

## **Scheme Advisory Board (SAB) Statement on the 2025 Actuarial Valuation – 28 May 2025**

### **Introduction**

Administering Authorities (AAs) in England and Wales will have already started their preparations for the 2025 Actuarial Valuation and will be considering how best to engage with scheme employers on the valuation process and timetable.

In line with its statutory function to provide advice on the effective administration and management of the Scheme, the Board makes this statement with the aim of:

- assisting AAs and fund actuaries to manage the valuation process
- balancing the expectations that different stakeholders will have
- improving consistency of the risks considered in setting funding strategies
- increasing the transparency of decision making and how this affects outcomes.

References are made throughout this statement to the Board's earlier statement on [managing surplus \(issued in January 2024\)](#) and to the [Funding Strategy Statement \(FSS\) guidance](#) issued earlier this year. It is strongly advised that these documents are read in conjunction with this statement.

### **General Context**

After many years in which deficit payments were required from employers, some scheme employers may be hoping for a reduction in contributions in the 2025 Actuarial Valuation. This expectation will have been informed by reports that many LGPS funds are expected to be in a position of considerable surplus at the 2025 Actuarial Valuation.

The funding position of each AA is likely to be different: some will have surpluses, some will still be experiencing deficits, and the position has fluctuated historically and will continue to shift over time. Different employers within a fund may also have very different funding levels from each other. The FSS guidance states that "*The FSS should explain the fund's particular response to being in deficit or surplus and recognise that this may differ for groups of employers within a single fund (according to employer type and circumstances)*" and that "*The FSS should enable employers to understand how their funding outcomes and contributions might change over time*".

The LGPS regulations clearly allow AAs to set negative secondary contribution rates, so the primary rate is adjusted to equal the overall rate payable by an employer. This adjustment may be for reasons of solvency, long-term cost efficiency or contribution rate stability. The FSS guidance reminds AAs that stabilisation of contributions can work both ways – reflecting a fund's deficit or surplus position.

Many LGPS employers have been paying large deficit contributions at the same time as managing their own significant financial pressures. Although decisions on future publicly funded employer funding will be taken in the coming Government Spending

Review, it is anticipated that resources will continue to be tight for many of these employers. Some stakeholders will be understandably cautious about reducing contribution rates too quickly given the wider political and economic uncertainty in the UK and globally. While the LGPS will always look more to longer term trends, recent financial market turmoil experienced around the world is a reminder of the need for an appropriate degree of prudence when setting assumptions about the future.

Scheme employers should be aware that the development of their funding position and the outlook for their contribution rates will depend on many factors that are specific to them as an employer and their LGPS fund, including the investment strategy (and performance) of the fund, the employer covenant, and the AAs funding objectives and risk appetite.

### **Consistency of approach**

It is a statutory requirement that AAs must secure the solvency of the pension fund and the long-term cost efficiency of the Scheme. To achieve this, each AA has discretion in setting its own assumptions and funding strategy, based on its individual fund employer profile and risk tolerance.

It should therefore be recognised that there can be a wide variety of outcomes from the Actuarial Valuation across different funds but also within funds for individual employers. The statutory FSS guidance says *“Parity of treatment is important and means treating like cases alike. That does not necessarily mean treating all employers the same, as different employers have different covenant values and differing circumstances.”* However, employers should be able to understand how their funding position and contributions are being determined, what allowances are being made for risks and uncertainties, and AAs should be ready to justify and document the resultant decisions made.

The Board would like to see greater consistency in describing the themes considered to inform the valuation approach and outcomes. The Board is therefore working with the actuarial firms and the Government Actuary’s Department (GAD) in its role as MHCLG’s appointed actuary to establish how this improved consistency can be achieved.

The Board also welcomes a proposed review of the legislation which applies to revision of contribution rates as stated by MHCLG in the [letter](#) sent by Michelle Warbis of Ministry of Housing, Communities and Local Government (MHCLG) on 10 March 2025.

### **Role of the Scheme Actuary (GAD)**

Local Actuarial Valuations, including the use of surpluses, will be reviewed in GAD’s Section 13 report, with the focus on consistency of approaches between AA’s and the long-term cost efficiency of the scheme. GAD’s [2022 review](#) provided some indications of how it might approach its review of the 2025 valuations. In particular, we expect GAD to look closely at AA’s which are relatively well funded but are also still setting relatively high contribution rates. Where AAs are utilising surplus more or less quickly than others, the Board understands that GAD will seek to understand the reason for this and the governance of the decision-making process.

## **Managing conflicts of interest**

As the Board said in its earlier statement, “*administering authorities wishing to review their own employer contribution will need to consider very carefully how they manage the conflict of interest between their role as an employer in the scheme and as an administering authority.*” Transparency around the governance of the decision-making process is key. This means not only setting out the considerations used to arrive at the AA’s overall funding strategy and actuarial assumptions (such as the discount rate), but also being open to explain how the fund’s general approach to setting employer contribution rates has been applied to specific employers or groups of employers.

The Pensions Regulator’s [Code of Practice](#) has guidance for public service pension schemes on managing potential conflicts of interest and establishing and operating adequate internal controls for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and the Code.

## **Practical next steps**

In revising the guidance on preparing an FSS, one of the Board’s aims was to significantly increase the guidance for AAs in devising their communication and engagement throughout the valuation process.

The Board strongly suggests that AAs clearly document how they will have engaged with key stakeholders throughout the valuation process, specifically employers and member representatives. It is important that AAs work closely with their fund actuary and take appropriate professional advice whilst retaining ownership of, and providing transparency about, the process followed, and the key decisions made.

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