West Yorkshire Pension Fund

Frequently Asked Questions

1. **Probability of Funding Success**:
   - **Why is the Probability of Funding Success proposed to increase to 80% when previous valuations accepted lower levels (76% in 2022, 69% in earlier years)?**
   - **Is this increase being made solely to maintain employer contributions at current levels?**
     One of the requirements of the Local Government Pension Scheme (LGPS) Regulations is the desirability of maintaining as nearly constant a primary rate as possible. However, the Fund also has an objective of seeking where possible to stabilise overall employer contributions, both in times when the funding position is improving and deteriorating. The increase in probability of funding success leads to the same discount rate as adopted at the 2022 valuation so this change alone is not increasing the value placed on the liabilities or the contributions required to meet the liabilities. We also note that the 69% probability of funding success was not a comfortable position but was used at the time as a means to not have to make unaffordable increases to employer contributions. We are also aware of other LGPS Funds increasing prudence in their funding strategies at the 2025 valuations and we do not believe the West Yorkshire Pension Fund is being inconsistent with other LGPS funds in this regard.

2. **105% Buffer**:
   - **Why is the 105% funding buffer still being used when it was introduced for specific circumstances in 2022 and is no longer necessary?**
   - **Can the full surplus be utilized to reduce employer contributions?**
     Following consideration of the Funding Strategy Statement (FSS) consultation responses and investment performance since 31 March 2025, the West Yorkshire Pension Fund Advisory Panel agreed to remove the 105% surplus buffer at the 2025 valuation and permit the full surplus to be used in the calculation of employer contribution rates. For employers in surplus this is leading to a greater reduction in contributions than would have been the case had the surplus buffer been retained.

3. **Surplus Run-Off Period**:
   - **Why is a 22-year period suggested for running off the surplus when a shorter period (e.g., six years) would reduce contributions further?**
     The 22 year recovery period is consistent with that used at the 2022 valuation. However, following consideration of FSS consultation responses, the West Yorkshire Pension Fund Advisory Panel has reviewed this approach and agreed to reduce the period to 20 years for the 2025 valuation. For employers in surplus this allows them to recover the surplus over a shorter period and leads to lower contributions than would have been the case had a 22 year recovery period been retained. One of the requirements of the Local Government Pension Scheme Regulations is the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme , so far as relating to the pension fund. The Advisory Panel considered that the recovery period should be set at a period that is long enough to aid the meeting of the stability objective, but not too long to pass costs (or savings) from the current LGPS membership mainly onto future taxpayers.
     Adoption of a short period would cause significant changes in total contribution requirements over a short period only, increasing risks onto future tax payers. The decision to use a 20 year period was taken due to being the same period as the

Trajectory Period used by the actuary to model investment risks within the discount rate modelling, and is not out of line with periods used with other LGPS Funds.

The recovery period used by LGPS Funds is one of the metrics that is reviewed by the Government Actuary's Department as part of their Section 13 review of the LGPS actuarial valuations and it is expected that they would "flag" the Fund as part of their testing if the recovery period was reduced by too much in one step. The Fund does not consider a period of 6 years to be appropriate to recover any surplus or deficit in the Fund as this short period would lead to large changes in contributions between valuations and significant uncertainty and risk for employers.

4. **Phasing of Contribution Changes**:
    - **Why is phasing in contribution changes over six years necessary given the significant improvements in funding?**
    - **Can revised contribution rates be implemented immediately from April 2026?**
      The Fund has a policy of stepping contributions between valuations to smooth the changes, whether they are an increase or decrease in contributions. However, the West Yorkshire Pension Fund Advisory Panel has reviewed this approach and agreed to reduce the stepping period from 6 to 3 years for the 2025 valuation, and also to permit employers to pay the middle of those 3 steps in order to provide bigger immediate reductions, whilst ensuring the Fund still receives a similar level of contributions over the 3-year period.

      The new contribution rates will apply from 1 April 2026. See Q3 above regarding the period of phasing contribution rate changes.

5. **Use of Scheme Surplus**:
    - **Can the surplus be used to pre-fund redundancy payments to stabilize costs rather than paying them as one-off lump sums?**
      How redundancy payments are funded forms part of WYPF's Administration Strategy, which is typically reviewed by the WYPF Advisory Panel each January. Requiring the additional costs of early retirement to be met by the employers as and when they arise, ensures fairness between all employers (whether in surplus or deficit), ensures policies relating to funding surpluses is consistent between all employers (not permitting greater use of surpluses by employers more actively engaged in redundancy programmes), and does not set a policy that appears to encourage redundancies by waiving cost recognition.

6. **Discount Rate**:
    - **Why is the discount rate proposed to decrease from 4.5% to 4.0%?**
    - **What is the rationale for assuming that WYPF's long-term asset returns are expected to be lower than UK government gilt yields?**
      The discount rate is not proposed to decrease for the majority of employers. The discount rate for the secure scheduled body funding target is remaining at 4.5%.
      The discount rate being adopted is based on Aon's modelling of long-term expected future returns on the Fund's assets, with a prudence overlay (the probability of funding success). The CPI inflation assumption being used by Aon is also based on a long-term expected figure, which is much lower than CPI implied by UK government bond yields. It is the net discount rate which impacts on the liabilities and contribution rates calculated, and the net discount rate being used is higher than that derived from UK government bond yields. Therefore a discount rate based on gilt yields at this valuation

would result in a lower funding ratio and higher employer contributions than is proposed. Regardless of this, the Fund does not invest its assets primarily in gilts and it would introduce significant volatility into employer contribution rates if the discount rate was based on current gilt yields rather than taking a long-term view on the returns available on a globally diversified portfolio set out in the Fund's Investment Strategy Statement. For example, if the discount rate had been set based on gilt yields in the 2022 valuation the theoretical employer contribution rates for most secure scheduled bodies would have been over 50% of pay.

7. **Transparency**:
    - **Why has no sensitivity analysis been provided to help employers understand the impact of the proposed changes?**
    - **Can WYPF provide detailed assumptions underlying the discount rate and demographic assumptions?**

    The Fund takes a risk-based approach to funding strategy and quantifies risk as the probability of achieving a solvency target over a 20 year time horizon. The Fund believes this risk metric is sufficient to enable the Advisory Panel to make effective decisions towards meeting the Fund's objectives.

    Aon's advice paper titled 'Financial assumptions – Actuarial valuation as at 31 March 2025' was published in the Advisory Panel meeting agenda pack in its meeting dated 24 July 2025. That advice paper contained information that set out the impact of changes to the discount rate and CPI inflation assumptions on the valuation results (at a whole of Fund level) and also illustrated the discount rate that would have been recommended had the Fund retained a probability of funding success of 76% from the 2022 valuation.

    The Fund has not commissioned a more detailed sensitivity analysis as this was not considered necessary when setting the key strategy elements that apply across the Fund's employers. It should be noted that the consultation is in relation to the Funding Strategy in general, not what the employer contribution rates should be.

    The information underlying the discount rate modelling is Aon proprietary information that is not published publicly.

    Details of all assumptions are set out in Aon's advice paper published in the Advisory Panel meeting agenda pack in its meeting dated 23 October 2025.

8. **Flexibility in Funding Strategy**:
    - **Can the funding strategy provide flexibility for intermediate employers to balance costs and risks effectively?**
    - **Can the recovery plan period and phasing of contributions be adjusted on a case-by-case basis?**

    As the group of intermediate employers is small, and the employer's circumstances often unique (in particular their covenant risk), the Fund would be willing to discuss the approach with employers on an individual basis before finalising the FSS.

    WYPF seeks to apply a consistent approach to the length of the recovery period and the approach to phasing of contributions across each group of employers (secure scheduled bodies, intermediate, active orphans etc..), however the Fund may be willing to discuss individual cases for intermediate and active orphan employers depending on the employer's circumstances. The Fund would generally not be willing to reduce the recovery period for employers in surplus (or extend the recovery period for employers in deficit), nor adopt more favourable phasing rules for an employer unless it is in the interests of all of the Fund's employers to do so (for example if the employer can demonstrate that it is not able to afford the proposed contributions and its insolvency could pass material costs/risks onto other employers).

9. **Exit Basis and De-Risking Options**:
    - **Why does the revised FSS not propose changes to the exit basis, which is considered overly prudent?**
    - **Can alternative investment strategies or partial exit options be introduced to facilitate de-risking for employers?**

    The exit basis was reviewed in 2023/24 and was consulted on with employers at that time. The basis was made less prudent as part of that review.

    Following the completion of the asset pooling changes which are currently ongoing, WYPF may be able to consider introducing alternative investment strategies, as we are aware that our partner funds in the Northern LGPS Pool do provide this for some employers.

    However, Government's intentions for how LGPS governance should operate going forwards, as set out in the 'Fit for the Future' consultation, may limit flexibility for LGPS funds. As at 1 Dec 2025, Draft regulation have only recently been released for consultation and guidance has not yet been released.

    A review of the derisking options and the exit basis may be undertaken when we have further clarity on what may be possible and practical.

    We suggest that any employer thinking about considering a partial exit speak to the WYPF Employers team in the first instance before incurring any advisory costs.