

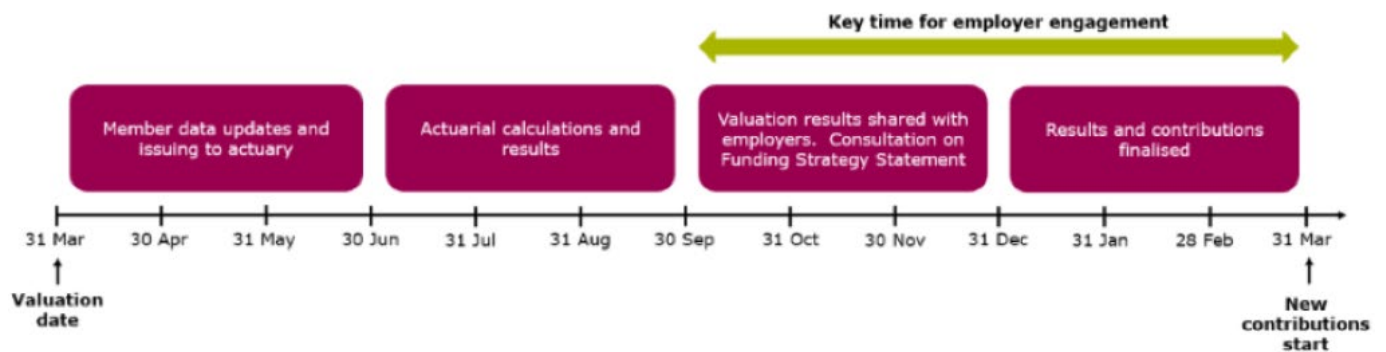
LGPS Bulletin #63 : LGPS valuations in England & Wales

LGPS valuations in England & Wales

The timeline below from our June 2025 LGPS bulletin sets out the 31 March 2025 valuation process for LGPS funds in England & Wales. Now here we are in October 2025, into the critical phase for employers engaging with their funds. With valuation results now starting to emerge, what is the outlook and what should employers be doing?

Valuation timeline

SPENCE



Valuation results

The results we're seeing come through are showing a very significant increase in the funding level for employers – often around 20%. Funds have larger surpluses than in 2022. This has primarily been driven by yield rises since 2022 increasing future investment return expectations and reducing liabilities.

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This is translating through to lower employer pension contributions from April 2026 onwards. In one example, we've seen the employer contribution rate reduce from over 30% of salaries to 20% of salaries.

However, the reduction in employer contributions can sometimes be lower than you might expect given the improvement in funding. Funds try to keep contribution rates stable over time, and are cognisant of the risk of current surplus levels deteriorating in the future.

Top tips

If you want to challenge the level of contribution proposed by your Fund or better utilise your current level of LGPS surplus, consider the following points:

Understand your fund's policy on exit credit payments. You might be more relaxed about continuing to pay contributions into a well-funded arrangement if you have certainty that any over-funding will be refunded with an exit credit payment on eventual cessation. But funds have discretion over this, so understanding how they will apply this discretion in your circumstances is crucial. If you don't have certainty that you will recover any over-funding, then it's more important that you don't overpay contributions now.

Check the time horizon being used by the fund. With strong funding positions, longer time horizons can increase cash costs because the risk of returning into deficit over the time horizon increases. Shorter time horizons could reduce your cash costs and may be justifiable depending on your membership profile.

Consider exiting to crystallise the current surplus levels. Contributions are typically set assuming ongoing participation in the fund and therefore build in the risk of surpluses reducing in the future, thereby meaning current surplus levels are not fully recognised. Exiting the fund crystallises current surplus levels and can lead to exit credit payments to employers.

A closing thought on initiating an LGPS exit

Exiting your Fund is triggered when your last employee leaves pensionable service in the Fund. Accessing an exit credit therefore requires your LGPS employees to be moved to another pension arrangement for future pensionable service. Employee relations issues can be a concern here, particularly if the employees have a contractual entitlement to an LGPS pension. One option to consider for managing this is to offer DB rather than DC as the replacement pension. The same yield rises that have improved LGPS funding positions have materially reduced DB contribution rates in other DB schemes.

From an employee perspective, a non-contributory 60ths DB scheme is broadly equivalent to the contributory 49ths DB pension they receive in LGPS. Moving the employees to another DB scheme can therefore be a neat way to negate the employee relations issue whilst still accessing the LGPS surplus. This won't be right in all circumstances, particularly for smaller employers without other DB, but if you have access to another DB scheme it might just be worth considering.

