Draft
Funding Strategy Statement

West Yorkshire Pension Fund

August 2025

Contents

Purpose of the Fund and the FSS

Introduction

This is the Funding Strategy Statement (FSS) of the West Yorkshire Pension Fund (the Fund).

It has been prepared by City of Bradford Metropolitan District Council (the Administering Authority) in collaboration with the Fund Actuary, Aon, and after consultation with officers, the West Yorkshire Pension Fund Advisory Panel, and the Fund's employers and is effective from the date of issue of this statement.

The FSS has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and the guidance jointly produced by the Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Ministry of Housing, Communities and Local Government (MHCLG). In addition, the Administering Authority has had regard to the Investment Strategy Statement, the supplementary statutory guidance issued by MHCLG: “Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements”, and has also considered the Scheme Advisory Board's “Guide to Employer Flexibilities”.

A summary of the roles and responsibilities of the key parties is included as Appendix 4.

A glossary of terms is included as Appendix 5.

If you have any queries on the contents of this FSS or require a paper copy of the document, please contact:

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Aims and objectives of the FSS

The purpose of the Fund is to collect and invest monies in respect of contributions, transfer values and investment income, and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

The Administering Authority has a fiduciary duty to act in the best interests of the pension fund members and the participating employers. This means the Administering Authority will act in line with relevant legal requirements and make delegated decisions rationally and reasonably taking into account all affected parties.

The main purpose of the FSS is to document the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer’s pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Ensures the regulatory requirement to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund’s liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the FSS its focus should at all times be on those actions which are in the best long-term interests of the Fund.

Benefits payable under the Fund are set out in the Regulations. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

Solvency and long term cost efficiency

Securing Solvency and Long Term Cost Efficiency is a regulatory requirement.

The Fund's solvency should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers.

We set out detail of how the Fund meets these requirements in the section "Key Funding Principles".

The Fund's compliance with these requirements is assessed and reported following each triennial valuation through the Government Actuary's Department independent review of the triennial valuation outcomes and approach under Section 13 of the Public Service Pensions Act 2013.

Management of liabilities and payment of benefits

The Administering Authority recognises the need to ensure that sufficient funds are available to meet all benefits (including pensions, transfer values, costs, charges and other expenses) as they fall due for payment. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a regular basis to ensure that all cash requirements can be met.

Management of employer liabilities and stability of employer contributions

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:

- seeking regular actuarial advice
- ensuring that employers are properly informed and consulted
- regular monitoring of the funding position and the outlook for employers' contributions
- appropriate identification of employer liabilities and notional assets

The Administering Authority aims to manage employers' liabilities effectively through regular review of contributions at triennial Actuarial Valuations and additional contributions for early retirement. At such reviews, a key priority for the Administering Authority is to bring stability to employers' total contributions through gradual increases (or decreases) phased in over a number of years, subject to the Administering Authority not taking undue risks, and at reasonable cost to the taxpayers and employers.

Link to investment strategy

The fund seeks to maximise the returns from investments within reasonable risk parameters.

Funding and investment strategy are inextricably linked. In assessing the value of the Fund's liabilities, allowance is made for future investment returns taking into account the investment strategy of the Fund. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice, and is set out in the Investment Strategy Statement.

This is explained in more detail in the Key Funding Principles section of this FSS.

Risk profile of the Fund

The Administering Authority takes a risk-based approach to valuing the liabilities, which considers the liability and asset risk when setting the funding assumptions and employer contribution rates.

The Administering Authority considers employer risk by monitoring employer covenant, and allowing for different types of employers when setting funding targets.

This is explained in more detail in the Key Funding Principles section of this FSS.

Integrated funding framework

The FSS together with the Fund's investment strategy and employer covenant monitoring framework ensure an integrated approach to funding strategy and risk management supporting the Fund in meeting the Regulatory funding requirements.

The Fund's governance framework and decision-making processes is set out in the Governance Policy Statement:

governance-compliance-statement.pdf

The Administering Authority is responsible for setting the funding strategy as set out in the FSS. Other responsibilities relating to the implementation of the strategy, including ensuring the Actuarial Valuation is completed within the required timescales and in line with the Regulations, are delegated to the officers.

Monitoring and review of the FSS

The Administering Authority undertook its latest substantive review of this FSS in October 2025.

The Administering Authority plans to formally review this FSS as part of each triennial Actuarial Valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will also consider a review of the FSS if it determines that circumstances have changed such that this is required, taking into account the implications for the funding strategy and for meeting the liabilities of employers. Circumstances which might lead to such a review include:

- material changes to the scheme benefit structure or regulations
- on the advice of the Fund Actuary
- significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond the expectations outlined in the existing FSS
- significant changes to the Fund membership and/or Fund maturity profile
- significant or notable changes to the number, type, or individual circumstances of any employers to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure which could materially impact cashflow and/or maturity profile and/or covenant)
- material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS
- recommendations from MHCLG/Government Actuary's Department

If such a review of the FSS were to take place, the Administering Authority will consider:

- implications for the funding strategy for meeting liabilities of individual employers, and
- any amendments required to the Investment Strategy Statement or other Fund documents as a result.

Employer engagement

The Administering Authority will consult with employers when proposing to update the FSS.

When the FSS is updated, the Administering Authority will also communicate with any individual (or groups of) employers specifically impacted by any changes and in particular will reference any impact on employers on entry or exit from the Fund or in response to change in risk.

The Administering Authority will respond to any employers who provide feedback or comments on FSS consultations, including informing them whether their comments have been incorporated into the revised FSS.

Key Funding Principles

Funding target

In order to satisfy the regulatory requirement to secure the Solvency and Long Term Cost Efficiency of the Fund, employer contributions are set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficit. The regulations require that an Actuarial Valuation exercise is carried out every 3 years, in order to set employer contributions.

The funding target is the amount of assets which the Fund needs to hold at the Fund Valuation Date to pay the accrued benefits at that date as indicated by the chosen valuation method and assumptions and the valuation data. The Fund is deemed to be fully funded when the assets held are equal to 100% of the funding target. The funding target is also referred to as the Liabilities. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficit. The funding level is the assets divided by the Liabilities.

Employers' contributions will be set to ensure that 100% of the Liabilities can be met over the long-term using appropriate actuarial assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100% (where the assets are equal to the Liabilities).

Risk based funding target

The Fund uses a risk-based funding strategy to calculate the Liabilities, where the Actuarial Valuation is carried out on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk-based approach:

- what the **solvency target** should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the **trajectory period** (how quickly the Administering Authority wants the Fund to get there), and
- the **probability of funding success** (how likely the Administering Authority wants it to be now that the Fund will achieve the solvency target by the end of the trajectory period).

These three decisions, supported by risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Information about the assumptions used in the calculation of the Liabilities are set out in the section "Main actuarial assumptions".

Solvency target

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The solvency target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the trajectory period.

Trajectory period

The trajectory period in relation to an employer is the period between the Fund Valuation Date and the date on which solvency is targeted to be achieved.

Probability of funding success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the trajectory period, has achieved the solvency target. The probability of funding success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.

The Administering Authority will not permit contributions to be set following an Actuarial Valuation that have an unacceptably low chance of achieving the solvency target at the end of the relevant trajectory period.

Subsumed liabilities

If another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficit in respect of the liabilities of an employer exiting the fund, the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer).

Subsumed liabilities will be assessed using actuarial assumptions used for the funding target of the accepting employer.

Orphan liabilities

Liabilities of former employers in the fund who did not have a subsumption commitment from another employer in the fund are known as orphan liabilities. The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficit arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficit. To give effect to this, the Administering Authority will allow for a more prudent solvency target, with a greater certainty that the solvency target will be met over a suitable trajectory period.

Details of how orphan liabilities are funded is set out below in the “Main actuarial assumptions” section.

Managing risk

The Administering Authority has an active risk management programme in place. The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework. The measures that the Administering Authority has in place to control key risks are summarised in Appendix 1 under the following headings:

- economic;
- investment;
- demographic;
- climate risk;
- liquidity/maturity;
- regulatory/compliance;
- employer data quality;
- governance;
- orphan liabilities;
- employer covenant.

Main actuarial assumptions

Financial assumptions

The key financial assumptions are the discount rate and the pension increase/revaluation assumption.

Pension and pay increase assumption

The Scheme provides increases in line with increases in the Consumer Prices Index on the majority of pensions paid. The pension increase assumption is generally set by reference to the Fund Actuary’s best estimate of Consumer Prices Index inflation over the long term. The pay increase assumption can then be derived from the CPI assumption, with the pay increase assumption being set as CPI plus 1.25% at the 2025 Actuarial Valuation. At the 2025 valuation the CPI assumption is 2.1% p.a. and the pay increase assumption is 3.35% p.a.

Allowance may also be made for any short-term inflationary pressures where this is considered appropriate and prudent.

Discount rate

The discount rate, or future investment return assumption, depends on the funding target used. The funding target used is determined by the type of employer in the Fund, the way any exit valuations will be carried out, and the employer risk/covenant. This is achieved by using different principles to derive the funding targets for different employers in the Fund.

The relevant funding targets at the 2025 Actuarial Valuation, the three key decisions made in each case and the corresponding discount rates are as follows:

Funding Target	Solvency Target	Trajectory Period	Probability of Funding Success	Discount Rate (p.a.)
Secure Scheduled and Subsumption Body	100% funded using a discount rate of 4.00% and a CPI assumption of 2.00%	20 years	80%	4.50%
Intermediate (lower, medium and higher)	100% funded using a discount rate of 4.00% and a CPI assumption of 2.00%	20 years	Dependent on employer risk rating: - lower risk: 84% - medium/higher risk: 87%	- lower risk: 4.20% - medium/higher risk: 4.05%
Ongoing orphan	Set to target the orphan position when the last active leaves*			
Orphan exit (employers who have already exited)	100% funded using a discount rate of 2.00% and a CPI assumption of 2.00%	15 years	90%	2.45%

* In order to keep contributions for employers' subject to the ongoing orphan funding target affordable, the in-service discount rate is set equal to that for the medium/higher risk intermediate funding target. The left service discount rate is set equal to that for the orphan exit funding target.

Demographic assumptions

Demographic assumptions relate to membership movements or decisions leading to benefit payments or ending of benefit payments, for example rates of mortality, ill health, turnover of staff, marital statistics and promotional increases in pay. How long members and their dependants are assumed to live after retirement (post-retirement mortality) is the key demographic assumption.

The demographic assumptions are reviewed by the Fund Actuary and updated once every three years. The demographic assumptions are intended to be best estimate and are designed to be applicable to the long-term future and should, therefore, not be too influenced by recent events. In addition, it is usually not practical, desirable or cost effective to set demographic assumptions at an employer specific level.

The post-retirement mortality assumption is set with reference to the Fund's own data on deaths, national mortality statistics, and the experience of other pension funds, including using members' postcodes to allocate them to different socioeconomic groups.

Where practical, the other demographic assumptions are also informed by the actual experience of the Fund's membership. Where this is not practical, other demographic assumptions are set by reference to national statistics and/or a larger sample of pension schemes with a similar socio-economic profiles as LGPS members.

Further information is set out in the 2022 Actuarial Valuation report:

west-yorkshire-pension-fund-2022-actuarial-valuation-report-v2.pdf

Details of the assumptions adopted at the 2025 valuation will be published by 31 March 2026.

Asset shares notionally allocated to employers

In order to establish contribution rates for individual employers or groups of employers the Fund Actuary notionally subdivides the Fund assets between the employers/groups, as if each employer/group had its own sub fund within the Fund.

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

A unitised approach is taken to track the notional employer asset shares. The Fund Actuary maintains a monthly record of notional asset allocations to employers by crediting/debiting units of the Fund's investments when the Fund receives/pays cashflows in relation to each employer. Investment returns are allocated on a pro rata basis with all employers subject to the same investment strategy unless otherwise agreed between the Administering Authority and the employer. Further adjustments are made monthly as follows:

- A notional deduction to meet the expenses paid from the Fund each month.
- A notional deduction for expected death in service lump sums paid.
- Allowance for internal transfers in the Fund (as cashflows will not exist for these transfers). In each case, the Administering Authority provides, on a monthly basis, an estimated cashflow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund.

At each Actuarial Valuation, further adjustments are made to notional asset shares to allow for benefits shared across all employers in the Fund (see information on risk sharing below).

In exceptional circumstances, information available will not allow for such calculations. In such circumstances another method will be agreed to calculate the notional asset share.

Grouping or pooling and risk sharing arrangements

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in tier 1 and tier 2 ill health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

The Administering Authority operates two groups, or pools of employers for funding purposes: The Town and Parish Council Group and the Academies Group:

- **Town and Parish Council Group**

  The Town and Parish Council Group includes Town and Parish Council employers under Part 2 (paragraph 2) of Schedule 2 of the Regulations which, due to being relatively small employers, benefit from being able to share risks with a wider pool. Only employers with active members or which are subject to a suspension notice, are eligible for membership of the group. A Town or Parish Council can elect to opt out of the Town and Parish Council Group and instead have an individual contribution rate. This option can only be made as part of an Actuarial Valuation and will be effective from the following 1 April. An election to leave the Town and Parish Council Group is irrevocable.

  Employers within the Town and Parish Council Group will share all risks in proportion to liabilities. Most employers within the Town and Parish Council Group will have a common recovery period for secondary contributions, which is 22 years at the 2025 Actuarial Valuation. Where an employer in the Town and Parish Council Group notifies the Administering Authority of a decision to stop designating posts as being eligible for membership of the LGPS a shorter recovery period may be used.

  Employers of the Town and Parish Council Group are not credited with individual notional asset allocations at each Actuarial Valuation for the purposes of setting contribution rates, as secondary contributions are certified based on the funding level of the group. If we are required to calculate a notional asset allocation for any employer in the Town and Parish Council Group, for example on exit, the asset value will be based on the employer's estimated share of the Town and Parish Council Group's assets based on the employer's liabilities and the Town and Parish Council Group's funding level on the secure scheduled and subsumption body funding target at the effective date of the calculation.

In order to smooth the transition to the extended grouping arrangements for Town and Parish Council Group employers, contribution changes for individual employers to harmonise the rates payable will be stepped in over a period of up to 6 years from 1 April 2023, subject to review at the 2025 Actuarial Valuation.

- **Academies Group**

  Eligibility for the Academies Group extends to all Academies, Free Schools and Multi Academy Trusts under Part 1 (paragraph 20) of Schedule 2 of the Regulations, which are covered by the Department for Education guarantee. This includes any academy created from a former higher or further education body.

  Employers can choose not to join the Academies Group at the later of the date of conversion or the signing of the 2022 Actuarial Valuation rates and adjustments certificate. However, where a Multi-Academy Trust is treated as the scheme employer for funding purposes their decision not to join the Academies Group will extend to all academies in the Trust, including any schools which convert in future. Employers who have joined the Academies Group can elect to opt out of the Academies Group in future and instead have an individual contribution rate. This option can only be made as part of an Actuarial Valuation and will be effective from the following 1 April. An election to leave the Academies Group is irrevocable.

  Employers within the Academies Group will share all risks in proportion to liabilities. Secondary contributions are assessed for employers in the Academies Group in proportion to their liabilities in the Academies Group at the relevant Actuarial Valuation, using the recovery period appropriate to the Academies Group, which was set as 22 years at the 2025 Actuarial Valuation and, where a surplus is being used to reduce contributions, in proportion to their pensionable payroll.

  Employers of the Academies Group are not credited with individual notional asset allocations at each Actuarial Valuation for the purposes of setting contribution rates, as secondary contributions are certified based on the funding level of the group. If we are required to calculate a notional asset allocation for any employer in the Academies Group for example on exit, the asset value will be based on the employer's estimated share of the Academies Group's assets, based on the employer's liabilities and the Academies Group's funding level on the secure scheduled and subsumption body funding target at the effective date of the calculation. For the purpose of calculations under FRS102/IAS19, the notional asset allocation will be based on each academy's share of the Academies Group's assets at the Fund Valuation Date pro rata to their liabilities on the secure scheduled and subsumption body funding target.

  In order to smooth the introduction of the grouping arrangements, contribution changes for individual employers to harmonise the rates payable are stepped in over a period of up to 6 years from 1 April 2023, subject to review at the 2025 Actuarial Valuation.

Pooled pass-through

In addition, the Administering Authority will admit new contractors on a "pooled pass through" basis which means that for funding and contribution rate purposes the Admission Body will be grouped (or pooled) with the Scheme employer.

A pooled pass-through arrangement will be the default option for all new admissions under paragraph 1(d) of Part 3 of Schedule 2 of the Regulations where the initial contract length is less than 5 years and there are fewer than 100 members transferring to the new Admission Body.

The pass-through approach will operate as follows:

- There will be no notional allocation of assets from the Scheme employer to the Admission Body on commencement of the contract

- On admission the contractor will pay the contribution rate payable by the Scheme employer (with any monetary secondary contributions converted to a % of pay as appropriate)

- Contributions will be set at each Actuarial Valuation (and any other time as appropriate) based on the combined funding position and primary contribution rate for the Scheme employer group/pool (i.e. there will be no separate calculation of funding position or employer contributions for the Admission Body)

- There will be no payment due from or to the contractor on exit, with responsibility for funding its liabilities assumed to remain with the Scheme employer unless there is a transfer to another employer.

The contractor will be assumed to be liable for any strain costs or other payments due to the Fund where it grants additional pension under Regulation 31 and strain costs. All other experience will be shared between the members of the Scheme employer group/pool.

Should there be any need to provide a notional asset value for the contractor, e.g. for accounting under FRS102/IAS19, this will be on a pro rata basis, i.e. the Scheme employer group/pool's notional asset share will be allocated to the employers in the Scheme employer group/pool in proportion to their liabilities calculated on assumptions appropriate to the Scheme employer group/pool's funding target.

In the case where the Scheme employer itself is grouped/pooled for funding purposes, contractors will generally participate in the same group as the Scheme employer, other than where it is determined that this is not appropriate, e.g. to protect the other employers in that group. On cessation of an Admission Body for which a pass through arrangement is in place, the liabilities will be assumed to be subsumed by the Scheme employer (and its group/pool where appropriate) but not by any unconnected employers in the Scheme employer's group/pool.

Guarantors

Guarantees from employers participating in the Fund

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may subsume the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities.

During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action may be to change the funding target for the employer, which could lead to reduced contribution requirements.

Guarantees from relevant public bodies and others

Some employers in the Fund have guarantees from external public bodies.

In particular, academies and colleges have a guarantee from the Department for Education. This guarantee means that the Fund treats these employers for funding purposes in the same way to the secure (tax raising) scheduled bodies.

Other guarantees from external bodies will be assessed individually by the Administering Authority, with advice from the Fund Actuary and having received specialist covenant advice if appropriate, to determine the impact on the funding approach for the relevant employers.

Link to Investment Strategy Statement

Funding and investment strategy are closely linked. Investment strategy is set by the Administering Authority, after taking investment advice.

The Administering Authority has produced this FSS having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement published under Regulation 7 of the Investment Regulations and the funding policy set out in this FSS.

Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Members' contributions are set by the Regulations at a rate which covers only part of the cost of accruing benefits. Investment income meets a further part of the cost. Employers pay the balance of the cost of delivering the benefits to the members. Decisions regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made, and if investment returns or income are lower than expected, then higher employer contributions may be needed.

The investment strategy should therefore take account of the liability profile and funding position. The discount rate is calculated based on the strategic asset allocation, and so it is important to consider the consequent changes in funding position and solvency objective when setting investment strategy.

Equally, the funding strategy allows for the investment strategy when setting the discount rate (which is based on expected investment returns on the Fund's investments). The risk-based modelling underpinning the choice of discount rates ensures consistency between the investment and funding policy and enables employers to benefit from the expected performance of the Fund's investments, including in growth assets, through reduced contributions, whilst at the same time ensuring a prudent approach which recognises that future returns are not guaranteed.

The Fund invests in a diversified portfolio of assets to achieve the Fund's objectives without taking more risk than is necessary.

The 2025 triennial valuation is based on the following high-level strategic asset allocation:

Main asset classes	**Strategic allocation (used for 2025 valuation)**
UK Equities	18.0%
US Equities	18.0%
Japanese Equities	18.0%
Emerging Markets Equities	6.0%
UK Corporate Bonds	5.5%
Global Private Equity	5.0%
Infrastructure	5.0%
UK Property	5.0%
UK Index Linked Gilts	5.0%
UK Fixed Interest Gilts	5.0%
Hedge Funds	2.5%
Multi Asset Credit	2.5%
Global Government Bonds	2.5%
Cash	2.0%

Setting employer contributions

As part of each Actuarial Valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between Actuarial Valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions are set out in Appendix 2.

Employer contribution rates are set using the same assumptions as for the liabilities.

Employer contributions are made up of primary and secondary contributions, which together make up the total contributions for each employer. The employer contributions are specified in the rates and adjustments certificate included with each Actuarial Valuation, and/or in any updates to the certificate between Actuarial Valuations.

The Actuarial Valuation report also shows a weighted average contribution rate based on the whole Fund payroll; both the average percentage rates payable and a total amount in respect of cash adjustments. The purpose of this is to show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.

Primary contributions

For open employers (i.e. those who still admit new members) the Projected Unit method is used. This means that the primary contribution rate is derived as the cost of benefits accruing to employee members over the year following the Fund Valuation Date expressed as a percentage of members' pensionable pay over that period.

For employers who no longer admit new members (closed employers), the Attained Age valuation method is normally used. This means that the primary contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Secondary contributions

Where an employer has a surplus or a deficit, a negative or positive adjustment to the primary contribution rate is needed to arrive at the total contributions each employer is required to pay. This adjustment is called the secondary contribution. The secondary contributions may be expressed as a lump sum payment or as a percentage of payroll.

Recovery Periods

The recovery period is the time period over which the secondary contribution is payable.

The recovery period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority, and having regard to representations from the employer where appropriate, taking into consideration the following:

- The aim to keep employer contribution rates stable
- The need to maintain solvency, which is consistent with a desire to set deficit recovery periods as short as possible
- The covenant of the employer, and any guarantee or subsumption commitment from another employer in the Fund
- The expected period of participation in the Fund of the employer
- Representations received from the employer and any Scheme employer or guarantor
- The risk associated with adopting a recovery period for recovery of deficit (rather than requiring immediate payment), which increases as longer deficit recovery periods are chosen. The risk is that, by adopting this approach, relatively little action is taken to restore full funding between Actuarial Valuations.

In particular:

- At the 2025 Actuarial Valuation, the Administering Authority agreed with the Fund Actuary a maximum recovery period of 22 years for employers which are assessed by the Administering Authority as being a long term secure employer (and employers with a subsumption commitment from such a body).
- Where the employer is open to new entrants and has a fixed term of participation in the Fund, the remaining period of participation will generally be used.
- Where there is a deficit for employers over successive valuations, the aim will be to set the recovery period in successive valuations so that the existing deficit continues to target the same date of recovery, whilst new emerging deficits are recovered as set out in this section, and balancing this with the desire for stability in employer contribution.
- For employers that are closed to new entrants and do not have a fixed term of participation, the recovery period will generally be set to be the future working lifetime of the remaining active members.
- For any employers that have entered into a deferred debt agreement, the recovery period will generally be set equal to the remaining period of the deferred debt agreement.

Removal of surplus

At the 2022 Actuarial Valuation, for most employers an adjustment to the surplus used to reduce employer contributions below the primary rate was made such that only the surplus above a funding level of 105% as at 31 March 2022 was used to calculate secondary contributions from 1 April 2023. This adjustment reflected the fall in asset values after 31 March 2022 and the challenging economic outlook. It was intended to reduce the risk of employer contributions reducing from 1 April 2023, only to be increased from 1 April 2026 if market conditions remain challenging and the funding position falls below 100% at the 2025 valuation. The Administering Authority will review this threshold level every three years in conjunction with the Actuarial Valuation and may amend the threshold or disapply this element of the strategy if it considers it appropriate to do so, having regard to the overall desirability of stability of contributions, and balancing fairness to participating employers and funding risks.

Phasing in of contribution rates

Consistent with a desire to keep employer contribution rates as stable as possible, the Administering Authority will consider, at each Actuarial Valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years (this could be an increase or decrease in employer contribution rates).

The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that contribution changes will generally be phased in over six equal annual steps. Further steps, less steps, or unequal steps may be permitted at the Administering Authority's discretion.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity and declining payrolls producing unacceptably volatile contribution adjustments as a percentage of pay, the Administering Authority will normally require monetary secondary contributions from employers in respect of any disclosed funding deficit.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficit may be set as a percentage of payroll.

Where an employer is assessed to be in surplus and total contributions are to be set below the primary rate, this will be implemented via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount (subject to a minimum overall contribution rate of zero).

Advance payment of contributions

The Administering Authority may allow certain employers to pre-pay employer contributions. Pre-payments can be made annually or triennially in advance, and will attract a discount on employer contributions as agreed with the Administering Authority on the advice of the Fund Actuary. Any employer wishing to enter into a pre-payment arrangement must engage with the Administering Authority prior to the triennial Actuarial Valuation report and rates and adjustments certificate being finalised.

Additional contributions

Employers will have to pay additional contributions to the Fund when granting additional member benefits:

- Awards of additional pension
- Retirement before normal retirement age on unreduced benefits (e.g. on redundancy), commonly called "strain costs"

Conflicts of interest

The Administering Authority has a clear and transparent process for identifying, assessing and managing potential conflicts of interest set out in their conflicts of interest policy:

[WYPF documents and boards | West Yorkshire Pension Fund]

In relation to funding, the following measures are in place:

- The actuarial team advising the Fund does not provide actuarial advice to participating employers, with agreed conflict of interest protocols
- Maintenance of a log of interests and declarations of Panel members in key meetings
- The Panel agreeing high-level principles of funding strategy, and actuarial assumptions which apply to all employers, rather than making decisions on individual employer rates. The Fund Actuary will calculate resulting employer rates based on those high-level decisions around risk appetite and objectives
- The Fund Actuary is subject to professional standards which requires them to only certify contribution rates which are sufficiently prudent and in line with the Regulatory requirements
- There is central oversight of the valuation process and whether it meets the requirements of solvency and long-term cost efficiency from the Government Actuary's Department review under Section 13 of the Public Service Pensions Act.

Monitoring employer covenant

The Administering Authority monitors employer risk/covenant.

- For tax raising bodies, covenant is taken to be strong
- For other employers, a risk assessment is carried out as set out below
- For employers with a guarantee or subsumption commitment from another employer in the Fund, the covenant of the guarantor is considered.

Employer risk assessment

The Administering Authority assesses employer risk in advance of each triennial Actuarial Valuation. This consists of looking at various metrics such as the type of employer, funding sources, any guarantees, and the expected length of participation.

For some employers, a more detailed risk or covenant assessment may be considered appropriate. In such cases, the Administering Authority will request advice from a covenant specialist.

Link to Administration Strategy

Employers must comply with the Fund's administration strategy:

pension-administration-strategy-2025-v11.pdf

and have regard to other relevant policies published on the Fund's website.

In particular, employers should note that it is important to provide accurate and timely data to the Administering Authority, so that the funding strategy can be implemented correctly.

The Administering Authority expects all employers in the Fund to take into consideration the effect of their behaviours on the Fund, for example when considering:

- Discretions policies
- Outsourcing decisions

All employers need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution, mergers with other organisations, or other decisions which will or may materially affect the employer's Fund membership.

Employers considering outsourcing any services should advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.

Employer events

Joining the Fund

Some employers are entitled to join the Fund under Schedule 2 of the LGPS 2013 Regulations. Other employers may apply to the Administering Authority for admission, and if admitted they will become an Admission Body in the Fund. Any Admission Body is required to have an "admission agreement" with the Fund, which sets out (in conjunction with the Regulations) the conditions of participation and which employees (or categories of employees) are eligible to be members of the Fund. The Administering Authority has a template admission agreement which it will generally expect to be entered into without amendment.

The Administering Authority is responsible for deciding whether an application from an employer to become an Admission Body within the Fund should be declined or accepted. The employer must meet the requirements set out in Part 3 of Schedule 2 to the LGPS Regulations, and, where appropriate, the additional requirements set out by the Administering Authority.

The Administering Authority will generally only consider admission if the body in question has a sound financial standing and appropriate security is in place. The Administering Authority's preference is for a Scheme employer to provide a subsumption commitment in respect of any new admission bodies wishing to join the Fund. Where a subsumption commitment is in place, the funding target for the admission body will generally be the same as that appropriate to the subsuming employer, unless the circumstances dictate otherwise.

A pooled pass-through arrangement will be the default approach for all new admissions under paragraph 1(d) of Part 3 of Schedule 2 of the Regulations where the initial contract length is less than 5 years and there are fewer than 100 members transferring to the new Admission Body. This approach is explained in more detail in the key funding principles section of this FSS.

Initial notional asset transfer

When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer or the group or pool which the new employer is joining. The Fund Actuary will calculate the funding target and hence the notional asset transfer at the new employer's commencement date.

When a new Admission Body starts in the Fund, they will usually start as fully funded (i.e. the notional asset transfer is set equal to the funding target). This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

Another option for the initial notional asset transfer is to allow for the funding level of the original employer, and therefore to transfer any past service surplus or deficit in respect of the transferring membership to the new employer.

Where a school is converting to an academy and an asset transfer is required from the Local Authority, a share of fund approach is adopted by the Fund Actuary in notionally re-allocating assets from the Local Authority to the academy / MAT / Academies Group (as appropriate), subject to a maximum transfer of assets equal to the transferring liabilities. This policy has been discussed and agreed with the 5 main Councils in the Fund which have education responsibilities.

Where an employer has a passthrough arrangement, and where the transferring members are currently employed by an employer other than the Scheme employer organising the outsourcing, an asset transfer may be required from the current employer to the Scheme employer.

Employer contributions

Initial contribution rate

When a new employer joins the Fund, the Fund Actuary determines the initial employer contribution rate payable from the new employer's commencement date. When setting the employer contribution rate the following elements will be taken into consideration:

- Whether a subsumption commitment is in place from a related Scheme employer in the Fund and/or the covenant of the new employer (including any contingent security available to the Fund), which will determine the funding target used in the assessment.
- Any past service or inherited liabilities and the funding level.
- Whether the new employer is open or closed to new entrants.
- For Admission Bodies, whether the admission agreement is fixed term or not, and the period of any fixed term contract period.
- Other relevant circumstances.

Review of contributions

The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers and may be increased or reduced.

The Administering Authority also monitors the position and may amend contributions between triennial Actuarial Valuations as permitted by Regulations 64(4) and 64A. The Fund's policy on contribution reviews is set out in Appendix 2.

Contributions for grouped/pooled employers

Any new Town or Parish Councils joining the Town or Parish Councils Group will pay the grouped rate from commencement.

Any new academies joining the Academies Group will pay the grouped rate from conversion, or the stepped rate for the MAT they are joining where academies in the MAT pay the same contribution rate.

Where an employer has a passthrough arrangement, on admission the contractor will pay the contribution rate payable by the Scheme employer (with any monetary secondary contributions converted to a % of pay as appropriate).

Bonds and other securitisation

Schedule 2 Part 3 Paragraph 6 of the Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of a body admitted under Schedule 2 Part 3 Paragraph 1(d)(i) of the Regulations) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

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

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

- In the case of admission bodies admitted under Schedule 2 Part 3 Paragraph 1(d) of the Regulations and other admission bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists to protect the relevant Scheme Employer on default of the Admission Body. As such, it is the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of admission bodies admitted under Schedule 2 Part 3 Paragraph 1(e) of the Regulations, or under Paragraph 1(d) where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.
- Where, for any reason, it is not desirable for an admission body to enter into an indemnity or body the admission body must secure a guarantee from a suitable body as set out in Part 3 (paragraph 8) of Schedule 2 of the Regulations.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover at least once a year.

Exit of an employer from the Fund

Where an employer exits the Fund, an exit valuation will be carried out by the Fund Actuary in accordance with Regulation 64.

The funding target used for the exit valuation will depend on the circumstances on exit and/or the type of employer exiting the Fund.

The exit valuation may reveal either a surplus or a deficit, and how these are dealt with is set out below.

Further detail is set out in Appendix 3.

Exit payments

Where the exit valuation reveals a deficit, the exiting employer will be expected to make good the funding position revealed in the exit valuation.

The Administering Authority's policy is that generally any deficit that exists at exit of an Admission Body will be payable immediately as a single payment. In certain cases, the Administering Authority may be prepared to agree payment over a period of time as permitted under Regulation 64B. The Administering Authority's policy in relation to spreading of exit debt is set out in Appendix 3.

Exit credits

Where the exit valuation discloses a surplus in the Fund in respect of the exiting employer, an exit credit may be due to the employer.

As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the Fund as an Admission Body, any guarantor, Scheme Employer or subsuming employer where applicable, of:

- The fact that the exit valuation shows a surplus;
- That the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer
- To request that each party, provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a decision and make the payment of a surplus to the exiting employer more or less appropriate.

The Administering Authority will then make a determination of the amount of the exit credit (if any) payable to the exiting employer.

More detail on the exit credit process is set out in Appendix 3.

Deferred Employers

In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer.

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

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

Further details of the Administering Authority's policy for deferred debt agreements are set out in Appendix 3.

Suspension notices

Regulation 64(2A) permits the suspension of the requirement to carry out an exit valuation for a period of up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice.

The Administering Authority will consider requests for a suspension notice on a case-by-case basis. In particular, the Administering Authority considers that it is appropriate to exercise that discretion in relation to Town and Parish Councils where there is a reasonable expectation that a member will join in less than 3 years. In that case, the Fund will advise the employer of the exit amount calculated by the Fund Actuary and serve a written suspension notice on the employer.

Whilst under a suspension notice, the employer must continue to pay any certified secondary contributions as if it were an ongoing employer. The Fund Actuary will recalculate contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the employer will be treated as an exiting employer as at the date the suspension notice expires.

Partial terminations

A partial termination occurs where an employer exits the Fund in respect of non-active members only. In general, the Administering Authority does not permit partial terminations. Any requests from employers will be considered on a case-by-case basis.

Bulk transfers

A bulk transfer occurs when 2 or more members transfer to another registered pension scheme under Regulation 98, or where 10 or more members transfer to or from another LGPS fund under Regulation 103(3).

The steps that are normally involved in a bulk transfer are as follows:

- The actuaries of the two funds/schemes agree the membership and data of the members transferring.
- The actuary of the original fund/scheme proposes a basis for a transfer payment, usually set out in an "actuary's letter". Where this is under Regulation 98, this will also cover the service credits to be granted.
- The actuaries of the two funds/schemes, together with the funds and the relevant employers, negotiate and agree the final basis for the transfer payment, and a final actuary's letter is produced and signed.
- Example calculations are carried out and agreed between the actuaries.
- A payment date is agreed, and final payment is made.

In general, where a bulk transfer out of the Fund is occurring:

- Where all membership of an employer is transferring, the proposal for the asset transfer will be the total asset share of the employer.
- Where all of the active members of an employer are transferring, but non-actives are remaining in the Fund, the proposal for the asset transfer will be the total asset share of the employer less the value of the liabilities in respect of the non-active membership valued using an appropriate funding target depending on whether the non-active liabilities are being subsumed or are becoming orphan liabilities in the Fund.
- Where part of the active membership of an employer is transferring, but the employer will remain a participating employer in the Fund, the proposal for the asset transfer will depend on the circumstances of the employer. The Administering Authority will consult with the employer and may request a review of employer contributions if the transfer leads to a significant increase in the shortfall or surplus.

Appendix 1: Key Risks

The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework. The risks most likely to impact on the funding strategy and measures that the Administering Authority has in place to control those risks are summarised below.

Economic risk

Economic risks can affect both assets and liabilities.

The main risks affecting the liabilities include discount rates (expected future investment returns) and price inflation. The Administering Authority will ensure that the Fund Actuary investigates these matters at each Actuarial Valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions used to calculate the liabilities to allow for observed or anticipated changes.

Interest rates, inflation, and wider macro-economic risks can also affect the assets held. In addition, the assets may not be affected in the same way as the liabilities. Investment risk is covered in more detail below.

If significant funding changes become apparent between Actuarial Valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next Actuarial Valuation and consider whether any bonds in place for Admission Bodies require review.

Investment risk

This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

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

The specific risks associated with assets and asset classes are:

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

The Administering Authority invests a substantial proportion of the Fund in assets which are expected to offer higher long-term rates of return than government bonds and cash, but can be more volatile. This short-term volatility in returns can result in volatility in funding positions and employer contributions.

The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, as set out in the ISS.

Producing low volatility in employer contributions would require material investment in "matching" assets for the liabilities, i.e. investing in very secure assets that behave in a similar way to the liabilities as economic conditions alter (e.g. long-dated index-linked gilt investments). However, a matched strategy could increase employer contributions from their current levels.

The Fund Actuary sets the discount rate by taking into account expected returns and volatility of each asset class in the long-term investment strategy. This can help mitigate the risk in that movements in asset values typically impact expected returns on those asset classes, and liabilities should move in a similar way to the assets, helping to manage the impact on the funding position.

The Administering Authority or the Asset Pool reviews each investment manager's performance regularly. The Administering Authority also regularly considers the asset allocation of the Fund at least once every three years by carrying out an asset allocation review. The Administering Authority also regularly reviews the effect of market movements on the Fund's overall funding position.

Demographic risk

The main demographic risks that may affect the liabilities include life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each Actuarial Valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions used to calculate the liabilities to allow for observed or anticipated changes.

If significant liability changes become apparent between Actuarial Valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next Actuarial Valuation and consider whether any bonds in place for Admission Bodies require review.

Where it appears likely to the Administering Authority that for an employer the amount of the liabilities arising or likely to arise has changed significantly since the last Actuarial Valuation, the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A in line with the Administering Authority's policy.

Climate risk

The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Investment Strategy Statement and Statement of Compliance with the UK Stewardship Code for Institutional Investors. The Administering Authority keeps the effect of climate change on future investment returns under review and will commission advice from the Fund Actuary on the potential effect on funding as required.

The impact on financial markets and life expectancy / morbidity will also impact the value placed on the liabilities, which can also significantly change the funding level and any surplus or deficit, and the resulting employer contributions.

At the 2022 Actuarial Valuation the Fund Actuary carried out scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period, and similar analysis will be carried out at the 2025 Actuarial Valuation. The analysis carried out will be in line with the key principles document agreed by the actuarial firms providing advice to LGPS funds and approved by the Government Actuary's Department, the Ministry for Housing, Communities and Local Government and the England and Wales LGPS Scheme Advisory Board.

Liquidity and maturity risk

Changes to the LGPS may impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS
- transfer of responsibility between different public sector bodies
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Regulatory/compliance risk

The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

There are a number of uncertainties associated with the benefit structure at the time this FSS was last updated:

- The outcome of the cost management process as at 31 March 2024.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. MHCLG's Access and Fairness consultation issued in May 2025 proposed changes to the LGPS Regulations to equalise the survivor pension entitlement for all members, regardless of the sex of the eligible member and their survivor.
- The impact of the McCloud underpin to 2014-2022 pensions for those who joined the LGPS before 1 April 2012, particularly where full data is not yet available.

In determining how these uncertainties should be allowed for in employer contributions the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice.

Employer data quality risk

Actuarial calculations such as triennial Actuarial Valuations, employer contribution rates, and exit valuations, rely on accurate data being supplied.

Where data quality is low, there is a risk that these calculations are not as accurate, which could lead to employer contributions and/or exit payments being set too high or too low.

The Fund Actuary carries out data validation to assess the quality of the data annually. Where required, the Fund Actuary and the Administering Authority will agree an approach for data that is not of the highest quality. For example, this may take the form of estimating missing data items from other available items of data.

Governance risk

This covers the risk of unexpected structural changes in Fund membership (for example the closure of an employer to new entrants or the large-scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The policy is to require regular communication between the Administering Authority and employers and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers, funding levels and identifying where membership is declining significantly.

Orphan liability risk

This risk arises from the risk of employers leaving the Fund and leaving orphaned liabilities. In addition there is also a risk that deficits might arise in respect of already orphaned liabilities.

Funding targets are set to target the assumed exit position, to reduce the risk of deficits arising on exit.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficit arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficit. To give effect to this, the Administering Authority will seek funding from the outgoing employer which allows for a more prudent solvency target and gives the Fund greater certainty that the solvency target will be met over a suitable trajectory period, based on the Fund's long-term asset strategy.

Employer covenant risk

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Fund.

This Funding Strategy Statement contains sufficient detail on how funding risks are managed in respect of the main categories of employer and other pension fund stakeholders.

The Administering Authority monitors employer payments and expects employers to engage with the Fund where their circumstances have changed, noting that contributions can be reviewed between triennial Actuarial Valuations if the conditions in Regulations 64A and the terms of the Administering Authority's policy as set out in Appendix 2 are met.

The Administering Authority maintains a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS.

The Administering Authority monitors employer covenant as set out earlier in the FSS. This includes exited employers who are spreading deficit payments and employers who have entered a deferred debt agreement.

Appendix 2: Employer contribution reviews

When will contributions be reviewed?

The Administering Authority will consider reviewing employer contributions between triennial Actuarial Valuations, as permitted by Regulations 64(4) and 64A, in the following circumstances:

Under Regulation 64(4)

- it appears to the Administering Authority that it is likely that the Scheme employer will become an exiting employer.

Under Regulation 64A

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

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as voluntary withdrawals or the loss of a significant contract.
- the materiality of any change in the employer's membership or liabilities, taking account of the Fund Actuary's view of how this might affect its funding position, primary or secondary contribution rate.
- whether, having taken advice from the Fund Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund.
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund.
- the general level of engagement from the employer and its adherence to its legal obligations, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms.

In determining whether or not a review should take place under Regulation 64(4), the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- A material change in circumstances, such as the exit date becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer whose participation is due to cease within the next 3 years, the Administering Authority will monitor developments and may see fit to request an interim valuation at any time.

- For the Fund's Tier 3 employers, and any others as considered appropriate, the Administering Authority will carry out an annual assessment of the employer risk to identify whether a contribution review is required.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) or 64A applies. In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. The Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next Actuarial Valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

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

Employer engagement

The Administering Authority will involve the employer in the process in the following ways:

- In most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed.
- the Administering Authority will advise the employer that a review is being carried out and share the outcome of the review and any risk or covenant assessment as appropriate.
- the Administering Authority will inform the employer of the indicative timetable for completion of the review. In general, the results of the review will be available no more than 3 months after all data and information has been received by the Administering Authority, and the employer will be informed where there are circumstances that means this timescale will vary.
- The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases.

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities.

The employer should contact WYPF Technical team wypf.technical@wypf.org.uk

and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost.

All employers are expected to engage with the Administering Authority and adhere to the notifiable events framework as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the employer's circumstances and any change in covenant. Notifiable events are set out in the Pensions Administration Strategy.

Determining the contribution rate

When determining whether employer contributions should be adjusted as the result of the review, the Administering Authority will consider: the materiality of the changes, representations from the employer, the proximity to the next triennial Actuarial Valuation, the outcome of any discussions with the employer and any related/linked employer in the Fund and any other factors.

- Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers seeking their view on such an approach
- Contribution reviews under Regulation 64A are unlikely to be carried out during the 12 month period from the Fund Valuation Date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the Actuarial Valuation.
- Employers should be aware that all costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Appeals

Any appeal against the Administering Authority's decision regarding employer contribution reviews must be made in writing to the WYPF Technical Team wypf.technical@wypf.org.uk within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:

- deviation from the published policy or process by the Administering Authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

Appendix 3: Employer exits

Exit of an employer

Where an employer becomes an exiting employer (including termination of a deferred debt agreement), an exit valuation will be carried out in accordance with Regulation 64 of the Regulations. That valuation will take account of any activity as a consequence of exit regarding any existing contributing members (for example any bulk transfer payments due, and any asset transfer associated with the transfer of active members to another employer in the Fund) and the status of any liabilities that will remain in the Fund.

For liabilities subsumed by another employer in the Fund, the liabilities will be calculated using the ongoing funding target appropriate to the subsuming employer, updated for financial conditions at the exit date. In exceptional circumstances the funding target for subsumed liabilities may be varied if deemed appropriate by the Administering Authority, on the advice of the Fund Actuary.

For liabilities that will become orphan liabilities the liabilities will be calculated using the orphan exit funding target.

Where any of the liabilities are transferring to a successor body, e.g. on a contract being re-let, the funding target of that successor body will not influence the assumptions adopted for the exit valuation. Any deficit between the value of the liabilities assessed on the appropriate exit basis and the funding target for the successor body (e.g. if this is being set up fully funding on an orphan admission body funding target) will generally be assumed to be met by the letting authority unless otherwise agreed between the parties, to the satisfaction of the Administering Authority.

The exit valuation will assess the assets held as at the exit date in the Fund in respect of the exiting employer, as compared to the liabilities of the Fund in respect of benefits attributable to the exiting employer's current and former employees. The exit valuation will normally conclude that there is either:

- a deficit, in that the liabilities have a higher value than the assets; or
- a surplus, in that the assets have a higher value than the liabilities.

When calculating the liabilities in the Fund in respect of the exiting employer, an allowance will be made for the potential increase in benefits due to the McCloud judgement and any other benefit uncertainties, as advised by the Fund Actuary.

Grouped employers

Employers that participate in the Academies Group or the Town and Parish Council Group and exit the Fund, cease to participate in that group.

Where an exit valuation is carried out for an employer that participates in a group, the asset value will be based on the employer's estimated share of the group assets based on the employer's liabilities and the group's funding level at the effective date of the calculation.

Exit payments

Where the exit valuation shows a deficit, an exit payment will usually be required from the exiting employer.

The Administering Authority may, with the consent of the scheme employer in question, allow another employer in the Fund to subsume the assets and liabilities of the exiting employer. This may include the Administering Authority agreeing to the other scheme employer accepting ongoing liability for any deficit in substitution of the requirement for an exit payment from the exiting employer.

In the event that unfunded liabilities arise that cannot be recovered from the admission body, the indemnity or bond provider or guarantor, these will normally fall to be met by the Scheme employer in the case of paragraph 1(d) admission bodies or the Fund as a whole (i.e. all employers) in the case of other admission bodies. In this latter case the deficit would normally fall on the employers pro-rata to their liabilities in the Fund. Unless the deficit amount were material, the allocation of the deficit to all employers in the Fund would be carried out at the next formal actuarial valuation.

Spreading exit payments

Although the default position remains that any deficit payment would normally be levied on the exiting employer as a single capital payment, the Administering Authority may choose to allow phased payments as permitted under Regulation 64B at the request of an employer. The Administering Authority will consult with the employer to consider its request and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

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

- The ability of the employer to make a single capital payment. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.
- Whether any security is in place, including a charge over assets, bond, guarantee or other indemnity.
- Whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.
- Any actuarial, covenant or legal advice the Administering Authority deems necessary.
- The views of any guarantor, and whether the guarantee will continue in force during the spreading period.
- The written representations of the employer in relation to any factors which, in their view, would influence such a decision.

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

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

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level quarterly amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Whilst the default position would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. At its sole discretion the Administering Authority may therefore consider a request for spreading debt on or after the date of exit.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

Employers will be asked to pay actuarial, legal and covenant advice costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial Actuarial Valuation and will take actuarial, covenant, legal and other advice as considered necessary.

Employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework. Notifiable events are set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented.

Any review will not consider changes to the original exit amount nor interest rate applicable.

An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added over the expected spreading period. The cost of any such advice will be recharged to the employer.

Deferred debt agreements

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate (a 'Deferred Debt Agreement' or DDA).

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

DDAs will generally only be entered into at the request of an employer. The Administering Authority will then consult with the employer to consider the request and determine whether or not a DDA is appropriate and the terms which should apply (including the precise details of the DDA). As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored.

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

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

Where the employer's covenant is expected to materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA. The Administering Authority is unlikely to enter into a DDA unless it is clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

The matters which the Administering Authority will reflect in the DDA, include:

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

- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer.
- A provision that the DDA will terminate on the first date on which one of the following events occurs:

    - the deferred employer enrols new active members;

    - the period specified, or as varied, elapses;

    - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;

    - the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or

    - the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

- The responsibilities of the deferred employer.
- Conditions triggering the implementation of a recovery plan, i.e. when the secondary contributions payable and/or the period of the DDA may be varied.
- The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64(7E) and above.
- Any other matter the Administering Authority considers relevant.

The Administering Authority has a template agreement for DDAs, which it will require employers (and any guarantors) to sign up to. It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of developing a template agreement is to make the process easier, quicker and cheaper and therefore it is not envisaged that there will be material changes to the Administering Authority's template.

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

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

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund.
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that the deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months.
- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer’s ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

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

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

Exit credits

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months of the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6-month period should run from the date all the necessary data has been provided. In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

- the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus)
- the proportion of the surplus which has arisen because of the value of the employer's contributions
- any representations made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the 2013 Regulations, and
- any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place.

For exits where there is a subsumption commitment and hence the ongoing funding target appropriate to the subsuming employer is adopted on exit, the Administering Authority's default approach will be to pay an exit credit which is the lower of the surplus amount and the amount of contributions paid by the exiting employer.

For exits where there is no subsumption commitment and hence the orphan exit funding target will apply, the Administering Authority's default approach will be to pay an exit credit equal to the amount of the surplus on exit less any costs incurred by the Administering Authority in relation to the exit.

Appeals

Any appeal against the Administering Authority’s decision regarding exit credits must be made in writing to WYPF Technical team wypf.technical@wypf.org.uk within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:

- deviation from the published policy or process by the Administering Authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

Appendix 4: Roles and responsibilities

The efficient and effective management of the Fund can only be achieved if all parties are aware of and exercise their statutory duties and responsibilities conscientiously and diligently.

The primary parties to the FSS are the Administering Authority, the Fund Actuary and the Employers.

The Administering Authority (the Fund) is required to:

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

The individual employer is required to:

- ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- pay all ongoing contributions, including employer contributions determined by the Fund Actuary and set out in the Rates and Adjustments Certificate, promptly by the due date

- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- notify the Administering Authority promptly of all changes to active membership that affect future funding
- pay any exit payments on ceasing participation in the Fund in a timely manner
- pay for any legal and actuarial costs incurred by the Fund on their behalf
- have regard to the Administering Authority's administration strategy and their responsibilities as set out in the Funding Strategy Statement at all times

The Fund Actuary should:

- prepare Actuarial Valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency based on the assumptions agreed with the Administering Authority and having regard to the FSS and the LGPS Regulations
- provide advice so the Administering Authority can agree the necessary assumptions for the Actuarial Valuation
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- provide advice and exit valuations to the fund so that it can make decisions on the exit of employers from the fund, and assist the Administering Authority in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B
- provide advice to the Fund on bonds or other forms of security against the financial effect on the Fund of employer default
- assist the fund in assessing whether employer contributions need to be revised between Actuarial Valuations as permitted or required by the LGPS Regulations
- ensure that the fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the Fund
- identify to the Fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the Fund and other clients.

Appendix 5: Glossary

Actuarial Valuation

An assessment by the Fund Actuary of the Funding Level of the Fund and recommended employer contributions. The assessment of the Funding Level is based on calculating the Past Service Liabilities and comparing this to the value of the assets held in the Fund. Actuarial Valuations take place every three years (triennial).

Administering Authority

City of Bradford Metropolitan District Council is the Administering Authority to the Fund.

Admission agreement / Admission Body

A written agreement which provides for a body to participate in the Fund as a scheme employer. An Admission Body is an employer admitted to the Fund under an admission agreement.

Assumptions

Assumptions about the future need to be made by the Fund Actuary in order to calculate how much money the Fund needs at the Fund Valuation Date to pay for the benefits that have been earned up to the Fund Valuation Date and to calculate the ongoing contribution requirements. These assumptions are estimates of future experience for example, pay growth, longevity of pensioners, inflation, and investment returns.

Code of Practice

The Pensions Regulator's General Code of Practice.

Deficit

If the assets are lower than the liabilities, then a deficit exists. The deficit is the difference between the Past Service Liabilities and the assets.

Employer covenant

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

Fund

The West Yorkshire Pension Fund.

Fund Actuary

An actuary appointed by the Administering Authority to provide advice to the Fund, including carrying out Actuarial Valuations.

Funding level

The funding level is the value of assets divided by the value of the liabilities.

Fund Valuation Date

The effective date of the triennial fund Actuarial Valuation.

Guarantee / guarantor

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

Liabilities / Past Service Liabilities

This is the cost or present value of the benefits to which members are entitled based on benefits built up to/in payment at the date of calculation, assessed using the agreed assumptions. It generally allows for projected future increases to pay or pension as appropriate through to retirement or date of leaving service.

LGPS Regulations

The statutory regulations setting out the contributions payable to, and the benefits payable from, the Local Government Pension Scheme and how the Funds are to be administered. These include the Local Government Pension Scheme Regulations 2013 and various transitional regulations.

Local Pension Board

The board established to assist the administering authority as the Scheme Manager for each fund.

Long-term cost efficiency

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

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

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

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

Non-statutory guidance

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

Notifiable events

Events which the employer should make the administering authority aware of.

Pensions Administration Strategy

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

Primary rate of the employers' contribution

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

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

Rates and adjustments certificate

A certificate required at each actuarial valuation by the Regulations, setting out the primary and secondary contributions payable by employers for the 3 years from the 1 April that falls in the calendar year following the Fund Valuation Date.

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 Fund 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 Fund 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 show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.

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 Fund 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.

Surplus

If the assets are higher than the Past Service Liabilities, then a surplus exists. The surplus is the difference between the assets and the past service liabilities.