach considers the maturing profile of the membership when setting employer contribution rates.

The approach taken by the fund actuary helps the fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local authority	Universities	Academies and Colleges	Open to new entrants	Closed to new entrants	(all)
SAB Tier	Tier 1	Tier 3	Tier 2	Tier 3	Tier 3	Tier 1
Funding basis*	Ongoing	Ongoing	Ongoing (pooled)	Ongoing, but may move to low-risk exit basis		Ongoing
Target funding level	100%	100%	100%	100%	100%	100%
Minimum likelihood of success	83%	83%	83%	83%	83%	83%
Maximum time horizon	20 years	20 years	20 years	20 years or average future Working lifetime, if less		20 years
Primary rate approach**	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay					
Secondary rate	The difference between the total contribution rate payable (determined as per 2.1) and the primary rate. Negative adjustments are expressed as a percentage of payroll and positive adjustments can be expressed as a percentage of payroll or monetary amounts (for mature closed employers).					
Treatment of surplus	Total contribution rate set to achieve funding objective with associated likelihood of success over the time horizon. Contribution rate floors may be applied to enable contribution stability.***			Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority to help avoid surpluses at cessation..****		
Recognising covenant	Adjust likelihood of success					
Phasing of contribution changes	Phasing of contribution increases may be permitted at the discretion of the administering authority.					

Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

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

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

***At the 2025 valuation, a contribution floor equal to the Primary Rate rate has been applied in the determination of the rate payable by the local authority. A floor equal to the lower of the pooled academy rate and the current academy rate in payment (for non-pooled academies) has been applied in the determination of the contribution rates payable by non-pooled academies.

****At the 2025 valuation, reductions in contribution below the Primary Rate have been applied where it is likely that the employer may cease participation in the near-term future, specifically if there are fewer than 3 active members or if the contract is expected to expire prior to the 2028 valuation date.

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

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. After taking advice from the fund actuary, the administering authority believes a stabilised approach is currently not appropriate for any employers.

2.4 Links to investment strategy

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

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

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

The fund's current strategic investment strategy as at 31 March 2025 is summarised in the table, with full details available at [Pension Fund Investment Strategy Statement 2023 to 24](#).

Asset class	Allocation
Equities	40%
Low risk growth	25%
Secure income	20%
Inflation protection	15%

2.5 Does the funding strategy reflect the investment strategy?

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

2.6 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations that may lead to an increase or decrease in contributions after taking advice from the fund actuary. Review on case-by-case basis.

2.7 What is pooling?

The policy of the fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

The exception to this is academy employers, who are pooled for the purpose of determining contribution rates to recognise the common characteristics of these employers.

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

Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and fund actuary.

2.8 Administering authority discretion

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

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided.

2.9 Noncash funding

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

2.10 Managing surpluses and deficits

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

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

Table 2 sets out the Fund's approach to setting contribution rates for each employer group.

3 What additional contributions may be payable?

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

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

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

Employers typically make strain payments as a single lump sum.

For the years 2025/26 (February to March 2026), 2026/27, 2027/28 and 2028/29, the Council will not pay additional pension strain contributions in respect of early retirements. This will be formally reviewed as part of the 2028 valuation of the Fund. The Fund will continue to monitor the number of pension strains incurred. It is possible to consult with actuary should such circumstance arise.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer may be required to pay a funding strain, which may be a large sum.

The administering authority operates a cost-sharing arrangement to spread ill-health early retirement strain costs across all employers.

The contribution rate payable by employers includes the expected cost of ill-health retirements (the ill-health 'premium'). A portion of this contribution is paid to the captive fund, a notional pot of assets held by the Fund to meet the expected cost of ill health strains. Any ill-health retirement strain costs emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner).

No additional contributions will be due immediately from the employer although an adjustment to the 'premium' payable may emerge following the subsequent actuarial valuations, depending on the overall experience of the captive fund.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

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

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

4.2 How are employer liabilities calculated?

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

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

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by MHCLG.

4.3 What is a funding level?

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

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

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

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

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

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

5.2 New academies

New academies (including free schools) join the fund as part of the Academies pool. Only active members of former council schools transfer to the academy pool. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

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

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

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

The new academies' contribution rate is set equal to the pooled rate payable.

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

5.3 New admission bodies as a results of outsourcing services

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

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

The new employer's contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership. This may be subject to change in light of revised legislation prior to the next valuation cycle.

5.4 Other new employers

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

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

5.5 Risk assessment for new admission bodies

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

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

This must cover some or all of the:

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

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

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

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

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

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

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

???may be penalty for no bond in place in cessation#

7.2 What happens on cessation?

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

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

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

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the

cessation deficit. This improves efficiency by reducing transactions between employer and fund.

7.3 What happens if there is a surplus?

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

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

7.4 How do employers repay cessation debts?

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

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.
- Case by case consideration by Pension Fund Committee.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA by exception or agreement/ In any event this will be limited to a term 5 year. Beyond this they have no further obligation to the fund and either:

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

7.6 Partial cessations

The Fund will consider requests for partial cessations on a case-by-case basis.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

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

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

8.2 Solvency

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

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

8.3 Long-term cost efficiency

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

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

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

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

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

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Ministry for Housing, Communities and Local Government (MHCLG) the purpose of the FSS is to document the processes the administering authority uses to:

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

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

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

A2 Consultation

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

The Administering Authority carried out formal consultation on the draft 2025 Funding Strategy Statement in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. On 12 December 2025 all Scheme employers (including admitting bodies and Scheme member representatives) were issued with a copy of the draft FSS together with their individual 2025 actuarial valuation results schedule. Employers were invited to submit comments over a six-week period. All responses received were carefully considered. The final FSS also reflects updated national guidance issued by the SAB/MHCLG/CIPFA during 2024 and 2025.

A3 How is the FSS published?

The FSS is emailed to participating employers and pensioner representatives. A full copy is included in the fund's annual report and accounts and published on the administering authority's website. Copies are also freely available on request and sent to investment managers and independent advisers.

The FSS is published at [Pension fund accounts and statements | LBHF](#)

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee, and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and

communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at [Pension fund accounts and statements | LBHF](#)

Appendix B – Roles and responsibilities

B1 The administering authority is required to:

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

B2 Individual employers are required to:

- 1 Ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- 2 provide the fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- 3 pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date
- 4 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- 5 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- 6 notify the administering authority promptly of all changes to active membership that affect future funding
- 7 Pay any exit payments on ceasing participation in the fund timely provide the fund with accurate data and understand that the quality of the data provided to the fund will directly impact on the assessment of their

liabilities and their contributions. In particular, any inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

B3 Local Pension Boards (LPB):

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

B4 Local Pension Boards (LPB):

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

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

B5 Employer guarantors

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

B6 Other parties:

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
 - 2 investment managers, custodians bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
 - 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
 - 4 governance advisers may be asked to advise the administering authority on processes and working methods
 - 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
 - 6 the Ministry for Housing, Communities and Local Government, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.
- 7 The London Collective Investment Vehicle (LCIV) as the Fund's asset pool, provides pooled investment solutions and oversight, supporting the Fund's implementation of its investment strategy in line with the ISS.

Appendix C – Glossary

Actuarial certificates

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

Actuarial valuation

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

Administering Authority (referred to as ‘the fund’)

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

Admission agreement

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

Assumptions

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

Code of Practice

The Pensions Regulator’s General Code of Practice.

Debt spreading arrangement

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

Deferred debt agreement

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

Employer covenant

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

Funding level

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

Fund valuation date

The effective date of the triennial fund valuation.

Guarantee / guarantor

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

Local Pension Board

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

Non-statutory guidance

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

Notifiable events

Events which the employer should make the Administering Authority aware of

Past service liabilities

The cost of pensions already built up or in payment

Pension Committee

A committee or sub-committee to which an administering authority has delegated its pension function

Pensions Administration Strategy

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

Primary and secondary employer contributions

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

Rates and adjustments certificate

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

Scheme Manager

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

Appendix D – Risks and controls

D1 Managing risks

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

The role of the local pension board is set out in the London Borough of Hammersmith and Fulham constitution available here : [H&F Constitution \(lbhf.gov.uk\)](https://www.lbhf.gov.uk)

Details of the key fund-specific risks and controls are set out in the risk register included in the Annual Report, using the following link: [Pension fund accounts and statements | LBHF](#)

D2 Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected 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 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2%, and decrease/increase the required employer contribution by around 0.7% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

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

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

D3 Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and is kept under review. For the past two funding valuations, the Fund has utilised the Club Vita mortality analysis 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 has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

D4 Regulatory risks

The benefits provided by the Scheme 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 Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks 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:

- If the LGPS was to be discontinued in its current form, it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS, or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.
- Incoming legislation including measures related to investment pooling, may require changes to the current governance, funding and investment arrangements, creating a risk of increased complexity or cost to the fund.

D5 Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued, then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

D6 Employer covenant assessment and monitoring

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

Type of employer	Assessment	Monitoring
Local Authority	Tax-raising or government-backed, no individual assessment required	n/a
Colleges	Government-backed, covered by DfE guarantee in event of failure	Check that DfE guarantee continues, after regular scheduled DfE review
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies	Each case is individual and the fund judges on merit.	Review on application from a relevant body and every three years along with the triennial valuation.

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

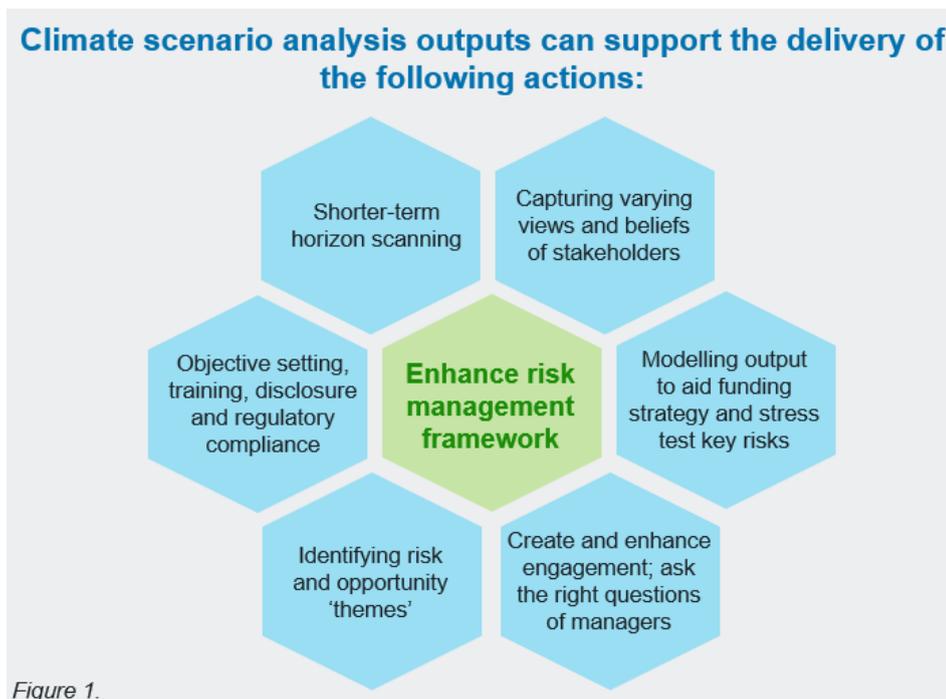
D7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy.

The Fund has carried out climate scenario analysis incorporating both stress testing, and narrative-based scenario analysis for the local authority employers at the 2025 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific extreme, downside risk (in this instance a food shock) and constructing a narrative around potential policy and market response. This approach allows consideration to be given to the impact of sudden, severe downside risks in the short term, and potential immediate actions. Coupling the narrative approach with stress testing (to better understand the impact of possible climate scenarios) has allowed the Fund to incorporate real world climate scenarios that may occur and indicate the resilience of the Fund under these scenarios.

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

Disclosures (TCFD) principles.



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

D8 Gender Pension Gap reporting

The government published its consultation “Local Government Pension Scheme in England and Wales: Access and Fairness” in May 2025. One of the proposals as part of this consultation was to include gender pension gap reporting in the 2025 valuation report. Regulation around reporting will be laid down in March 2026 and as such, the Fund has reported on the gender pension gap in the 2025 valuation report (appendix 9).

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

Appendix E – Actuarial assumptions

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

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

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

E1 What are actuarial assumptions?

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

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

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

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

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

E2 What funding bases are operated by the Fund?

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

E3 What financial assumptions are used by the fund?

Discount rate

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

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

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

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

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

Funding basis	Prudence level
Ongoing participation	83%
Low-risk exit	N/A – see below

The discount rate for the low risk exit basis is not set using risk-based methodology. The low-risk exit basis discount rate is set equal to the annualised yield on long dated conventional government bonds at the valuation date.

CPI inflation

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

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

The CPI inflation assumption is calculated to be:

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

Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 0.5% above the CPI inflation assumption plus a promotional salary scale.

E4 Further detail on the calculation of financial assumptions

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

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

Time period	Percentile	Annualised total returns									Inflation/Yields		
		Global equities (unhedged)	DGF Low Beta	Private Equity	Property	Infrastructure equity (unlisted)	A Credit (14 yr maturity)	A Credit (4 yr maturity)	Multi Asset Credit (sub investment grade)	Private Lending	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16 th	-0.5%	3.5%	-2.5%	0.2%	1.1%	2.5%	4.0%	4.1%	4.5%	1.2%	1.5%	4.8%
	50 th	8.2%	5.8%	10.0%	6.8%	8.1%	4.9%	5.2%	6.7%	8.2%	2.8%	2.4%	5.8%
	84 th	16.9%	8.1%	22.8%	14.1%	15.5%	7.1%	6.1%	8.8%	11.4%	4.3%	3.3%	7.1%
10 years	16 th	2.1%	4.3%	1.2%	2.3%	3.1%	4.5%	4.8%	5.8%	6.4%	0.8%	0.8%	3.9%
	50 th	8.5%	6.2%	10.2%	7.3%	8.4%	6.0%	5.8%	7.4%	8.8%	2.5%	2.1%	5.3%
	84 th	14.8%	8.1%	19.6%	12.7%	13.8%	7.3%	6.7%	8.9%	10.9%	4.1%	3.3%	7.1%
20 years	16 th	3.7%	4.4%	3.4%	3.5%	4.2%	5.5%	4.6%	6.1%	7.0%	0.7%	-0.5%	1.6%
	50 th	8.3%	6.1%	9.9%	7.3%	8.3%	6.5%	5.8%	7.6%	8.8%	2.3%	1.3%	3.6%
	84 th	13.1%	8.2%	17.0%	11.3%	12.4%	7.4%	7.2%	9.1%	10.7%	3.9%	3.0%	6.2%
Volatility (1 yr)		18.6%	4.9%	26.6%	15.2%	14.5%	6.5%	3.2%	6.3%	9.3%	1.4%	-	-

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

E5 What demographic assumptions are used by the fund?

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

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

Life expectancy

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

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

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. At age 65 this is assumed to be 55% for males and 54% for females). Dependant of a male is 3.5 years younger than him Dependent of a female is 0.6 years older than her
Commutation	65% of maximum under HMRC limits.
50:50 option	0% of members will choose the 50:50 option.

Males (incidence per 1000 active members per year)

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT	PT	FT	PT	FT	PT
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	323.45	609.76	0.00	0.00	0.00	0.00
25	117	0.17	213.65	402.77	0.00	0.00	0.00	0.00
30	131	0.20	151.59	285.73	0.00	0.00	0.00	0.00
35	144	0.24	118.44	223.22	0.10	0.07	0.02	0.01
40	151	0.41	95.36	179.66	0.16	0.12	0.03	0.02
45	159	0.68	89.57	168.72	0.35	0.27	0.07	0.05
50	167	1.09	73.83	138.92	0.90	0.68	0.23	0.17
55	173	1.70	58.14	109.45	3.54	2.65	0.51	0.38
60	174	3.06	51.82	97.51	6.23	4.67	0.44	0.33
65	174	5.10	31.81	59.85	11.83	8.87	0.00	0.00

Females (incidence per 1000 active members per year)

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.10	281.94	373.90	0.00	0.00	0.00	0.00
25	117	0.10	189.71	251.55	0.10	0.07	0.02	0.01
30	131	0.14	159.02	210.83	0.13	0.10	0.03	0.02
35	144	0.24	137.25	181.90	0.26	0.19	0.05	0.04
40	151	0.38	114.23	151.34	0.39	0.29	0.08	0.06
45	159	0.62	106.60	141.21	0.52	0.39	0.10	0.08
50	167	0.90	89.87	118.92	0.97	0.73	0.24	0.18
55	173	1.19	67.06	88.83	3.59	2.69	0.52	0.39
60	174	1.52	54.04	71.50	5.71	4.28	0.54	0.40
65	174	1.95	25.76	34.07	10.26	7.69	0.00	0.00

Appendix F

London Borough of Hammersmith and Fulham Pension Fund

Policy on pass-through

Effective date of policy	16/11/2023
Date approved	15/11/2023
Next review	31/03/2025

Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

F.1. Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors into the fund.

F.2. Background

Employees outsourced from local authorities, police and fire authorities or from independent schools (generally academies, regulated by the Department for Education (DfE)) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

F.3. Guidance and regulatory framework

The [Local Government Pension Scheme Regulations 2013](#) (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate and the secondary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- In the absence of a preferred approach from the letting authority, pass-through is the default approach for the admission of all new contractors (with fewer than 100 members) to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, police & fire authorities, and academy trusts (“the letting authority”).
- The contractor’s pension contribution rate is set equal to the total contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority’s contribution rate (i.e. following future actuarial valuations). For the avoidance of doubt, the total contribution rate is the sum of the primary and secondary contribution rates.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor’s staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no “exit credit” payment will be made from the Fund to the contractor (or letting authority).
- The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy, but will consider such requests and engage with the letting authority to reach agreement.

Policy and process

F.4. Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

F.5. Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the total rate payable by the letting authority from time to time. This means that the contractor’s contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the letting authority contribution rate.

F.6. Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor’s participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the financial assumptions *		✓
Changes to longevity/demographic assumptions *		✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health) (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package *		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund	✓	
Award of additional pension or augmentation		✓

* These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time, and would feed through into the letting authority's total contribution rate and hence the contractor's contribution rate.

Note that the effect of risks allocated to the letting authority may feed into the contribution rate payable by the letting authority (and under the terms of this policy, by the contractor/admitted body) at the next valuation.

F.7. Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expect employers to seek approval to the treatment of pension costs from their auditor.

F.8. Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

F.9. Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.
- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the fund.
- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to the employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).
- **Commercial contract** – Once the admission agreement has been signed, the winning bidder is then able to enter the fund. It is the letting authority's responsibility to ensure that the commercial contract reflects the pension arrangements in the admission agreement.

F.10. Cost

The letting authority will be liable to meet any additional costs incurred by the administering authority as a result of any deviation from the fund's standard processes and agreements for pass-through arrangements, which includes (but is not limited to) the actuarial fees.

3 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the Funding Strategy Statement, specifically "Section 7 – What happens when an employer leaves the fund?"