



HAMPSHIRE
PENSION FUND

Funding Strategy Statement

December 2025



Hampshire
County Council

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Funding Strategy Statement

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Section A - Purpose of the Fund and the Funding Strategy Statement

Aims and objectives of the Funding Strategy Statement

Background

The Local Government Pension Scheme Regulations 2013 (LGPS 2013) require the Fund to prepare and publish a Funding Strategy Statement (FSS). The Fund's Actuary must have regard to this statement when setting employers' contribution rates.

As required by LGPS 2013 Regulation 58, the Statement has been reviewed (and where appropriate revised) having regard to guidance published by SAB, CIPFA and MHCLG in January 2025.

Consultation

In accordance with Regulation 58, all Fund employers and other relevant stakeholders have been consulted on the contents of this FSS and their views have been considered in formulating it.

However, the FSS describes a single strategy for the Fund as a whole.

The Fund's Actuary, Hymans Robertson LLP, has also been consulted on the content of this FSS.

Purpose of the Funding Strategy Statement

The purpose of this FSS is to set out the processes by which the Administering Authority establishes a clear and transparent funding strategy, that will identify how employers' pension liabilities are best met going forward.

The processes set out in this FSS detail the strategy which:

- supports the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met
- takes a prudent longer-term view of funding those liabilities
- makes use of the provisions of Regulation 64(7A), 64A and 64B
- explains how the fund balances the interests of different employers
- explains how the fund deals with conflicts of interest and aligns the FSS with other policies and strategies.

The overriding focus of the FSS are on those actions that are in the best long term interests of the Fund. Therefore, to ensure that all parties to the FSS share a common understanding, the purpose and aims of the Fund are set out below.

Purpose of the Fund

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2013 and as required in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

There is a fiduciary duty for the Administering Authority to act in the best interest of scheme employers and scheme members.

Aims of the Fund

The Fund has three main aims which are to:

- manage the employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable primary contribution rates to be kept as nearly constant as possible (subject to the Administering Authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies. This aim is subject to the Fund achieving and maintaining fund solvency and long-term cost efficiency, assessed in light of the risk profile of the Fund and employers, and the risk appetite of the Administering Authority and employers alike.
- seek returns on investment within reasonable risk parameters.

The main aims of the Fund are explained in more detail in [Appendix 1](#).

Roles and responsibilities of key parties

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. There are a wide range of stakeholders in LGPS funds, all of whom have a role in their effective management. For the purpose of the FSS, the roles and responsibilities of the three key parties; the Administering Authority, individual employers and the Fund actuary are set out in [Appendix 2](#).

Monitoring and review of the FSS

The Administering Authority plans to review this FSS as part of the three-yearly actuarial valuation process unless circumstances arise that require earlier action. In

addition, the FSS is checked annually and approved alongside the Fund's other statutory statements by the Pension Fund Panel and Board each December.

The Administering Authority and the Fund's Actuary will monitor the Fund's solvency position at regular intervals between valuations. Discussions will be held with the Fund's Actuary to establish whether any changes are significant enough to require further action, such as informing employers of the need for different employers' contribution rates after the next valuation.

This statement was last approved by the Pension Fund Panel and Board in December 2024.

Section B: Key funding principles

Funding Target

Securing solvency and long-term cost efficiency is a regulatory requirement.

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions.

The actuarial valuation calculations, including the future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable. For most employers these valuation calculations are carried out as part of the triannual actuarial valuation.

Different funding targets are adopted for different employers as set out in the Employer Policy. At the 2025 valuation the funding targets adopted were as follows:

Ongoing funding target for secure scheduled bodies expected to participate indefinitely, and any employers with a subsumption commitment from such an employer, other than where academies or colleges set up a wholly owned company and the new admission body or new Part 2 Schedule 2 body is not backed by a guarantee from the Department of Education or the Local Education Authority

Intermediate funding targets for Tier 3 scheduled bodies who do not have a government guarantee, based on a risk assessment carried out by the Fund Actuary, and any employers with a subsumption commitment from such an employer

Low risk funding target for the liabilities of former employers where these are orphaned (no active employer to back any emerging deficit).

Employers who are able to provide security, including but not limited to a charge over assets, may be permitted to pay ongoing contributions below the appropriate target level. The employer should recognise that underpayment of contributions is more likely to lead to additional contributions being required at subsequent reviews.

For deferred employers where a Deferred Debt Arrangement (DDA) is in place, the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the DDA is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the DDA;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Managing risk

The Administering Authority recognises that future events and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower the probability of events actually matching or being more favourable than the assumed events, and the lower will be the Funding Target calculated using those assumptions.

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are summarised in [Appendix 3](#). The Fund maintains a separate risk register and monitors the risks and controls in place at least quarterly.

Actuarial approach

Reviewing and setting assumptions

The Fund reviews and sets its assumptions as part of the valuation process. The starting point for the review is the current assumptions used for funding purposes set at the previous valuation.

Consideration is given to whether any changes are required due to:

- observed changes in the economic, demographic, political and wider environment or changes in the Fund's beliefs about these
- changes to the Fund's investment strategy
- Fund specific experience including the membership profile of the Fund.

The assumptions used in the valuation process are documented in the valuation report, available from the [Fund's website](#).

Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk.

The Fund actuary uses Asset Liability Modelling to project each employer's assets, liabilities and cashflows over an agreed funding time horizon. The model projects future benefit payments, contributions and investment returns under 5,000 economic scenarios using variables for future inflation and investment returns for each asset class held by the Fund.

For each scenario the funding position is calculated annually throughout the projection period. The scenarios are ranked from best to worst and plotted graphically. This allows the comparison of the range of outcomes and risk metrics with other funding plans.

The two key risk metrics used for comparing funding plans are:

- The **likelihood of success** which shows the percentage of scenarios which meet the funding objective at the end of the funding time horizon
- The **risk of regret** which would result in the funding plan needing to be revised at the next valuation (the percentage of scenarios for which the likelihood of success in three years is no longer above the Fund's chosen threshold).

In practice, three key decisions are required for the risk based approach:

- the funding target – the amount of money the Fund is aiming to hold for each employer
- the time horizon - how quickly the Administering Authority wants the Fund to get there, and
- the prudence level - how likely the Administering Authority wants it to be that the Fund will actually achieve the funding target by the end of the time horizon.

These three choices, supported by risk modelling carried out by the Fund's actuary, define the employer's funding plan and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the Fund uses a risk of regret metric to consider if contributions are set at a level which minimises the likelihood of increases at the next

valuation. At the 2025 valuation, the Fund has decided that the risk of regret should not be greater than 35%. This means that there is around a 1 in 3 chance that an employer's contributions will have to increase at the next valuation. In some circumstances to manage the affordability of contributions over a valuation cycle, the Fund may take the decision to increase the risk of regret for an employer or group of employers. This will be clearly communicated to the employer as part of the valuation process as the employer will bear the increased risk of contribution rate increases at the next valuation.

The required funding target, time horizon and prudence level for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk. For the secure scheduled bodies at the 2025 valuation, in consultation with the Fund's actuary, the Fund has:

- retained the funding target of 105% to provide a buffer for employers from adverse future experience, particularly from extreme events
- adopted an 80% prudence level in setting the discount rate, a small increase on the level used in the 2022 valuation, to reflect the uncertainty in the current economic environment
- increased the maximum time horizon for achieving the funding level from 16 to 20 years.

In determining the metrics which apply to other employers the Administering Authority may take into account, without limitation, the following factors:

- the expected remaining period of participation
- the type/group of the employer
- the size of the funding shortfall or surplus;
- the business plans of the employer;
- the assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc;
- the views of the subsuming employer where the funding target adopted is dependent upon another employer subsuming the assets and liabilities post-exit.

The tables below set out the funding targets, time horizons and prudence levels for each of the employer types for contribution setting.

| Type of employer | Scheduled Bodies | | | | Resolution Bodies |
|--------------------------------------|---|---|---|---|--|
| Sub-type | Local Authorities, Police and Fire | Colleges | Academies group | Intermediate Funded employers* | Town and Parish Councils |
| SAB Tier | Tier 1 | Tier 2 | Tier 2 | Tier 3 | Tier 1 |
| Funding basis | Ongoing | Ongoing | Ongoing | Ongoing for contributions but low risk exit basis | Ongoing for contributions but low risk exit basis |
| Funding target | 105% | 105% | 105% | 105% | 105% |
| Minimum likelihood of success | 80% | 80% | 80% | Intermediate Funding target(s). Employers categorised as low, medium or high risk. 80% ¹ | 80% |
| Maximum time horizon | 20 years | 20 years | 20 years | 20 years or AFWL if less | 20 years |
| Treatment of surplus | Up to half the surplus available to reduce contributions subject to a risk of regret no greater than 35%. | Up to half the surplus available to reduce contributions subject to a risk of regret no greater than 35%. | Up to half the surplus available to reduce contributions subject to a risk of regret no greater than 40%. | Up to half the surplus available to reduce contributions subject to a risk of regret no greater than 35%. | Benefit to group surplus on exit basis in proportion to their own liabilities. |

*Might include admission bodies.

| Employer type | Admission bodies | | | |
|--------------------------------------|--|--|--|--|
| Sub-type | Admitted Body Group | Employer has guarantor (pass-through) | Employer has guarantor (not pass-through) | Employer does not have guarantor |
| SAB Tier | Tier 3 | Tier 3 | Tier 3 | Tier 3 |
| Funding basis | Ongoing | Ongoing | Ongoing | Low risk |
| Funding target | 105% | 105% | 105% | 100% |
| Minimum likelihood of success | 80% | 80% | 80% | 80% ¹ |
| Maximum time horizon | Lower of 20 years/AFWL/Remaining contract length | 20 years | Lower of 20 years/AFWL/Remaining contract length | Lower of 20 years/AFWL/Remaining contract length |
| Treatment of surplus | Surplus to be retained in Fund as per subsumption commitments. | As per pass-through body | Reduce contributions by spreading the surplus over the remaining contract term | Reduce contributions by spreading the surplus over the remaining contract term |

1. For these employers the likelihood of success metric reported is based only on the likelihood of the investment strategy achieving the expected rate of return rather than the holistic likelihood of achieving the funding target in ALM modelling.

Grouping of Employers

Group funding framework

In some circumstances it is desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reducing the volatility of contribution rates for employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

All employers in the Fund are grouped together regarding the risks associated with payment of ill health pensions and partner's pensions and lump sum benefits on death in service. The cost of such benefits is shared across the employers in the Fund. This is because the Administering Authority, in view of the size of the Fund, does not see it as cost effective or necessary to insure these benefits externally.

The group funding framework is set out in more detail in [Appendix 4](#).

Funding principles applying to grouped employers

Risk sharing exists within groups. The Administering Authority accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make upfront contributions determined by the Fund's Actuary to cover the costs of unreduced early retirements, which is a major distinction between employers over time. The Administering Authority and the Fund's Actuary periodically review whether separate rates for individual employers or groups of employers are required.

Within each group, employers share risk according to a set of clearly defined principles which are as follows:

- The group exists to produce a common percentage of pay contribution rate for employers in the group
- Only the group funding target is relevant when producing a common primary contribution rate
- Funding targets used to assess ongoing contributions at the triennial valuation are set using an ongoing actuarial basis that assumes participation is indefinite (or, if participation is not indefinite, that a secure scheduled body has committed to subsume the assets and liabilities of the employer on exit)
- Employers are liable to fund deficiencies, or benefit from surpluses, emerging at each valuation in proportion to their own liabilities at the time of the valuation.

When employers exit the Fund they will be assumed to leave the group, even where a DDA is entered into. The funding target adopted at that time will depend on

whether the liabilities will be subsumed (i.e. another employer or group will be responsible for the future funding of those liabilities) or will become orphan (where the Fund has no access to any future funding for those liabilities).

Further aspects of funding strategy

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to subdivide the Fund notionally between the employers, as if each employer had its own notional sub-fund.

This subdivision is for funding purposes only. It is purely notional and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll forward of sub-funds

The notional sub-fund allocated to each employer or group will be updated allowing for all cashflows associated with that employer's or group's membership, including contribution income, benefits paid, transfers in and out and investment income allocated as set out below.

Attribution of investment income

Where the Administering Authority has agreed with a scheme employer that the scheme employer will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed allocation.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

The Fund is not formally unitised for the purpose of notionally allocating assets to employers. The Fund Actuary calculates a notional asset allocation for each employer (or group of employers) at each triennial valuation, or at interim dates as may be required, based on cashflows relating to the employer (or group of employers) and investment returns earned by the Fund. Unless the Fund Actuary is notified of specific and material one-off payments, including bulk transfers and prepayment of employer contributions, cashflows in each scheme year ending 31 March will be assumed to be accrued evenly over the scheme year and will attract half of the investment returns earned over that year. For specific and material one-off payments such as bulk transfers and advance payment of employer contributions (see below), investment returns on those payments (estimated where appropriate) for the relevant scheme year will be credited from the date of payment to the end of the relevant scheme year, unless otherwise notified by the Administering Authority.

For additional employer contributions, investment returns on those payments will be credited from the first day of the next quarter following payment to the end of the relevant scheme year.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

Links to the Investment Strategy Statement (ISS) or Statement of Investment Principles (SIP)

Funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – payments are met from a combination of employee and employer contributions (through the funding strategy) and asset returns and income (through the investment strategy).

The Administering Authority has produced this Funding Strategy Statement (FSS) having taken an overall view of the level of risk in the investment policy set out in the Investment Strategy Statement (ISS). This ensures that the aspirations set out in the FSS are compatible with the investment policy set out in the ISS. If the investment returns are lower than expected the Fund may need to set higher contributions from employers to ensure benefits can be paid.

The Fund's investment strategy is used in the valuation model to compare the effectiveness of the current strategy alongside credible alternatives and the impact these have on the likelihood of success and risk of regret metrics.

The table below shows the summary of asset classes and allocation allocations as detailed in the ISS (available from the [Fund's website](#)).

| Asset class | Allocation |
|-------------------------|-------------------|
| <i>Growth</i> | |
| Equities | 31.0% |
| Private equity | 7.5% |
| <i>Income</i> | |
| Multi-asset credit | 10.0% |
| Asset-backed securities | 2.0% |
| Private credit | 5.0% |
| Infrastructure | 10.0% |
| Timberland | 2.5% |
| Property | 10.0% |
| <i>Protection</i> | |
| Index-linked gilts | 17.0% |
| Investment-grade credit | 5.0% |
| Total | 100.0% |

How employer contributions are calculated

Employer contribution rates are set at each triennial valuation in accordance with the criteria described above. Employers are set their own individual contribution rate, unless they participate in one of the three groups. Employers in a group will pay the same future service rate and share the funding risks of the group as set out in [Appendix 4](#):

Each admission body will be a stand alone body in the Fund with its own contribution rate, unless:

- the Administering Authority has agreed that the admission body can be pooled with the relevant Scheme employer, or
- the admission body participates in the Admission Body Group.

The Fund uses the risk of regret metric to ensure that employer contributions are set so as to have a reasonable likelihood of remaining stable at the following valuation.

Primary rate of the employers' contribution

The Regulations require the Fund Actuary to certify a primary contribution rate for every employer.

The primary rate (or future service contribution rate) is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of

pensionable pay, ignoring any past service surplus or shortfall but allowing for any employer-specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer (including any risk-sharing arrangements operated by the Administering Authority), the actuarial method chosen and/or the employer's covenant.

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

Secondary rate of the employers' contribution

The secondary rate is an adjustment to the primary rate usually to reflect past service liabilities. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the valuation date falls. The secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

The Fund Actuary is required to disclose the secondary rates for the whole scheme in each of the three years beginning with 1 April in the year following that in which the valuation date falls.

The secondary rate may be positive (recovery of a deficit) or negative (share of a surplus).

Payment of additional contributions

As set out in the Administration Strategy (available on the Fund's [website](#)) Employers must make a one off upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).

The costs of ill health pensions, partner's pensions and lump sum benefits payable on death in service are shared across all employers in the Fund.

Additional payments by employers

Employers must contribute the amounts certified by the Fund's Actuary in each valuation period. However, these are the minimum contributions required and employers (other than those in the Academies Group) can choose to make additional payments towards a likely deficit on exit.

The additional payment will be credited to the employer and will be allocated investment returns from the start of the quarter following the receipt of the payment.

Advance payment of contributions

The Administering Authority will allow any employer apart from those in the Academies Group to pre-pay secondary contributions. In addition, any employer who is not part of a group can choose to pre-pay primary contributions and if they do

so, can also choose to pre-pay an amount equal to estimated employee contributions.

Pre-payments can be made annually or triennially in advance, and will attract a discount on employer contributions as agreed with the Administering Authority on the advice of the Fund's Actuary. Pre-payments of primary contributions will be subject to an annual true-up once actual annual pensionable payroll is known. Employers who in addition choose to pre-pay an amount equivalent to an estimate of employee contributions due in the period will receive a greater discount on their employer contributions. Payment of employee contributions to the Fund must continue to be made by 22nd of the month following deduction, however the payment can be net of 1/12th the pre-paid amount relating to that year. In effect there is then a monthly true up of employee contributions.

Any employer wishing to enter into a pre-payment arrangement must engage with the Administering Authority prior to the scheme year in which the pre-payment is being made.

Full details of how the discount is calculated and the administrative process for the payment of monthly employee contributions and the end of year true up procedure for primary contributions will be made available to employers who wish to consider taking this option. Where pre-paid contributions are higher than the amount which would have been payable once the full year's payroll (and member contribution rate where applicable) is known, there will be no refund of this excess to employers; however the excess will be added to the employer's notional allocation of assets so is not lost and will be taken into account at the next triennial valuation.

Actuarial valuation

Regulation 62 (1) sets out the requirement for an Administering Authority to obtain an actuarial valuation of the assets and liabilities of the Fund every three years together with a report by the Fund's actuary in respect of the valuation and a rates and adjustments certificate prepared by the actuary.

The valuation report must include a statement of the demographic assumptions used in making the valuation and how the assumptions relate to the events which have occurred in relation to scheme members since the last valuation.

The valuation report shows how the employer contribution rates are calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates within the fund and reconciled with actual receipts.

The rates and adjustments certificate certifies the contributions payable by scheme employers for the following three years.

The valuation report is published on the [Fund's website](#).

Review of employer contributions between valuations

Interim reviews for employers which may exit the Fund

Regulation 64(4) provides the Administering Authority with the power to carry out valuations in respect of admission bodies and other employers which are expected to cease at some point in the future, and for the Fund's Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times is that, where possible, the funding target for that body is clear, and that contribution rates payable are appropriate for that funding target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years away, or is unknown and participation is assumed to be indefinite, interim valuations under Regulation 64(4) will generally not be required by the Administering Authority.
- For paragraph 1(d)(i) bodies (2013 Regulations – Schedule 2 Part 3) falling into the above category, the Administering Authority sees it as the responsibility of the relevant scheme employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant scheme employer unless otherwise agreed.
- A material change in circumstances, for example the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to review the situation informally and subsequently request a formal interim valuation (using Regulation 64A if required – see next section).
- Where an employer is due to leave the Fund within the next three years, the Administering Authority will monitor developments and may see fit to request an interim valuation at any time in order to try to affect a smoother transition to exit.
- The Administering Authority reserves the right to request an interim valuation of any employer's liabilities at any time in accordance with Regulation 64(4).

Inter-valuation funding valuations

Regulation 64A enables employer contributions to be reviewed between triennial valuation where:

(i) it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer(s) to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer(s) has requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

The Administering Authority's policy on use of the provisions in 64(4) is set out in [Appendix 5](#).

Funding levels – periods of surplus and deficit

An employer's funding level is comparison of their assets and liabilities. If the value of the assets is less than the value of the liabilities, the employer is in deficit. If the value of the assets is greater than the value of the liabilities the employer is in surplus.

Funding levels and deficit/surplus values are measurements at a particular point in time, based on a particular set of assumptions about the future. 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.

When an actuarial valuation shows that an employer is in deficit, the employer's contribution rates will be adjusted to achieve the required funding target over the time horizon whilst ensuring that the likelihood of success remains acceptable. This is detailed in [Appendix 1](#).

The same principles apply when an employer is in surplus except for employers of reduced covenant whose position is in deficit on an exit basis, where the Administering Authority may not permit reduced contributions below the primary contribution rate.

In the event that an employer is in surplus, the Administering Authority may at its discretion designate a part (or all) of that surplus as not being available for adjusting employer contributions below the primary rate. This decision will be taken on a prudent basis taking into account market conditions following the valuation date and with the aim of maintaining as stable contribution levels as possible. At the 2025 valuation the Administering Authority's policy is as follows:

- a maximum of half of the surplus for employers who pay an individual contribution rate and who have a funding level above 105% will be used to reduce their employer contributions below the calculated primary rate
- a maximum of half of the surplus in the Academies Group (AG) will be used to reduce the employer contribution rate for the group below the calculated primary rate

- surpluses within the Town and Parish Council Group (TPCG) and Admission Bodies Group (ABG) will not be used to reduce employer contributions below the primary rate for employers in those groups

Employer covenant

The Fund keeps employer covenant under review. Most employers in the Fund are secure scheduled bodies which are either tax raising (councils) or are backed by a central government guarantee (academies and 6th form colleges).

To recognise the differences in financial security of those employers in the [intermediate funding target](#), light touch covenant assessments have been put in place – differentiating employers between high, medium and low risk. Over the years the differences in the discount rates for each has increased.

This is not a formal covenant assessment, and as such is done as a low-cost, high-level assessment, based on three measures:

- ability to meet ongoing pension contributions out of operating income,
- ability to meet interest payments on loans out of cashflow, and
- capacity to meet an exit debt out of net assets.

Following the light touch assessment employers can request a full formal covenant assessment. Employers who choose not to participate are defaulted to the high-risk rating on the intermediate funding target.

As detailed in [Appendix 2](#), employers must notify the Fund of any changes which affect their covenant.

Guarantors

Some admission bodies may have been admitted to the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their Guarantors. For any new admission body wishing to join the Fund, the Administering Authority will require a Guarantor. The Administering Authority, unless notified otherwise, sees the role of a Guarantor to include the following:

- If an employer leaves the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide the Fund with the amount certified by the Fund's Actuary as due, including any interest payable.
- If the Guarantor is also an employer in the Fund and is judged by the Administering Authority to have suitable financial security, the Guarantor may clear some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a Guarantor may at any time agree to the future subsumption of any residual liabilities of that employer. That action may

reduce the funding target for the employer, which may, in turn, lead to reduced contribution requirements, although in determining the contributions the Administering Authority would have regard to the intentions of the Guarantor and its agreement with the Admission Body. The Guarantor should ensure that it is clear what would happen to any surplus arising on the subsequent exit of the Admission Body, in particular whether or not an exit credit would become payable.

The Guarantor will be permitted to subsume all assets and liabilities of an employer including the inheritance of any deficiency or surplus. However, where the Guarantor is a grouped employer, the Administering Authority will insist upon the Guarantor meeting the contributions required to clear the deficiency inherited by the Guarantor (whether immediately or over an appropriate period), to protect the other employers in the Guarantor's group from this element of the group's deficiency. Conversely a Guarantor may receive a reduction to its contributions to ensure that the benefit of a surplus is provided to the Guarantor rather than spread across the Guarantor's group.

Bonds and other securitisation

Paragraph 7 of Part 3 of Schedule 2 of the 2013 Regulations creates a requirement for a new admission body to carry out, to the satisfaction of the Administering Authority (and the Relevant Scheme Employer in the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, and other admission bodies with a Guarantor, so long as the Administering Authority judges the relevant scheme employer or Guarantor to have suitable financial security, any bond exists purely to protect the relevant scheme employer against default of the admission body. It is entirely the responsibility of the relevant scheme employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority can supply some standard calculations provided by the Fund's actuary to aid the relevant scheme employer or Guarantor, but this should in no way be taken as advice on this matter. Levels of required bond

- cover can fluctuate and the Administering Authority recommends that relevant scheme employers review required cover regularly, at least once a year.
- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, where the Administering Authority does not judge the relevant scheme employer to have suitable financial security, the Administering Authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the Administering Authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the Administering Authority will require the relevant scheme employer to review required cover jointly with it regularly, at least once a year.
 - In the case of bodies other than paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, the Administering Authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the Administering Authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the Administering Authority will review required cover regularly, at least once a year.
 - In relation to existing employers, including Scheduled Bodies, the Administering Authority will consider whether provision of security, including but not limited to a charge over assets; Government guarantee; or subsumption commitment from a long-term secure scheduled body is sufficient to justify reviewing an employer's contributions between triennial valuations in line with Regulation 64A and its policy on use of these provisions.

Admission bodies

The treatment of new admission bodies is set out in the [Fund's Employer Policy](#).

The key principle is to minimise employer related risk to the Fund across all the employers in the Fund.

There must be no significant additional risk to the Fund from any outsourcing by a scheme employer or admission of any other new body for which a scheme employer is guarantor. The Fund's aim is to ensure that the decisions made by an employer when outsourcing services or providing a guarantee have no adverse impact on the Fund or on other employers in the Fund.

In particular, where Scheduled body employers under Part 1 of Schedule 2 outsource services, there will be a presumption that the Scheduled body has agreed to subsume any assets and liabilities attributable to the new admission on its exit from the Fund (excluding any assets and liabilities transferring to another employer in the Fund).

Scheme employers must be prepared to manage any pension risk of an outsourcing.

[Link to the Fund's administration strategy](#)

The Fund has an administration strategy which:

- sets out the roles and responsibilities of the Fund and the employers
- specifies the level of services the Fund and the employers will provide to each other
- explains the performance measures used to evaluate them
- is an agreement between Fund and the employers

Any failure of an employer to fulfil their responsibilities set out in the Administration Strategy may lead to uncertainty around the value of the employer's liabilities and the need for more prudent assumptions to fill any data gaps.

A copy of the Fund's Administration Strategy is available from the [Fund's website](#).

Section C: Employer events

The Fund's [Employer Policy](#) sets out in detail the processes which apply to employer events such as new employers joining the Fund, employer exits and the creation of new academies, free schools or admission bodies.

[Joining the fund and employer contribution rate setting and monitoring](#)

[Admission bodies](#)

Each admission body will be a stand alone body in the Fund with its own contribution rate, unless:

- the Administering Authority has agreed that the admission body can be pooled with the relevant Scheme employer, or
- the admission body participates in the ABG.

[Town and Parish Councils](#)

Town and Parish Councils joining the Fund will automatically join the TPCG.

When a Town or Parish Council designates to join an employee to the Fund, they have no current active members and are not currently subject to a suspension notice, a standard employer rate equal to the prevailing future service rate of TPCG will be payable until the contributions from the next triennial valuation come into force.

[Academies](#)

Schools and colleges converting to academy status will automatically join the AG. This also applies to academies being created from a 6th form college, or where there is no former establishment, such as with the creation of a free school. However a 6th

form college will be given a choice prior to conversion as to whether or not to join the AG. If the college chooses to remain outside of the AG, an individual employer contribution rate will be calculated using the same funding target as for the AG.

Preparing for exit and events which may trigger termination

Potential exits

Where the Administering Authority considers that it is possible that an employer may leave the Fund at some point in the future and the employer would leave orphan liabilities on its exit from the Fund, the low risk funding target will, unless the circumstances dictate otherwise, be used to determine the employer's ongoing contributions at the triennial valuation. The low risk funding target anticipates the approach which will be taken to valuing the employer's liabilities on exit. It will generally be calculated by increasing the likelihood of success closer to the prudence level set for an exit valuation.

Exiting the Fund

Where an employer meets the relevant criteria, an exit valuation will be carried out in accordance with Regulation 64. The exit valuation and any associated exit payment due will take account of

- any bulk transfer payments due or other activity as a consequence of exiting the Fund; and
- the future funding arrangements for any liabilities that will remain in the Fund, including any agreement to spread the exit payment or Deferred Debt Agreement.

The exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers or otherwise continue to be funded to the satisfaction of the Administering Authority.

"orphan liabilities" arise when the Administering Authority will have no further access for funding from that employer once any exit valuation has been completed and any sums due have been paid to the Fund, and no particular employer or group of employers will be responsible for the future funding of those liabilities.

For orphan liabilities the funding target in the exit valuation be based on a very high likelihood of success. At the 2025 valuation this was set at 95%. This is to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. In the future, either:

- a) the employer's 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 based on active payroll at 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 based on liabilities.

"subsumed liabilities" refer to the situation where another employer, or group of employers, in the Fund agrees to provide future funding in respect of any emerging deficiencies in relation to the liabilities of a former (exited) employer. The subsuming employer will also normally benefit from any emerging surplus on those liabilities.

On exit the non-active liabilities of admission bodies in paragraph 1(d)(i) of Schedule 2 Part 3 which commenced in the Fund on or after 1 April 2018 will be attributed to (i.e. assumed to be subsumed by) the relevant Scheme employer as defined in the regulations.

For subsumed liabilities the exit valuation will generally be calculated using a funding target (and hence assumptions) in line with the ongoing funding target for the accepting employer or group. This will mean assuming continued investment in more risky investments than Government bonds.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, unless a Deferred Debt Agreement is entered into, the departing employer (or Guarantor if the employer is unable to pay) will generally be expected to make good the funding obligation revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required nor of a surplus credit being repaid.

McCloud data will be provided where possible for exit valuations calculated on or after the date of this statement or otherwise the Fund Actuary will include an approximate allowance will be made for the costs of the McCloud remedy.

Surpluses

Where an employer exits on or after 14 May 2018 and the exit valuation determines that the departing employer is in surplus, the payment of an exit credit will be made at the discretion of the Administering Authority, after taking into account the factors set out in the LGPS 2013 regulations namely;

- the extent to which there is an excess of assets in the fund relating to that employer over the liabilities
- the proportion of this excess of assets which has arisen because of the value of the employer's contributions;
- any representations to the Administering Authority made by the exiting employer or letting authority;
- any other relevant factors.

Other relevant factors include but are not limited to the basis of the exit valuation, the extent to which the exiting employer was responsible for the funding risk during their participation in the Fund and the existence or otherwise of a commitment from

another ongoing employer in the Fund to subsume liabilities on exit. Where an exit takes place after the valuation date but before the valuation work is completed, consideration will be given to both the prevailing FSS and any proposed amendments which may affect the exit basis.

This may mean that no exit credit is due for example if it is a stated condition of an employer subsuming the liabilities that no surplus will be repaid to the exiting employer as is the case for those organisations in the Admission Body Group which have a commitment from a secure scheduled employer to subsume the liabilities on exit. This will also be the case in relation to any employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy and the initial allocation of assets was calculated on the low risk funding target but the liabilities on exit are assumed to be subsumed by the academy and the exit valuation is carried out using the ongoing funding target appropriate to the academy.

Employers who are letting contracts need to ensure their contractual arrangements cover the treatment of exit credits and that they notify the Fund if these arrangements mean that a surplus should be retained by the letting authority. Representations from employers will be considered on a case by case basis although if a contract pre dates 14 May 2018 and is silent on the treatment of an exit credit, payment will usually only be made to the departing employer if they would have also paid for an exit deficit. Employers can appeal the decision of the Fund using the Internal Dispute Resolution Procedure.

Where an exit valuation is carried out on a low risk basis and the Fund determines that an exit credit is payable, the exit credit will usually be equal to the excess of assets over the liabilities, adjusted for any relevant factors, less any costs.

The exit credit will be paid to the departing employer within six months of the date of exit or such longer period as is agreed with the exiting employer. It will be deemed that an employer agrees to a longer period where all relevant information is not provided within one month of the exit date.

Any actuarial, legal or administration costs of the exit will be deducted from the exit credit before payment, unless there is a good reason to accept separate payment for these.

Deferred debt agreements or debt spreading arrangements

Spreading exit deficits

Any exit deficit would normally be levied on the departing employer as a single capital payment although the Administering Authority may allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is summarised below and set out in more detail in Appendix 5. below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

Deferred debt agreements

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement," or "DDA"). An employer which has entered into a DDA is known as a 'deferred employer'.

The Administering Authority's policy in relation to the entering into DDAs under Regulation 64(7A) is set out in Appendix 5 and summarised below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- the materiality of the employer and any exit deficit in terms of the Fund as a whole;
- the risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser
- the rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit; and
- whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time, or where the employer's financial capacity to support an increase in the exit debt is limited, the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full. The Administering Authority is also unlikely to enter into a DDA for very small employers where it considers the administration and advisory costs of doing so are disproportionate.

Suspension notices

Under the Regulations an exit is triggered when the last active member leaves the Fund.

The Local Government Pension Scheme (Amendment) Regulations 2011 specifically introduced the power to suspend a demand for an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. The Administering Authority considers that it would be appropriate to exercise that discretion in relation to Town and Parish Councils. Given the unique nature of a Town or Parish Council, the Fund will not request an exit valuation immediately when the last member leaves if the Town or Parish Council indicates that it is continuing to designate posts as being eligible for membership.

The Fund will issue written notice of the period of the suspension notice. The employer must continue to pay any deficit payments and the actuary will recalculate any deficit at the next valuation. If no new members have joined by the time the suspension notice expires, the Actuary will carry out an exit valuation as at the date of expiry.

Partial terminations

To protect the interests of all other employers in the Fund, no partial terminations will be accepted.

Bulk transfers (both to or from the LGPS)

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

¹ Provision 22

- 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.

ANNEX D Glossary

Actuarial certificates/rates and adjustments certificate

A statement of the contributions payable by each scheme employer. A statement of the contributions payable by the employer. Following the actuarial valuation exercise, the effective date is 12 months after the completion of the valuation.

Actuarial valuation

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

Administering Authority (referred to as ‘the fund’)

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

Admission agreement

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

Assumptions

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

Code of Practice

The Pensions Regulator’s General Code of Practice.

Data

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

Debt spreading arrangement

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

Deferred debt agreement

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

Discount Rate (for the funding level)

The assumed annual rate of future investment return on the Fund's assets after the valuation date, determined by the chosen level of prudence and based on 5,000 projections over a period of 20 years (*set as a percentage p.a. based on a percentage level of prudence*).

Discount Rate (for contribution rate calculations)

The assumed annual rate of future investment return that will be earned on the Fund's assets with a certain level of prudence at the end of an employer's funding time horizon (*set as a percentage p.a. based on a percentage level of prudence*).

Employer covenant

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

Funding level

The funding level is the value of assets compared with the liabilities.

Funding target

The amount of money the Fund is aiming to hold for each employer (*set as a percentage of liabilities*).

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.

Likelihood of Success

The proportion of 5,000 future scenarios where the funding target is met over the agreed time horizon (*set as a percentage*).

Local Pension Board

The board established to assist the Administering Authority as the Scheme Manager for each fund. The Fund operates a combined committee and local pension board known as the [Hampshire Pension Fund Panel and Board](#).

Long-term cost efficiency

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

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

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

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

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. The Fund operates a combined committee and local pension board known as the [Hampshire Pension Fund Panel and Board](#).

Pensions Administration Strategy

A statement of the duties and responsibilities of scheme employers and administering authorities to ensure the effective management of the scheme.

Primary rate of the employers' contribution

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

Risk of Regret

The proportion of 5,000 future scenarios which result in the funding plan needing to be revised at the next valuation (*set as a percentage*).

Secondary rate of the employers' contribution

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

Scheme Manager

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

Solvency

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

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
- employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%;

or

- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

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

Time Horizon

The time over which the Fund aims to achieve this Funding Target (*set in years*).

Appendix 1 – Aims of the Fund

The Fund has three main aims:

- to manage the employers' liabilities effectively
- to enable primary contribution rates to be kept as nearly constant as possible
- to seek returns on investment within reasonable risk parameters.

These are detailed below.

To manage the employers' liabilities effectively

Hampshire County Council as Administering Authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law. These determine the employers' contribution rates required to make sure liabilities can be managed effectively.

The Administering Authority also commissions additional work in relation to the specific issues described below.

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. For the purpose of determining the Funding Target for individual employers, the Administering Authority may without limitation, take into account the following factors:

- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.;
- whether the employer has set up a subsidiary company to employ staff which does not participate in, or admit new employees to, the Fund.

The Administering Authority will make sure that the Fund always has enough cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income, to avoid the cost of selling any of the Fund's investments. The position is reviewed every three months to make sure enough cash is available to meet the Fund's obligations.

The Administering Authority publishes an Employer Policy which explains in more detail the funding policies for certain categories of employer

To enable primary contribution rates to be kept as nearly constant as possible

Achieving nearly constant primary contribution rates requires stability of employers' active membership profile and use of assumptions which are relatively constant over time. The Administering Authority has no control over employers' active membership. In relation to the assumptions, the Administering Authority believes that the same assumptions should be used to determine the past service liabilities (and hence the funding target) as are used to determine employers' primary contribution rates.

The demographic assumptions are reviewed by the Actuary on a triennial basis and updated as required to allow for recent Fund experience and other national factors as required. It is not expected that material changes would be made to these assumptions from one valuation to the next.

In relation to the financial assumptions, these can vary quite materially from one valuation to the next as market conditions alter. A substantial proportion of the Fund's investments are held in asset classes such as shares and property, with the aim of increasing investment returns and keeping costs to employers reasonable. However, the expected returns on these asset classes can be quite volatile and so the real discount rate can change materially from one triennial valuation to the next, leading to a material change in employers' primary contribution rates.

In determining the extent to which stability measures are needed to keep primary contributions as nearly constant as possible, the Administering Authority will also consider how secondary contributions are changing, i.e. where possible, and consistent with other regulatory objectives, this objective will in practice relate to employers' total contributions (primary and secondary).

Where justified, and as long as it doesn't run counter to the main aims of ensuring solvency and long-term cost efficiency, the Administering Authority will permit phasing in of changes to employers' contribution rates over a period of up to three years. Care needs to be taken in relation to employers closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant (for example, non-local authority employers awarded contracts to provide local authority services, and less secure scheduled bodies), where use of phasing to smooth contribution rate changes is less appropriate.

The Administering Authority recognises that a balance needs to be struck regarding the financial demands made of scheme employers of reduced covenant. On the one hand, the Administering Authority requires all scheme employers to be fully self funding (either on a grouped or an individual basis), such that other employers in the Fund are not subject to expense as a consequence of the participation of those bodies. On the other hand, requiring contributions to target full funding at all times, without further smoothing (phasing), may cause failure of the body in question in

periods of extreme economic conditions, leading to significant costs for other participating employers. The Administering Authority will therefore consider phasing periods longer than three years if unusual and difficult budgetary constraints make this necessary, or if other changes, such as changes to the funding target, justify this approach. Whenever contribution changes are being phased in, this can only be achieved if the regulatory requirements of setting employer contributions to ensure the solvency and long-term cost efficiency of the Fund would still be met.

Seek returns on investment within reasonable risk parameters

Returns should be higher over the long term than those from index-linked stocks by investing in other asset classes such as shares, property and alternative investments.

Risk parameters are controlled by restricting investment to asset classes generally recognised as appropriate for UK pension funds. From time to time the Administering Authority reviews the potential risks of investing in the various asset classes, with help from the Fund's investment advisers and its investment managers.

The Fund's funding strategy, based on the discount rate adopted for the majority of employers/liabilities at the 2025 actuarial valuation, requires the assets to deliver a long-term return above 5.9% p.a., (the discount rate) compared to the Fund Actuary's best estimate for the Fund's average return of 8.3% p.a. as at March 2025. The Fund's investment strategy has been designed to deliver a long-term return in excess of returns on cash and gilt investments within an acceptable level of risk. Details are contained the Investment Strategy Statement which is available from the Fund's website.

Appendix 2 – Roles and responsibilities of key parties

The Administering Authority is required to:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the LGPS Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the fund's actuary
- prepare and maintain a Funding Strategy Statement (FSS) and an Investment Strategy Statement (ISS), both after proper consultation with interested parties
- monitor all aspects of the fund's performance and funding, and amend the FSS/ISS accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board² to review the valuation process as set out in their terms of reference.

The individual employer is required to:

- deduct contributions from employees' pay correctly
- 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
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- notify the Administering Authority promptly of all changes to active membership that affect future funding.
- pay any exit payments on ceasing participation in the fund.

² The Hampshire Pension Fund operates a combined local Board and Committee with approval from MHCLG

The fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the LGPS Regulations
- 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
- provide advice and valuations on the exiting of employers from the fund
- provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the fund.

Appendix 3 – Risks and counter measures

Economic risk

The main economic risks other than investment risk are in relation to benefit and salary increases.

Benefits increase in relation to the Consumer Prices Index (CPI) and an assumption for CPI is taken from the Fund Actuary's Economic Scenario Service (ESS) model. This represents the median long term CPI inflation expectation from the ESS model.

The significance of salary risk is reducing with each valuation following the change to the benefit structure from final salary to Career Average Revalued Earnings (CARE). At the 2025 valuation, a 0.5% pa increase in the salary inflation assumption increases the liabilities by around 1%. There is no impact on the primary contribution rate as these are driven by CARE benefits.

Investment risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly taking advice from its Investment Advisers as appropriate. The Investment Strategy is considered annually and a formal review is also undertaken at least following each Actuarial Valuation, with advice taken from Investment Advisers and Fund Managers. The Administering Authority also reviews the effect of any significant market movements on the Fund's overall funding position between Actuarial Valuations. If there are significant market movements between the

valuation date and the date the valuation is signed off the Administering Authority, on the advice of the Actuary, will consider what allowance should be made, if any, when finalising employer contributions.

Demographic risk

Longevity is the most material demographic risk as it determines how long the Fund will pay a pension to a member and their dependants.

The Fund makes an assumption on future longevity based on information from the base tables supplied by Club Vita and the latest available actuarial CMI tables. Adjustments are made for the effects of the Covid pandemic and the Fund's own membership. Finally a long term improvement rate parameter is added based on the current assessment of long term future improvements.

Climate Change

The Pension Fund views climate risk - and the issues which contribute to it - as a key risk to the Fund and of significant concern to all stakeholders. The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Responsible Investment Policy which is part of its Investment Strategy Statement.

In relation to the funding implications, the Administering Authority keeps the effect of climate change on future returns and demographic experience, e.g. longevity, under review. The Administering Authority has commissioned scenario analysis modelling on the potential effect on funding from the Fund's Actuary which will be reported in the 2025 valuation report. This modelling meets the requirements of the TCFD (Taskforce for Climate-Related Financial Disclosures) regime for LGPS funds.

Liquidity and maturity risk

The improvement in the funding position and hence reduction in contributions from the long-term secure employers has potential cash flow implications. In addition, general budgetary pressures on employers, including the effect of current high inflation levels may lead to workforce reductions that would reduce active membership, reduce contributions and prematurely increase retirements in the short-term.

The Administering Authority reviews the Fund's cashflow position annually as part of setting the Fund's budget and may commission further work on cashflow projections from the Fund's Actuary or Investment Advisers as required. In addition, the Fund will engage in regular communication with employers to ensure it is informed of

significant changes that would affect maturity at overall Fund and employer level where material issues are identified.

Regulatory and Compliance risk

Occupational pensions in the UK are heavily regulated. Both general and LGPS-specific legislation must be complied with.

The Administering Authority will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The Administering Authority will ask the Fund's Actuary to assess the effect of any changes on employers' contribution rates as appropriate.

The Administering Authority will then notify employers of how these rule changes are likely to affect their contribution rates at the next valuation, if they are significant.

Employer data quality

The Fund's liabilities are valued at each valuation based on the data provided by employers for each member of the Fund. If this data is of poor quality then the valuation calculations will not be accurate and there is a risk that the Fund will not achieve its objective of long term solvency.

The Fund works with its employers to ensure that the data provided by employers is of good quality and this is detailed in the Fund's administration strategy.

Governance risk

This covers the risk of unexpected structural changes in the Fund's membership (for example, if an employer closes their scheme to new entrants or if many members withdraw or groups of staff retire), and the related risk of an employer failing to notify the Administering Authority promptly.

To limit this risk, the Administering Authority:

- monitors the membership of employers on an annual basis; and
- requires the other participating employers to communicate regularly with it on such matters
- has formalised its notification requirements within the notifiable events section of the Pension Administration Strategy.

The Administering Authority also undertakes to inform the Fund's Actuary promptly of any such matters. How the Administering Authority generally engages and communicates with its employers is set out in its Communications policy. In addition, the Panel and Board includes members which represent employers in the Fund other than the Administering Authority.

Employer covenant

Those risks that arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Scheme. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Administering Authority's policy, as set out in the Employer Policy, are met.

The Administering Authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS. In addition, the Administering Authority commissions the Fund Actuary to carry out a high level risk assessment for employers, as appropriate to inform its funding strategy. In due course it will also ask the Fund Actuary to review the funding position of any deferred employers on a regular basis between triennial valuations, noting that the Regulations specifically provide for a deferred debt agreement to end when the Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation (review) date.

Recovery period

Allowing deficiencies to be eliminated over a recovery period of up to 20 years means there is a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the Fund's Actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency and that deficit contributions are compared to the amount of interest accruing on the deficit.

Phasing

Increasing employers' contribution rates in annual steps rather than immediately introduces a risk that too little will be done to restore solvency in the early years of the process or, in relation to the primary rates of contributions, that employers are not paying enough to meet the cost of benefits being accrued in future. The Administering Authority's policy is to limit the number of permitted steps to three, but it may permit a longer period if the employer can demonstrate unusual and difficult budgetary constraints. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

The Fund will normally phase reduced employer contributions in annual steps over the valuation period to mirror the phasing of increases. At the 2025 valuation the Administering Authority agreed to apply any decreases in employer contributions immediately as the cost of doing so was outweighed by the benefit to employers.

Uncertainties: McCloud / Sargeant judgement and GMP indexation and equalisation

For the 2025 valuation an approximate allowance has been made for the additional liabilities for each member relating to the improvements that are expected to be required to benefits consequent to the 'McCloud' equal treatment judgement.

The 2025 valuation allows for the Government's decision to address indexation of Guaranteed Minimum Pensions (GMPs) for public service pension schemes by requiring full CPI indexation to be paid from the schemes on GMPs for those reaching State Pension Age on or after 6 April 2016. No allowance has been made for any residual actions which may be needed to fully implement equalisation of GMPs, such as those arising from the High Court ruling in 2020 which established that the equalisation requirements extend to cover past deaths and transfers out, where they included an element of pension accrued between 17 May 1990 and 5 April 1997. HMT are yet to announce how this will affect LGPS benefits but it is expected this will be immaterial.

No allowance has been made for the changes to benefits set out in the Access and Fairness and Access and Protection consultations as the outcome of these was unknown at the 2025 valuation.

Orphan liabilities

Orphan liabilities represent a risk to the Fund as there is no active employer who will pay for any emerging deficit associated with these liabilities. The Fund's approach is to ensure that an exit calculation is carried out on a low risk basis and where possible, the exiting employer pays for any deficit at the exit date. Orphan liabilities represent approximately 1% of the total liabilities of the Fund. If orphan liabilities become a more material percentage of the Fund's overall liabilities, consideration will be given to investing in low risk assets in order to cover these liabilities and reduce the risk that other employers will instead have to fund these.

Fund profile

The Fund's maturity will change over time and this creates a risk that there are not sufficient contributions to cover the required benefit payments. An individual employer can also face a changing maturity. The Fund addresses these risks by ensuring a regular assessment of the cash holdings required to pay benefits and by managing individual employers through the decisions made at each valuation.

Appendix 4 - Group funding framework

Group funding framework

Prior to 1 April 2019 all the secure scheduled bodies in the Fund participated in a grouped funding arrangement called the 'Scheduled Body Group'. With effect from 1 April 2019 the Scheduled Body Group was disbanded, with employers either entering new group funding arrangements (see below) or having their contributions assessed on an individual basis.

With effect from 1 April 2019 there are three groups of employers for funding purposes; the Town and Parish Councils Group (TPCG), the Academies Group (AG) and the Admission Body Group (ABG). Employers within a group share all risks of participation with other employers in the group, with the exception of liability for:

- ill health pensions, partner's pensions and lump sum benefits payable on death in service (which are shared across all employers in the Fund)
- secondary contributions (in relation to the ABG and TPCG only).

The Administering Authority will keep under review the funding arrangements of all employers and may remove additional employers from the grouping arrangements should their situations change.

New funding groups would be considered by the Administering Authority, but only through consultation with the employers involved.

Town and Parish Council Group

The Town and Parish Council Group was created on 1 April 2019. The Group was credited with a notional asset transfer from the Scheduled Body Group based on a share of Fund of the Scheduled Body Group at 31 March 2019.

The TPCG includes Town and Parish Council employers under Part 2 (paragraph 2) of Schedule 2 of the Regulations who, due to being relatively small employers, benefit from being able to share risks with a wider pool.

A Town or Parish Council can elect to opt out of the TPCG and instead have an individual contribution rate. This option can only be made as part of a triennial valuation and will be effective from the following 1 April. An election to leave the TPCG is irrevocable.

Employers within the TPCG share all risks arising in the TPCG since the previous valuation in proportion to liabilities at the valuation date. There is an exception for secondary contributions paid by employers over the intervaluation period, which will not be shared, and will be credited to each employer's notional asset allocation of the TPCG.

Most employers within the TPCG will have a common recovery period for deficit contributions, which was increased to 20 years at the 2025 valuation. Where an employer in the TPCG notifies the Administering Authority of a decision to stop designating posts as being eligible for membership of the LGPS a shorter recovery period may be used.

Employers of the TPCG will be credited with a notional asset allocation at each valuation for the purposes of setting contribution rates. The asset allocation will be determined based on the risk sharing framework set out above. This notional asset allocation will also be relevant for calculating an exit valuation or calculations under FRS102/IAS19.

Academies Group

The Academies Group (AG) was created on 1 April 2019. The Group was credited with a notional asset transfer from the Scheduled Body Group based on a share of Fund of the Scheduled Body Group at 31 March 2019.

The AG includes all Academies, Free Schools and Multi Academy Trusts under Part 1 (paragraph 20) of Schedule 2 of the Regulations, which are covered by the Department for Education guarantee. It also includes contractors admitted on or after 1 November 2023, whether on a standard or pass-through basis, resulting from outsourcings conducted by AG academies.

For the avoidance of doubt, the AG includes any academy created from a former higher or further education body. However, if the organisation has been set an individual rate prior to conversion, it can choose to make an irrevocable decision not to join the AG as long as this election is made prior to the conversion.

Employers within the AG share all risks in proportion to liabilities. Employers will be responsible for paying additional (or receiving credit for negative) secondary contributions to the AG in proportion to their liabilities in the AG at the relevant valuation.

Employers in the AG will have a common recovery period for deficit contributions which was increased to 20 years at the 2025 valuation.

Employers of the AG are not credited with individual notional asset allocations at each valuation for the purposes of setting contribution rates, as deficit contributions are certified based on the funding level of the group. For the purpose of calculating an exit valuation or calculations under FRS102/IAS19, employers in the AG are assumed to have the same funding level as the group as a whole, based on the value of benefits accrued to date for the group as a whole and notional assets held in respect of the group. The funding level of the group is expressed as a percentage and calculated as:

notional assets held in respect of the group divided by value of benefits accrued to date for the group as a whole.

Admission Body Group

The Admission Body Group (ABG) consists of a number of charitable and not for profit admission bodies. The Administering Authority views the purpose of the ABG to be primarily to smooth contributions for charities and other not-for-profit organisations which would otherwise be exposed to the potential of volatile contributions. All employers within the ABG have a commitment from a secure scheduled employer to subsume their liabilities on exit.

Employers within the ABG share all risks arising in the ABG since the previous valuation in proportion to liabilities at the valuation date. There is an exception for secondary contributions paid by employers over the inter-valuation period, which will not be shared, and will be credited to each employer's notional asset allocation of the ABG.

Employers in the ABG will have individual recovery periods for deficit contributions based on the average future working lifetime of their active members. This will be subject to the maximum 20 year time horizon set at the 2025 valuation for secure scheduled body employers.

Employers of the ABG will be credited with a notional asset allocation at each valuation for the purposes of setting contribution rates. The asset allocation will be determined based on the risk sharing framework set out above. This notional asset allocation will also be relevant for calculating an exit valuation or calculations under FRS102/IAS19.

Appendix 5 – Employer flexibilities and exits

The Administering Authority's policy on the use of Regulation 64 in relation to employer flexibilities is set out below.

Spreading exit payments

The spreading of exit payments will only be considered at the request of an employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period. Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods of up to ten years may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual

payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where the Administering Authority has agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision. The Administering Authority will endeavour to notify the employer of its decision within 2 months of the provision of the required information by the employer. The employer will be given a period of 1 month to respond to the decision. Payments will be expected to commence by the later of 2 months following the Administering Authority's decision, or 6 months of the exit date. If there is no agreement between both parties within this timeframe the Administering Authority will instruct the Fund Actuary to certify the exit payment due as an immediate capital payment.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Deferred debt agreements

It is envisaged that DDAs will only be entered into at the request of an employer. In all cases the Administering Authority will then engage/consult with the employer determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require

information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored.

Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The Administering Authority has a template agreement for DDAs, which it will require employers (and any guarantors) to sign up to. The matters which the Administering Authority will reflect in the DDA, include:

an undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;

a provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;

a provision that the DDA will terminate on the first date on which one of the following events occurs-

- (a) the deferred employer enrolls new active members;
- (b) the period specified, or as varied, elapses;
- (c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- (d) the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
- (e) the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

the responsibilities of the deferred employer

the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above

It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of developing a template agreement is to make the process easier, quicker and cheaper and therefore it is not envisaged that there will be material changes to the Administering Authority's template.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund

where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, as long as, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months

where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d). It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

Employers should be aware that all advisory fees and administrative expenses incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Inter-valuation funding valuations

Regulation 64A enables employer contributions to be reviewed between triennial valuation where:

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

Factors used to determine when a review is appropriate

In determining whether or not a review should take place, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a council due to a move to unitary status, the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract

the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate

whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund

the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund

the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms

Assessment of the risk/impact on other employers

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Scheme employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where there is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee or subsumption commitment is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

Employer involvement and consultation

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. A list of notifiable events is set out in the Administration Strategy.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority

will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that just because a review is being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any employer which provides a guarantee or subsumption commitment or, if none exists, will take the decision on behalf of all employers noting Hampshire County Council is the largest employer in the Fund and any unmet liabilities on exit are shared in proportion to each employer's liabilities.

Process for requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact [Employer Services](#) and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees and administrative expenses incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Other considerations

The Administering Authority will carry out an annual assessment of the risk for Tier 3 employers as considered appropriate. This will help identify whether a contribution review is required and is expected to be carried out as at each 30 September with any contribution changes effective from the following 1 April.

More generally, the Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month

of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

Appeals process

In the event of any dispute, employers should contact Pension Services for an informal discussion. Any formal appeal will be heard under the Fund's Internal Dispute Resolution Process.