



London Borough  
of Hounslow

# London Borough of Hounslow Pension Fund

## Funding Strategy Statement

Effective 1 April 2026

DRAFT

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## Section A – Purpose of the London Borough of Hounslow Pension Fund and the Funding Strategy Statement

### 1. Introduction

- 1.1. This is the Funding Strategy Statement (FSS) for the London Borough of Hounslow Pension Fund (the Fund). The purpose of the pension fund is to pay pensions and benefits to its members and the purpose of the FSS is to explain how the Fund plans to make sure it has enough money to pay these benefits, both now and in the future.
- 1.2. The Fund is part of the national Local Government Pension Scheme (LGPS) and is managed by Hounslow Council, who are also known as the Administering Authority.
- 1.3. The FSS explains the approach the Fund takes to keep it financially healthy while keeping costs fair and affordable for employers. It also explains how the Fund works with employers and the actuary to agree contribution rates.
- 1.4. The London Borough of Hounslow as the Administering Authority, has worked with the actuary Barnett Waddingham to prepare this funding strategy statement, in keeping with the required guidance and regulations. Further information can be found here:
  - [LGPS Regulations](#)
  - [LGPS Scheme Member Website](#)
  - [Guidance for preparing the Funding Strategy Statement](#)
- 1.5. The FSS should be read alongside the Fund's [Investment Strategy Statement \(ISS\)](#).
- 1.6. As required by the regulations and guidance the employers in the Fund and other key stakeholders have been consulted during the development of this FSS, in line with the Engagement Plan, Annex B.
- 1.7. This document has been written to be as easy to understand as possible for all stakeholders. However, some technical terms are necessary. To help with this, we've included a simple glossary in Annex D.
- 1.8. This draft FSS has been approved for consultation on 9 January 2026 and is scheduled for approval by the Pension Fund Panel on 2 March 2026 following the recommendation of the Executive Director of Finance and after consultation.
- 1.9. Any queries relating to this FSS should be directed to the Head of Pensions at [pensions@hounslow.gov.uk](mailto:pensions@hounslow.gov.uk).

## 2. Aims and objectives of the FSS

2.1. The aims and objectives of this FSS are to:

- Establish a clear and transparent, fund-specific strategy that will identify how the Fund's employers' pension liabilities will be met;
- Support the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible;
- Comply with the regulatory requirements to set employer contributions to ensure the solvency and long-term cost efficiency are met in the context of the Fund's fiduciary duty to act in the best interests of scheme members and employers.;
- Explain how the Fund balances the interests of different employers; and
- Explain how the Fund addresses conflicts of interest and where to find other fund policies and strategies.

2.2. The aims and objectives have been set in the context of fiduciary duty and requirement to pay pension benefits according to the LGPS and wider regulations.

2.3. The Fund's aims in relation to long-term funding are to:

- Maintain solvency (ensure there are sufficient assets in the Fund to cover the cost of all benefit payments as they arise);
- Achieve long-term cost efficiency (ensure employer contribution rates are sufficient but affordable and ensure inter-generational fairness);
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to not taking undue risks) at reasonable cost to the Fund's employers; and
- Seek to maximise returns on investment within reasonable risk parameters.

## 3. Monitoring and review of the FSS

3.1. The FSS will be monitored annually, and it will be reviewed before the completion of the next actuarial valuation of the Fund unless circumstances suggest an earlier review would be desirable or required.

3.2. The FSS will be reviewed in the following circumstances: include:

- Material changes to the LGPS benefit structure or regulations;
- Significant changes to the Fund's investment strategy;

- Significant changes to the Fund's membership profile;
- Changes to the number, type, or circumstances of an employer that materially affects the funding strategy (e.g. an employer exit, restructuring, failure which could materially impact cashflow, maturity profile or covenant);
- A material change in the affordability of contributions or an employer's financial strength which has an impact on the future solvency of the Fund;
- Recommendations from MHCLG or the Government Actuary's Department (GAD); or
- On the advice of the Fund Actuary.

3.3. In a review of the FSS, the Fund would consider:

- Whether a formal update to the FSS would be required;
- Whether a formal update to the ISS would be required; and
- How updates to either document are communicated to employers who may be affected by changes which have been implemented.

## Section B: Key funding principles

### 4. Funding target

- 4.1. The funding target is defined as having at least sufficient assets in the Fund to meet the accrued past service liabilities (i.e. a funding level of at least 100%). Different funding targets may be set for different employers or groups (pools) of employers.
- 4.2. Securing the solvency and long-term cost efficiency is a regulatory requirement. This is done by balancing three core elements of the Fund: employer contribution rates, investment returns and the fund's membership profile.
- 4.3. Employer contribution rates are required by Regulations to be set by an actuarial valuation exercise. The Regulations also state it is desirable to maintain as nearly constant a Primary rate of employers' contribution as possible and the Fund aims to achieve this. A key principle in determining employer contribution rates is to establish a funding target, with employer contribution rates then set to meet that target over an agreed period.
- 4.4. The past service funding level (often referred to as simply the funding level) is the ratio of assets to liabilities in respect of accrued past service, which is the benefits already earned.
- 4.5. The Fund Actuary can then assess how the value of the investments held by the Fund compares to the funding target and calculate the past service funding level.
- 4.6. The Fund has many different employers, and the strategy seeks to strike the right balance between affordable, stable contributions whilst also recognising that failure of an employer to pay contributions, can lead to financial consequences for other employers.

### 5. Setting employer funding targets

- 5.1. Members' benefits are payable many years into the future and positive investment returns can help make the benefits more affordable for employers. Investment returns are not guaranteed or known in advance so the assumed future rate of investment return (also known as the discount rate) is the key assumption the Fund Actuary makes in calculating the liabilities. In general:
  - the lower the investment return over a time period the higher the required contributions to the Fund over that time period and vice versa;
  - the higher the assessed risk an employer (or group of employers) may cease to exist in the future and be unable to meet their obligations to the Fund, the lower the assumed rate of future investment return may be, whilst recognising this must be balanced with affordability considerations; and

- the time period over which it is appropriate to consider the contributions and investment return may vary depending on the circumstances of an employer (or group of employers).

5.2. There are broadly three categories of employer according to the Regulations:

- Scheduled Bodies. This includes the London Borough of Hounslow, academies and further education colleges. These bodies must admit eligible employees to the LGPS.
- Admission Bodies. This type of employer includes contractors who provide outsourced services to a scheduled body; and
- Resolution Bodies. There are currently no resolution bodies in the London Borough of Hounslow Pension Fund.

5.3. The Fund aims to treat all employers fairly and consistently for employers who are in the same category. Where a different approach is justified or agreed with the Fund Actuary, the Fund will:

- adopt the same maximum periods to recover any deficit or surplus;
- apply the same minimum employer contribution rate;
- use the same funding basis to set the employer contributions for the actuarial valuation;
- use the same cessation basis in the event of an employer exit;
- apply the same maximum terms for any deferred debt agreement and debt spreading arrangements.

## 6. Managing risk

6.1. The funding strategy aims to satisfy the objectives of ensuring sufficient assets to meet liabilities and stable levels of employer contributions. However, there are risks that may impact on the ability of the strategy to meet these objectives.

6.2. The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks. A risk register is maintained and is presented at each meeting of the Pension Fund Panel and Pension Board where recent developments are reported. More detail of the various funding-specific risks can be found in Annex C, Managing Risks.

## 7. Main actuarial assumptions

7.1. To value liabilities, the Fund Actuary needs to make assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and employee turnover etc.

7.2. The assumptions adopted at the valuation can be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimated value of the amount of benefits and contributions payable.

7.3. A summary of the methodology to determine and monitor the actuarial assumptions is explained below. Financial assumptions are based on a particular date and consider average market yields over the six months straddling the relevant date. The relevant date may be the date of the valuation, or the date an employer joins or leaves the Fund.

## 8. Retail Prices Index (RPI) inflation

8.1. To measure the future level of price inflation over the long-term, the Fund uses the 20-year point on the Bank of England implied RPI inflation curve. A fixed inflation risk premium deduction of 0.3% p.a. is made to the assumption.

## 9. Consumer Prices Index (CPI) inflation (future revaluation and pension increases)

9.1. Pension increases, both in payment and the rate of revaluation applied to pension accounts, are linked to changes in the level of the CPI. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. Based on analysis undertaken by the Fund Actuary, a deduction of 0.4% p.a. is made to the RPI assumption to derive the CPI assumption as at 31 March 2025. This deduction will taper down to 0.2% p.a. by February 2030 when it is anticipated that the RPI will be aligned with the Consumer Prices Index including owner occupiers' housing costs (CPIH).

## 10. Pay increases

10.1. As some of the benefits are still linked to final pay, the Fund Actuary needs to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted was CPI plus 1.0% p.a. which includes allowance for promotional increases.

## 11. Future investment returns/ discount rate

- 11.1. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to present day values. The discount rate that is applied to all projected liabilities reflects an estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the relevant date.
- 11.2. The discount rate is this rate of return with an adjustment for prudence. The adjustment for prudence has the effect of, all else being equal, increasing the value of liabilities.
- 11.3. The adjustment for prudence for the ongoing discount rate is 1.5% for all employers.
- 11.4. The level of prudence incorporated within the ongoing discount rate is a fixed deduction which has been set using modelling carried out by the Fund Actuary.
- 11.5. The level of “prudence” in the ongoing discount rate has been determined based on a success probability of approximately 72% which translates to a fixed deduction of 1.5% p.a. for all employers.
- 11.6. The adjustment for prudence is higher if the discount rate is used to value liabilities where the employer is leaving the fund. Further detail is given in Process for determining the position on termination section.

## **12. Demographic assumptions**

- 12.1. The demographic assumptions adopted are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

## 13. Valuation assumptions

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

| Assumptions                                   | Assumptions used for the 2025 valuation   |  |
|---|---|--|
| Financial assumptions (p.a.)                  |   |  |
| CPI inflation                                 | 2.9%  |  |
| Salary increases                              | 3.9%  |  |
| Discount rate                                 | 5.0%  |  |
| Demographic assumptions                       |   |  |
| Post-retirement mortality                     | Base table<br>Multiplier (male/female)<br>CMI Model / long-term rate<br>Initial addition parameter<br>Overlay half-life | S4PA heavy tables<br>85%/95%<br>2024 / 1.5% p.a.<br>0%<br>1 year<br>Weighted average   |
| Retirement assumption                         |   | GAD 2020 scheme val:<br>no salary scale, 50%<br>multiplier to ill-health rates<br>and 125%/130% multiplier<br>to pre-retirement mortality<br>rates (M/F) |
| Pre-retirement decrements                     |   | 75% / 15% / 10%<br>Member data<br>50% Max  |
| IH assumed proportion in each tier (T1/T2/T3) |   |  |
| 50:50 assumption                              |   |  |
| Commutation                                   |   |  |
| Family statistics                             | % with qualifying dependant<br>Age difference   | 75% (M) / 65% (F)<br>Males 3 years older   |

13.2. Further information on the assumptions used is explained in the Fund's valuation report.

## 14. Actuarial methods

14.1. The actuarial method for open employers is the projected unit method and for closed employers is the attained age method. These are explained further in the section Primary rate of employers' contribution.

## 15. Asset valuation

- 15.1. For the purpose of considering funding levels and setting contributions, the asset value used is the market value of the assets at the valuation date, adjusted to reflect average market conditions during the three months prior to and the three months following the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities. For the 2025 valuation this led to assets being taken into account for funding purposes at 101.7% of the market value.
- 15.2. The Fund's assets are effectively unitised and notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid). For funding pools, the assets and liabilities are pooled together and calculated as if the funding pool were a single employer.

## 16. Employer pooling and risk sharing

- 16.1. The Fund operates several funding pools where employers share risks. This may impact the calculation of an employer's assets and is explained further in the section Pooling of individual employers.

## 17. Links to the Investment Strategy Statement (ISS)

- 17.1. The funding strategy statement and the investment strategy statement are interconnected. As set out in the introduction of this document, the funding strategy statement explains how the fund will collect enough money to pay pensions both now and over the long term. The discount rate is a key financial assumption used to put a monetary value on the benefits promised. The discount rate is set by the actuary applying a best estimate return on each class of asset that the Fund has in its investment portfolio.
- 17.2. To do this, it relies on the investments of the Fund to make a return over the long term that will be at least equal to the discount rate that is used in the actuarial valuation. The investment strategy statement is a policy document that sets out how the Fund's investment will achieve the required return at an acceptable level of risk. The range of assets that will deliver this return is set out in the ISS and is called the strategic asset allocation. The ISS is prepared by the Administering Authority, taking advice from the Fund's advisors.
- 17.3. The main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS. The expected rate of investment return anticipated to be achieved by the long-term strategy as set out in the ISS.

- 17.4. The discount rate that is used in the actuarial valuation is derived by the expected return from the long-term investment strategy. This approach ensures consistency between the funding strategy and investment strategy.
- 17.5. After employer and employee contributions, investment returns are the third key pillar of LGPS funding. The Fund must be able to pay benefits when they are due. The payments of benefits are met from a combination of contributions (through the funding strategy) and investment return and income (through the investment strategy). Should investment performance or income fall below projected levels, employer contributions may be required to increase to compensate to meet the cost of the benefits. Hence the required investment returns to meet the discount rate assumption set out in the FSS are considered when deciding how the investments are allocated, also known as the strategic asset allocation.
- 17.6. A summary of the asset classes and allocation from the most recent ISS is shown below:

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| Asset class    | Allocation |
|----------------|------------|
| Fixed Income   | 5.0%       |
| Credit         | 15.0%      |
| Equities       | 50.0%      |
| Property       | 10.0%      |
| Infrastructure | 10.0%      |
| Cash plus      | 10.0%      |

- 17.7. The Fund's Investment Strategy Statement is available [here](#).

## 18. How employer contributions are calculated

- 18.1. The total contribution rates an employer must pay is made up of the primary contribution rate plus the secondary contribution rate. These are discussed below.
- 18.2. The contribution rates that an employer must pay as calculated as part of the actuarial valuations will be communicated to the employers towards the end of the valuation year through an initial results report written by the Fund Actuary.
- 18.3. The contribution rates that an employer must pay when they join the Fund will be calculated by the Fund Actuary and communicated to the employer upon joining.

## 19. Frequency of employers' contribution payments

- 19.1. Contributions must be paid monthly unless the Fund agrees to a special arrangement following discussion with the Fund Actuary. Where contributions are based on a percentage of pay, the amounts paid by employers will fluctuate in line with payroll each month.
- 19.2. For all employers, the contribution rates and the frequency of payment will be certified by the Fund Actuary in the Rates and Adjustment Certificate. The latest certificate can be found within the latest valuation report on the Fund's [website](#).

## 20. Prepayment policy

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

## 21. Primary rate of employers' contribution

- 21.1. The funding level considers past service, but the Fund Actuary must also calculate the cost of benefits which will be earned in the future by active members.
- 21.2. The primary rate of an employer's contribution, as defined in the Regulations, is the level of contributions required, expressed as a percentage of the pay of active members, which, together with employee contributions, is expected to cover the cost of benefits accruing in future.
- 21.3. The calculation of the primary rate ignores any past service surplus or deficit but allows for any employer-specific circumstances such as whether an employer is open or closed and includes the employer's share of administration costs and any self-insurance arrangements. More detail on self-insurance is set out in the section Payment of additional contributions.
- 21.4. The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates.

- 21.5. The Fund's approach to setting the primary rate depends on specific employer circumstances, including their guarantor arrangements. If an employer has any risk sharing arrangements, then the primary rate will depend on the arrangement in place, and if the employer is part of a pooling arrangement, then the primary rate may be set to be the same as other employers in the pool. It may also depend on whether an employer is an "open" employer – one which allows new employees access to the Fund, or a "closed" employer – one which no longer permits new employees access to the Fund.
- 21.6. For closed employers, in general, the actuarial funding method adopted is known as the Attained Age Method. The key method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.
- 21.7. For an open employer, in general, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only. Presently, no new contractors are admitted on an open basis.

## **22. Secondary rate of the employers' contribution**

- 22.1. Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they build up, the Fund knows that at any particular point in time, the value of the assets is unlikely to be equal to the value of accrued liabilities, depending on how the actual experience of the Fund compares to the actuarial assumptions. This means there will be a past service surplus or deficit which can lead to an adjustment to employers' contributions. This contribution adjustment is referred to as the secondary rate, as defined in Regulation 62(7).
- 22.2. The secondary rate is a positive or negative adjustment to the primary rate to arrive at the total contribution rate each employer is required to pay. Secondary contributions can be certified as a percentage of payroll or as monetary amounts (which can be fixed or nominal amounts).
- 22.3. There is a potential conflict of interest whereby a single employer i.e. the Administering Authority of the Fund, is leading the process of setting the adjustments to the primary rate. The Fund manages this conflict of interest by consulting with all employers on the contents of the FSS which sets out how secondary contribution rates are set for all categories of employer.

## **23. Payment of additional contributions**

- 23.1. Employers will usually be expected to make additional contributions into the Fund under the following circumstances:

- Where an employee becomes entitled to an immediate unreduced pension as a result of redundancy or business efficiency, the Fund will request the employer make a strain payment to cover the cost of the additional pension entitlement;
- Where an employee makes Additional Pension Contributions (APC), at the employer's discretion, they may make an additional payment to the Fund under a cost sharing arrangement with the member.

23.2. The employer is required to inform the fund if any of these situations occur, in line with the Fund's Pensions Administration Strategy.

23.3. To mitigate the risk to employers and the Fund against additional ill-health retirement strain costs, the administering authority has implemented an ill-health self-insurance pool within the Fund. This has been effective from 1 April 2020.

23.4. A portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain. Employers will pay the same total contribution rate to the Fund and so this self-insurance approach will not impact employers' contributions. More information can be found in the Annex C, Managing Risks and/or the self-insurance policy.

## 24. Actuarial valuation

24.1. As required by the regulations, an actuarial valuation of all LGPS funds is carried out every three years.

24.2. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

24.3. The most recent actuarial valuation of the Fund was undertaken as at 31 March 2025. The results of the 31 March 2025 valuation can be found in the Fund's valuation report, which includes:

- An actuarial valuation of the assets and liabilities of the Fund;
- The funding level of the Fund as at the valuation date;
- The primary rate for the whole fund which is the weighted average (by payroll) of the individual employers' primary rates.

- The financial and demographic actuarial assumptions used to value the pension liabilities, including details of the sensitivity of the results to a small change in the assumptions used;
- The valuation report must demonstrate how the demographic assumptions have been set with reference to the actual events affecting Fund members since the previous valuation;
- A Rates and Adjustments certificate outlining the minimum contributions payable by employers in the Fund; specifying both the primary rate and secondary rate of the employer's contribution for each of the three years beginning on 1st April following the year in which the valuation date occurs; and
- Summarised information of the actuarial valuation in the form of a "dashboard" which is agreed between the actuarial firms and GAD.

24.4. The valuation documentation must be provided to the Administering Authority before the 31 March 2026.

## 25. Review of employer contributions between valuations

25.1. The regulations allow administering authorities to review an employer's contribution rate where there has been a significant change to the liabilities or covenant value of that employer.

25.2. Employer's may request a contribution review, but these will only be considered if they meet the definitions as set out in the regulations and with the agreement of the fund actuary.

## 26. Fund approach to managing surpluses and deficits

26.1. As set out in Section A, Purpose of the London Borough of Hounslow Pension Fund and the Funding Strategy is to ensure employers' contributions are set to meet the Regulatory requirements of achieving solvency and long-term cost efficiency but also for the primary rate to be as stable as possible.

26.2. The Fund aims to keep primary (and also total) contribution rates stable by:

- asking the Fund Actuary to adopt a discount rate (or assumed investment return) derived from the expected investment return on the Fund's assets;
- reviewing the level of prudence, i.e. the gap between the discount rate (or assumed investment return) and the expected investment return, at each valuation; and
- operating funding pools which increase the stability of contribution rates compared to calculating individual contribution rates for each employer, particularly for small employers.

26.3. Where there is a deficit, the secondary contribution rate is generally calculated to pay off the deficit over a maximum period of 11 years.

26.4. In line with the previous valuation, the Fund's policy is to include an adjustment to repay the surplus for those employers whose funding level is over a certain level. This would occur via setting negative secondary contributions, i.e. setting a total contribution rate that is lower than the cost of future accrual. These negative secondary contributions will be certified so that the surplus above the threshold will run off over a certain period. The negative secondary rate is restricted such that no employer has a total contribution rate of less than 10% p.a. See further information on threshold level and surplus spreading period in the table below.

26.5. The period adopted for individual or groups of employers will depend on:

- The significance of the surplus or deficit relative to the liabilities;
- The
- Employer **covenant** of the employer/group (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

26.6. A summary of the Fund's approach to employers is set out in the table below. The approach adopted may differ to reflect the situation specific to an individual employer, e.g. if justified by a covenant assessment.

| Type of employer  | Maximum recovery period of deficit | Threshold over which surplus can be repaid | Maximum recovery period of surplus |
|---|------------------------------------|--|------------------------------------|
| Major scheduled bodies  | 11 years                           | 120%                                       | 11 years                           |
| Academies and Further Education bodies covered by the DfE guarantee | 11 years                           | 120%                                       | 11 years                           |
| Contractors   | Remaining contract length          | 100%                                       | Remaining contract length          |
| Admission bodies (other than contractors)                           | Future working lifetime            | 120%                                       | Future working lifetime            |

## 27. Employer covenant

27.1. The Pensions Regulator defines employer covenant as “*the extent of the employer’s legal obligation and financial ability to support the scheme now and in the future.*”

27.2. There is no prescribed way for an LGPS fund to assess and allow for employer covenant within their funding approach. In considering employer covenant as part of the funding strategy the Fund will look to better understand the participating employers, particularly by sector or size.

27.3. In reviewing the employer covenant, the Fund look to:

- assess each employer’s obligation and ability to support their ongoing LGPS commitments, in the context of any guarantees or security in place,
- Reassess the level of risk of employers, given their updated funding position,
- Use the findings of covenant findings to shape funding and investment strategy,
- ensure contributions are set appropriately; and
- put in place pragmatic procedures to monitor employers going forward.

27.4. The Fund’s approach to allowing for employer covenant is set out below.

27.5. In certain circumstances, an employer is obliged to notify the Fund about any changes as set out in the Fund’s [Pension Administration Strategy](#). These include:

- an insolvency event
- a merger or acquisition with another employer
- a significant change in the employer’s credit score

27.6. The employer should contact the Fund via email to [pensions@hounslow.gov.uk](mailto:pensions@hounslow.gov.uk).

## 28. Allowance for employer covenant

28.1. In advance of the 2025 valuation, the Fund commissioned an employer covenant review from Barnett Waddingham LLP based on an analysis of credit risk reports obtained from Dun & Bradstreet (D&B). This analysis considered the potential size of deficit were an employer to leave the Fund alongside a risk score calculated using data from D&B. Where the review highlighted any concerns with regard to the default risk of an employer, particular attention was given to the deficit recovery period adopted for the employer and whether any security for the Fund was in place.

28.2. Currently, a scheduled body ultimately acts as a guarantor to all of the admission bodies in the Fund. As a result, no employers were identified as a major risk.

28.3. Despite this, the Fund has considered a number of options to reduce their risk. These include;

- regular monitoring of financial position;
- review process to engaging with admission bodies who are nearing end of their contract;
- reviewing existing admission agreements and template for new admission agreements;
- review of any existing bond amounts, or consider putting bonds in place if not there already;
- review risk transfer approaches such as pass-through.

28.4. The Fund will seek specialist employer covenant advice support as appropriate.

28.5. The outcome of the employer covenant review may influence setting the total contribution rate through, but not limited to:

- The level of prudence adopted in setting the discount rate used to calculate the contribution rate
- The length of the deficit recovery/surplus amortisation period
- The funding target

28.6. The Fund will keep the employer covenant analysis under review and will seek to update this on at least a triennial basis.

## 29. Guarantors

29.1. A guarantor of an employer in the LGPS is a formal promise by a party other than the Scheme employer, to meet any pension obligations not met by the Scheme employer. There are different types of guarantees that can be provided:

- A “subsuming guarantor” will assume future responsibility for the pension liabilities and assets following the exit of the Scheme employer. The exiting employer is generally still expected to meet any exit payment due. This is the situation for private contractors where the letting authority will be the “subsuming guarantor.”
- An “external guarantor,” such as the Department for Education, provides a guarantee that the exit payment will be made to the Fund in the scenario that the exiting employer

cannot make it. This a one-off payment, the external guarantor does not assume future responsibility for the pension liabilities and assets of the exiting employer.

- A “physical guarantee,” often referred to as security, may provide the Fund the opportunity to call on the asset backing the guarantee in the event that the exiting employer cannot make the exit payment.
- A “guarantor of last resort” will be responsible for pension liabilities if the Scheme employer fails to meet its pension obligations to the Fund. The guarantor is liable to cover any exit payment and assume responsibility for pension obligations when all other avenues have been exhausted.

29.2. The Fund will consult with guarantors on any proposed changes that significantly increase the risk of costs provided under the original guarantee.

## **30. Guarantor treatment for key funding activities**

30.1. Guarantors will be treated consistently to other Scheme employers for funding purposes as follows:

- New employers should notify the Fund of any guarantor in place. In the case of admission bodies, the existence and type of guarantor will be specified in the admission agreement;
- The guarantee for LGPS liabilities provided by the Department for Education for further education bodies and academy trusts is taken into account in setting the contribution rates for those employers covered by the guarantee;
- The assessment of the covenant of any guarantors will be included in the covenant review exercise undertaken as part of the actuarial valuation;
- Guarantors are subject to the same notifiable events process as employers. Notifiable events are set out in the Pensions Administration Strategy; and
- For exiting employers, the Fund will carry out a cessation valuation of the employer’s liabilities, and the existence of a guarantor will affect the actuarial valuation basis used to determine the final cessation valuation. More detail can be found in section Process for determining the position on termination.

## **31. Admission bodies**

31.1. New admission bodies in the Fund are commonly a result of a transfer of employees from an existing employer in the Fund to another body (for example as part of a transfer of services from the council or academy to an external provider). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

31.2. Further details on how to join the fund are provided in section Joining the fund and employer contribution rate setting and monitoring and in the [Pensions Administration Strategy](#).

## 32. Security required by admission bodies

32.1. Under the Regulations, the Administering Authority must assess the risk a proposed new admission body poses to the Fund should the admission body become insolvent or go out of business.

32.2. For any proposed new admission bodies who are not joining the Fund using a pass-through arrangement, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and Administering Authority.

32.3. If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the Administering Authority.

32.4. This security may cover some or all of the:

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

32.5. The Fund will agree with the employer the security required upon admission to the Fund.

## 33. Risk sharing arrangements

33.1. Subject to agreement with the Administering Authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

33.2. Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and

- redundancy and early retirement decisions.

33.3. The Administering Authority may consider risk sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

33.4. Legal and actuarial advice in relation to risk sharing arrangements should be sought where required.

## 34. Pass-through arrangements

34.1. New admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority. This is commonly known as a pass-through arrangement.

34.2. Currently the Fund does not have any pass-through admission agreements. However it may consider a pass-through risk sharing arrangement as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. All information regarding risk sharing arrangements should be shared with the Fund. Legal and actuarial advice in relation to risk sharing arrangements should be sought where required.

34.3. As part of the risk sharing agreement, the following information should be documented:

- whether the new admission body remains responsible for pensions costs that arise from above average pay increases, including the effect on service accrued prior to contract commencement;
- redundancy and early retirement decisions; and
- treatment of the admission body on exit.

34.4. The arrangement should not lead to any undue risk to the other employers in the Fund.

34.5. For any new admission bodies as a result of an outsourcing by an academy trust or a further education body, the Fund understand that where pass-through provisions are in place, the liabilities remain covered by the Department for Education Guarantee.

## 35. Links to administration strategy

- 35.1. The membership data provided by employers is used by the Fund to calculate the contributions due from the employers, on joining the fund, terminating the fund or between actuarial valuations. Membership data is required for the actuarial valuations, and also when the employer joins or terminates the Fund. The quality of the data could have an effect on the contributions that an employer is required to pay.
- 35.2. The pensions administration service provider collects and supplies data to be used in actuarial calculations.
- 35.3. The Fund's administration strategy can be found [here](#).

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## Section C: Employer events

### 36. Joining the fund and employer contribution rate setting and monitoring

36.1. Employers that can participate in the Fund are defined in the LGPS Regulations. They fall into the three main categories mentioned earlier:

- Scheduled Bodies including the London Borough of Hounslow, academies and further education colleges.
- Admission Bodies. This type of employer includes contractors who provide outsourced services to a scheduled body; and
- Resolution Bodies. There are no resolution bodies in the London Borough of Hounslow Pension Fund.

36.2. When an employer becomes requests to participate in the Fund, the administering authority follows a structured process to ensure compliance with regulations and to protect the interests of all parties. The first step is to confirm eligibility under the Regulations to determine the basis on which the employer can join the Fund.

36.3. Currently the Executive Director of Finance of the London Borough of Hounslow has delegated authority to approve new employers' admission into the Fund. The new employer will automatically join the appropriate employer category or funding pool, unless representations are made by the employer to the Fund. The Fund's Admission Policy is contained within the Administration Strategy, which can be found [here](#).

36.4. When a new employer joins the Fund, the Fund Actuary is required to set the contribution rate payable and allocate a share of Fund assets as appropriate (unless the new employer joins under a pass-through arrangement). The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

36.5. A new employer must provide employee membership data where the data is as at the date of joining the Fund. The data should be of good quality as it is used by the Fund Actuary to calculate the funding level and employer contribution rates on joining.

### 37. Admission bodies

37.1. New admission bodies in the Fund are commonly a result of a transfer of employees from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

37.2. There are two main ways for the Fund to approach a new admission body joining the Fund.

- Full risk transfer
- Pass-through arrangement

37.3. More detail around the full risk transfer approach and the pass-through approach are set out below.

### **Approach of the Fund**

37.4. The default approach for admission bodies to join the Fund is under a full risk transfer. The admission body becomes responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. However, the Administering Authority may consider requests for a pass-through arrangement from new admission bodies.

37.5. An employer with 15 or fewer members will be added to the Small Employers pool, by default, unless there are extenuating circumstances which mean this is not appropriate. More information on this is in the Pooling of individual employers section.

### **Funding at start of contract (full risk transfer non-pooled only)**

37.6. Under this approach an employer will become responsible for all the pensions risk associated with the benefits already earned by its transferring employees and the benefits that are built up during the contract. In these cases, it may be appropriate for the new employer to be given a share of the Fund assets equal to the value of the benefits transferred. This means the employer starts on a neutral or fully funded basis. The opening position may look different if calculated on another basis, such as accounting standards.

37.7. However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

## Contribution rate

37.8. The contribution rate may be set on an open or a closed basis. An open basis means the employer can allow new employers to join the pension scheme. A closed basis means only the transferring employees can stay in the scheme, and no new employees can join. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

37.9. Depending on the details of any risk sharing arrangement, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement and agreed between the new employer and the letting authority.

## Pass-through arrangements

37.10. Pass-through arrangements are allowed for at the actuarial valuation by allocating any deficit/liabilities covered by the risk sharing arrangement to the relevant responsible employer.

## 38. Pooling of individual employers

38.1. Each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

38.2. However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

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

38.4. The funding pools adopted for the Fund are summarised in the table below:

| Pool            | Type of pooling                 | Funding positions  | Contribution rate  |
|-----------------|---------------------------------|--|--|
| Academies       | Past and future service pooling | All employers in the pool will have the same funding level | All academies in the pool pay the same total contribution rate |
| Small employers | Past and future service pooling | All employers in the pool will have the same funding level | All employers in the pool pay the same total contribution rate |

|                                |                      |   |  |
|--------------------------------|----------------------|---|--|
| Risk benefits pooled employers | III-health risk only | All employers in the fund are pooled such that their funding position is not adversely affected as a result of an ill health retirement | A proportion of the employers in the pool's contribution rate is allocated to a segregated ill-health section of the Fund. |
|--------------------------------|----------------------|---|--|

## 39. New academies

39.1. When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

### Funding at start

39.2. On conversion to academy status, the new academy will join the Academies sub-pool and will be allocated assets based on the funding level of the sub-pool at the conversion date, allowing for any transferred deficit.

39.3. The new academy will be allocated assets based on the active cover of the local authority at the conversion date. The active cover approach is based on the funding level of the employees who are currently building up benefits and excludes the liabilities for the deferred and pensioner scheme members.

39.4. Note that if the local authority is more than fully funded at conversion date, based on the active cover approach, the academy will not transfer any surplus to the pool.

39.5. When a free school joins the Fund, they have no previous past service and so start with zero assets and liabilities. They will be allocated notional assets based on the funding level of the sub-pool at the next formal valuation.

### Contribution rate

39.6. The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2025 valuation.

## 40. Small employers pool

40.1. The Small Employers pool was set up at the 2022 triennial valuation with the aim to share pensions' risks across a larger employer based to achieve more stable contribution rates.

40.2. It is the Fund's policy to admit any employer with 15 or fewer members to this pool by default, unless there are extenuating circumstances which mean this is not appropriate. If an employer joins the Pool and their membership increases such that they have more than 15 active members, then at the discretion of the Administering Authority they may be allowed to remain in the Pool.

### **Funding at start and subsequent events**

40.3. New employers will receive transferred assets on a fully funded basis from their letting authority. The new employer will then be assigned assets in line with the Small Employers pool funding level.

40.4. At events during the inter-valuation period, such as cessation events, the pooled employer's asset position will be calculated by rolling forward from their assets calculated at the previous triennial valuation, allowing for cashflows paid into and out of the Fund by the employer, and investment returns (estimated where necessary) to the date of cessation.

40.5. At future valuations the funding position of the pool as a whole will be determined, and each pooled employer will be assigned assets in line with this.

### **Funding at end**

40.6. On leaving the Pool, the pooled employer will become an individual employer within the Fund and will have an individual employer contribution rate calculated.

40.7. In the event of the pooled employer leaving the Fund, the Administering Authority would first seek payment of the cessation amount from the Pool Member. Where a Pool Member no longer has active members (i.e. members that are paying contributions to the LGPS), they will be required to leave the Pool. An actuarial valuation will be carried out to determine their funding position and if there is a deficit the actuary will determine the monetary amount to be paid to the Fund.

## **41. Forming/disbanding a funding pool**

41.1. Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. In this scenario, employers will be consulted with before this change is made. Advice will be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

41.2. Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool. Where this scenario arises, advice will be sought from the Fund Actuary.

41.3. Funding pools should be monitored on a regular basis, at least at each actuarial valuation, to ensure the pooling arrangement remains appropriate. The Fund will define the criteria for employers to be a part of a pool or not. There may be a scenario where an employer may request to be excluded from the pool, but this is only likely to be granted in exceptional circumstances following discussion with the Fund Actuary.

## 42. Preparing for exit and events which may trigger termination

42.1. A cessation valuation may be required for many reasons, including:

- the last active member ceasing participation in the Fund
- the contract / admission agreement expiring
- Insolvency or wind up of the admission body
- Termination of a deferred debt agreement (DDA)
- A breach of the contract e.g. failure to pay contributions within the required period

42.2. If an employer wants to leave the Fund, they should notify the Fund.

42.3. An employer should provide membership data to the Fund at the date of termination. The Fund needs the membership data before it can calculate the termination position. An employer can provide data at an earlier date to obtain an indicative termination position. If the termination takes place at a different date or if there are any changes to the membership from the data supplied than the termination position will be recalculated. The membership data should be of good quality as it affects the termination position and the amount an employer needs to pay or receive when exiting the Fund.

42.4. When a scheme employer exits the fund, they become an exiting employer. The fund actuary will be asked to carry out a valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The administering authority must then determine the amount of exit payment or credit due from or to the exiting employer. The exit position will be determined using membership data relating to the date of exit.

## 43. Process for determining the position on termination

43.1. The fund needs to protect the security of the remaining employers when assessing the position of the exiting employer. In assessing the value of the liabilities attributable to the exiting employer, the fund actuary may adopt differing actuarial assumptions depending on the employer and the specific details surrounding the employer's termination.

43.2. Different valuation approaches are taken depending on the details surrounding the exit of the employer. This generally comes down to the following two questions:

**What is happening to the active members?**

- For example, at the end of many outsourced contracts, the members may continue in employment with a new contractor. Alternatively, members may be made redundant or transferred to a defined contribution scheme with the same employer.

**Is there an employer in the Fund willing to underwrite the future pension liabilities?**

- For example, there may be a guarantor that is compelled to or volunteers to be responsible for any future deficits, or the exiting employer may be entering into a deferred debt agreement (DDA) with the Fund.

43.3. The Fund classifies a termination into the following scenarios:

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**Cessation scenarios**

|                   |  |
|-------------------|--|
| Ongoing cessation | Any remaining active employees are transferred to another employer in the Fund, and the deferred and pensioner liabilities are also picked up by another employer in the Fund (which is usually the same employer as the destination for the active members but may not be). The funding position under this scenario is essentially the current ongoing funding position.   |
| Full cessation    | No employer in the Fund will be responsible for the employer's residual liabilities after the employer's exit from the Fund. Therefore, an approach using a relative high level of prudence is required in order to reduce the risk that the assets held in respect of the Employer's liabilities are not sufficient to pay for the members' benefits. Any members eligible for unreduced early retirement benefits on redundancy are assumed to become entitled to these. |

43.4. For any employer exiting on the ongoing cessation scenario, their valuation will be carried out under the same method and assumptions as the ongoing funding basis. i.e. the funding basis as set out in section Main actuarial assumptions.

43.5. For any employer exiting under a full cessation scenario, a more prudent discount rate is adopted than for the ongoing basis. All other assumptions are as for the ongoing funding basis. The more prudent discount rate is determined as follows:

- 43.6. As detailed above, the Fund Actuary may adopt differing approaches when assessing whether an exit debt is payable by the employer, depending on the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be using a discount rate based on the success probability of 85%. If the Fund is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.
- 43.7. Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless the Fund agrees with the other parties involved that an alternative approach is permissible. Alternative approaches are set out in the Fund's policy for entering into, monitoring and terminating a DDA or DSA is set out in the DSA and DDA policy.
- 43.8. Any surplus in the Fund in respect of the exiting employer may be treated differently to an exit payment, subject to the agreement between the relevant parties and any legal documentation. The LGPS (Amendment) Regulations 2018 allow administering authorities to make an exit credit payment to exiting employers. The Fund's exit credit policy is provided in Annex A..
- 43.9. The decision made by the Administering Authority is final, however if the employer and any other body affected wishes to appeal the decision then this must be routed through the internal dispute resolution procedure (IDRP). If the relevant party is still unhappy with the determination, having gone through all the stages of the IDRP, they may be able to take a complaint to the Pensions Ombudsman. The link to the IDRP process is [here](#).

#### **44. Deferred debt agreements or debt spreading arrangements**

- 44.1. Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B having taken advice from the Fund Actuary.
- 44.2. A Deferred Debt Agreement (DDA) enables an exiting employer to remain in the Fund and continue paying contributions over time instead of making an immediate exit payment. This approach may be considered where the employer cannot pay the full debt upfront but can continue to meet ongoing contributions.
- 44.3. A Debt Spreading Arrangement (DSA) allows the exit debt to be paid in instalments over an agreed period, rather than as a single payment. This may be used where spreading the cost helps manage affordability without increasing risk to the Fund.

## 45. Suspension notices

- 45.1. When the last active member leaves an employer in the Fund, normally under Regulation 64A this would result in a termination event for the employer, and an exit valuation produced by the Fund Actuary. However, Regulation 64(2A) allows the suspending of their liability to pay an exit payment.
- 45.2. The Fund will grant a suspension notice if it reasonably believes the employer is likely to have one or more active members contributing into the Fund within three years of the original cessation date. Were a suspension notice issued to a Scheme employer, and after a three-year period no further active members are enrolled, then a cessation valuation should be undertaken by the Fund Actuary, at the date the last active member left the Fund.

## 46. Partial terminations

- 46.1. A partial termination is where an employer exits the fund for deferred and pensioner members but seeks to remain a participating employer for active members.
- 46.2. An employer should contact the Fund if they want to request a partial termination. There may also be a requirement for actuarial and legal advice, the costs of which will be met by the employer.

## 47. Bulk transfers (both to and from the LGPS)

- 47.1. Bulk transfers of employees into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds.
- 47.2. A bulk transfer involves a group of employees changing to a new employer in a different Fund or moving along with their existing employer to a new Fund. It is usually triggered by a contract being transferred, a service being restructured, or a merger or acquisition involving an LGPS employer.
- 47.3. If ten or more members move from one LGPS Fund to another LGPS Fund they are covered by Regulation 103 of the Local Government Pension Scheme Regulations 2013.
- 47.4. A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.
- 47.5. The employer is responsible for making the Fund aware of any such bulk transfer.
- 47.6. The actuary for both funds is responsible for negotiating the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

- 47.7. The agreement will be specific to the situation surrounding each bulk transfer but in general, the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis). The terms must be acceptable to both Funds and if the Funds and their actuaries cannot reach an agreement then a third actuary is required to step in to determine a reasonable solution.
- 47.8. Membership data will be required in respect of members transferring and this will be agreed by both Funds involved.
- 47.9. The Fund actuaries will agree a calculation of the transfer amount, and it is the original Fund's responsibility to facilitate payment of the transfer amount to the receiving Fund.

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## Annex A: Exit Credit Policy

This is the Exit Credit policy for the London Borough of Hounslow Pension Fund (the Fund), part of the Local Government Pension Scheme (LGPS). It has been prepared by London Borough of Hounslow in our capacity as Administering Authority of the Fund.

The LGPS (Amendment) Regulations 2018 allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case-by-case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between us, the exiting employer and the guaranteeing employer (if relevant).

Having regard to any relevant considerations, the Fund will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of “pass-through” arrangements. This is on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit.
- Exit credits will only be paid if the ceasing employer has a surplus on the minimum risk basis at the cessation date. Allowance will be made for additional liabilities incurred as a result of redundancies.
- The Fund do not need to enquire into the precise risk sharing arrangement adopted by an employer, but the Fund must be satisfied that the risk sharing arrangement has been in place before the Fund will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable may be subject to a maximum of the actual employer contributions paid into the Fund as certified in the Fund's rates and adjustments certificates, up to any cap arrangements that may have been in place and excluding any additional payments such as strain payments.
- The Fund will pay out any exit credits within six months of the cessation date where possible. We may agree to a longer time with the exiting employer where necessary. For example, if the employer does not provide us with all the relevant information within one month of the cessation date, the Fund will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the Fund have the discretion to take into account any other relevant factors in the calculation of any exit credit payable and the Fund will seek legal advice where appropriate.

## Applications for adjudication and disagreements

An exiting employer, or other employers affected by the decision (such as guarantors), will be able to make representations if there is any conflict or difference of opinion regarding the amount of an exit credit paid or the process by which it was determined. In this situation, the review and adjudication provisions set out in Regulations 74-78 of the LGPS Regulations 2013 will apply.

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## Annex B: Engagement plan

### Funding Strategy Statement (FSS) Engagement Plan 2025



New guidance for preparing and maintaining a Funding Strategy Statement (FSS) was issued by the Scheme Advisory Board and CIPFA in January 2025. Part of the regulatory changes required Pension Funds to develop a communication and engagement plan allowing suitable timescales for all employers and stakeholders to participate in meaningful consultation.

This Engagement Plan outlines the approach for consulting stakeholders on the draft Funding Strategy Statement (FSS) for the Hounslow Local Government Pension Scheme (LGPS).

#### **1. Objectives**

- Ensure transparency and inclusiveness in the consultation process.
- Gather meaningful feedback from stakeholders.
- Comply with regulatory requirements and best practices.

#### **2. Stakeholders to be Consulted**

- Participating employers
- Scheme members
- Local authority representatives
- Department for Education (DfE) (where guarantees are involved)

- Actuary and investment advisors
- Pension Fund Panel (for approval)
- Local Pension Board (for oversight)

### 3. Consultation Timeline

- Draft FSS prepared: December 2025
- Initial stakeholder communication: Early January 2026
- Feedback collection period: Early January 2026 to 6 February 2026
- Virtual Employer's Forum: 27 January 2026
- Review and incorporation of feedback: February 2026
- Final approval by Pensions Fund Panel: 2 March 2026
- Publication of final FSS: by 31 March 2026

### 4. Communication Methods

- Direct emails to named employer contacts
- Direct emails to scheme members
- Mini employer's forum
- Newsletter
- Virtual or in-person meetings
- Dedicated consultation webpage

### 5. Feedback Documentation and Consideration

- All feedback will be logged and reviewed.
- A summary of feedback and responses will be included in the final FSS.
- Changes made to the FSS based on feedback will be clearly documented.

### 6. Approval and Publication

- The final FSS will be approved by the Pension Fund Panel at their meeting on 2 March 2026.
- The Engagement Plan and FSS will be published on the Fund's website.

## Annex C: Managing Risks

### Economic risks

Economic risks due to global events such as the conflict in Ukraine and the Middle East and pandemics could lead to instability in the economy and lead to high inflation which could cause unaffordable contribution increases for employers. High unemployment could lead to reduced contributions to the Fund and a change in the maturity of the membership profile meaning that contribution rates were no longer appropriate.

A valuation is carried out every three years using updated membership data, and updated assumptions based on market conditions at the time of the valuation. Using updated membership data for valuation ensures the maturity of employers is priced into the employer contributions and updated market conditions takes account of the collective views of investors in the financial markets of the expectation of future inflation due to global events.

### Investment risks

The main financial risk is that the investment strategy fails to deliver the discount rate or assumed rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

The Pension Fund Panel regularly monitors the investment returns achieved and receives advice from the independent advisers and officers on investment strategy.

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

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

### Demographic risks

The Fund Actuary makes an allowance for future improvements in life expectancy when calculating the liabilities. The main demographic risk is that the assumptions underestimate future longevity, noting that the Fund Actuary has advised that an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 3%.

Information on pensioner deaths in the Fund is reviewed by the Fund Actuary at each actuarial valuation and the assumptions for how long members will live in retirement in future

are adjusted as needed. For the past three funding valuations, the Fund have commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than planned as a result of the additional financial costs of early retirements, including ill-health retirements. The Fund monitor the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

#### [Self-insurance pool](#)

The Fund operates an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

#### [Climate risk](#)

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund's policy in this area is included in the [Investment Strategy Statement](#).

When considering funding issues related to climate change, the Fund has regard to the key principles document for preparing climate scenario analysis, agreed by the actuarial firms who act as fund actuary for the LGPS funds and approved by GAD, MHCLG and SAB. The relevant information will then be provided to GAD by the Fund Actuary for the purpose of their reporting under Section 13 of the Public Service Pensions Act.

As part of the 2025 valuation the Fund have commissioned scenario analysis to assess the resilience of the funding strategy against climate change risk over the agreed period. The quantitative analysis will involve at least two alternate scenarios to test if the funding strategy is sufficiently robust and any potential contribution impacts. The Fund will also undertake a qualitative analysis to identify any potential actions the Fund is taking to improve resilience to climate change. The Fund Actuary will produce a report on the climate analysis and will also summarise the analysis/commentary in the final valuation report.

The climate risk analysis is integrated into the Fund's funding strategy by having regard to the climate analysis when setting the prudence level to include in the discount rate assumptions.

The Fund will assess the implications of climate risk on funding strategy at least as part of each actuarial valuation.

### **Maturity risk**

The maturity of a fund (or of an employer) is an assessment of the balance between active (contributing) members and pensioner members as well as how close on average the non-pensioner members are to retirement. The more mature the fund or employer, the greater proportion of its membership that is near or in retirement. For a mature fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The Fund considers the cashflow profile of the Fund alongside the level of maturity: as the Fund matures, the number of pensions in payment increases compared to contributions being paid in for active members. This increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The Fund Actuary provides us with cashflow projections at each triennial valuation to help to inform the Fund's investment strategy and to better understand the cashflow position.

As part of the employer covenant review process, the Fund may ask individual employers about decisions that could affect the maturity profile (e.g. plans to close to new employees or redundancy exercises). This information may be used to inform the process in setting the contribution rates.

### **Regulatory and compliance risks**

The benefits provided by the LGPS and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the LGPS and changes to the tax regime which may affect the cost to individual employers participating in the LGPS as well as members, whose behaviour may change if tax relief on pension contributions is reduced/removed.

To mitigate this risk, the Fund participates in any consultation process of any proposed changes in Regulations and seek advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- As a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.

- Changes to the State Pension Age changing the benefits.

At the time of preparing this FSS, specific regulatory risks of particular relevance to the Fund's funding strategy are in relation to the McCloud/Sargeant judgments and recent consultations as discussed in the sections below.

#### **McCloud/Sargeant judgments**

Following the McCloud and Sargeant cases the transitional protections implemented when the new career average schemes were introduced to public service pension schemes, were found to constitute unlawful age discrimination. In the case of the LGPS, a new underpin was introduced for qualifying members, covering benefits relating to the period from 1 April 2014 to 31 March 2022. The McCloud remedy became law on 1 October 2023.

As part of the 2025 valuation, the Fund will determine an allowance for the McCloud underpin for eligible members as determined by the LGPS McCloud remedy regulations. Consistent with the 2022 valuation, an estimate for the McCloud ruling was included in the 2025 valuation for active members, but not for deferred or pensioner members, in the absence of more up to date information.

#### **New Fair Deal**

A consultation on New Fair Deal is taking place between 13 October and 22 December 2025. The proposals change how pensions are protected for outsourced workers, introducing the concept of the letting authority being the "deemed employer" for LGPS members employed by contractors and formally removing the option for service providers to offer a broadly comparable scheme instead of continued LGPS membership for transferred employees. This consultation will not affect the 2025 valuation, although FSS will need to be reviewed to ensure the approach to any new arrangements is appropriate.

#### **Consultation: Fit for the Future**

On 29 May 2025, the Government issued its response to the Fit for Future consultation. One requirement will be to move all listed assets to "under the management of the pool" by 31 March 2026. There is a risk that moving assets will result in a different (lower) net investment return to that assumed by the valuation. This risk is mitigated by the Fund's prudent approach to setting the discount rate, and use of various mechanisms to deliver greater stability in employer contributions if the funding position in 2028 is lower than expected due to higher investment costs/lower investment returns.

#### **Consultation: Access and Fairness**

On 15 May 2025, the Government published a wide-ranging consultation. Key proposals include backdated equalisation of eligibility for survivor pensions and making some unpaid leave automatically pensionable at employers' costs. Technical amendments are also proposed including changes to the McCloud remedy. There is a risk that outcomes from this consultation increase the cost benefits due under the LGPS which could worsen the Fund's funding position. It is likely that back-payments will need to be made to individual members and therefore individual employers may be affected differently. Implementing the changes will also increase administration costs and put further pressure on resource.

## Employer risks

Many different employers participate in the Fund. Accordingly, the Fund recognises that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

The introduction of a Department for Education guarantee for further education bodies has helped reduce the overall level of employer risk. To further mitigate this risk, the Fund monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined and take advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admission bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the Fund keep in close touch with all individual employers to ensure that, as Administering Authority, the Fund have the most up to date information available on individual employer situations. The Fund also keep individual employers briefed on funding and related issues.

## Employer data quality risks

There is a risk that the member data provided to us is inaccurate and leads to employer contribution rates which are greater or lower than required to cover the liabilities being accrued and a longer or shorter period than intended to reach a target funding level. In particular there is a risk that the administration software does not provide complete McCloud data for the 2025 valuation. To mitigate this risk, the Fund Actuary carries out a detailed analysis of the data provided for the valuation and the Fund agree an appropriate course of action where gaps or (potential) errors are identified, which includes measures to reduce the risk of underestimating the liabilities. The Fund Actuary has also advised that the effect of the absence of complete McCloud data should not have a material effect on the funding position at whole fund or employer level.

## Governance risks

The Pension Regulator's (TPR's) General Code of Practice (the Code) merged ten of its existing codes of practice into one (including the public service pension code) and came into force on 28 March 2024. The Code covers TPR's expectations on governance and best

practice. The Code itself does not create new legal obligations but is framed around legal obligations which funds must comply with. In not having a separate code for the public sector, there is a risk that Funds might not comply with all aspects of the Code intended to apply to the LGPS. However, Funds should already be complying with the majority of the Code which is framed around existing legal requirements. Schemes are not expected to comply with the Code from the date it came into force.

### Orphan liabilities

Orphan liabilities do not have a specific employer responsible for their liabilities in the Fund. New orphaned liabilities can arise from existing employers in the Fund ceasing their participation, where the residual liabilities are not subsumed by another employer in the Fund. There is a risk that orphan liabilities cause a significant increase in the costs for the remaining employers in the Fund. To mitigate this risk, when an employer ceases to participate in the Fund and the liabilities become orphaned, a cessation valuation is likely to be carried out on a more prudent basis than the ongoing basis and the ceasing employer is liable to pay an exit payment if in deficit. In addition, the Fund Actuary reviews all orphan liabilities as part of the valuation and the assets notionally allocated to employers are adjusted to ensure that these are fully funded on an ongoing basis.

### Long-term employer covenant alongside shorter-term affordability

When considering deficit payments or exit payments, there is a risk that the initial affordability is low but there is the prospect of increased affordability in future. In extreme cases the payments due to the Fund may cause the immediate insolvency of an employer. The Fund makes use of the employer flexibilities which came into force on 23 September 2020 as set out in its DSA and DDA policy, to work with employers exiting the Fund.

## Annex D: Glossary

This Glossary has been copied from Annex D of the FSS guidance [here](#) but supplemented with some additional terms as used in this FSS.

### Actuarial certificates/rates and adjustments certificate

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

### Actuarial valuation

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

### Administering Authority (referred to as 'the fund')

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

### Admission agreement

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

### Assumptions

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

### Code of Practice

The Pensions Regulator's General Code of Practice.

### Data

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

### Debt spreading arrangement

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

## Deferred debt agreement

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

## Discount rate

A prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy.

## Employer covenant

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

## Funding level

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

## Funding Pool

Where the Fund identifies a group of employers with similar characteristics, it is possible to form a pool for these employers. Employers within a pool will pay the same contribution rates and share risks.

## Fund valuation date

The effective date of the triennial fund valuation.

## GAD

Government Actuary's Department

## Guarantee / guarantor

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

## Inflation Risk Premium

An adjustment to RPI inflation to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

## Local Pension Board

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

## MHCLG

Ministry of Housing, Communities and Local Government

### Non-statutory guidance

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

### Notifiable events

Events which the employer should make the Administering Authority aware of.

### Past service liabilities

The cost of pensions already built up or in payment.

### Pensions Administration Strategy

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

### Pension Fund Panel

A committee or sub-committee to which an Administering Authority has delegated its pension function.

### Primary rate of the employers' contribution

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

### SAB

Scheme Advisory Board

### Secondary rate of the employers' contribution

The secondary rate is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the valuation date falls. The secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are required to pay is the sum of the primary and secondary rates. The actuary should also disclose the secondary rates for the whole scheme in each of the three years beginning with 1 April in the year following that in which the valuation

date falls. These should be calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

### Scheme Manager

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

### Solvency

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at “such level as to ensure that the scheme’s liabilities can be met as they arise”. It is not regarded that this means that the pension fund should be 100% funded at all times. 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.

### 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.