Item 7

23rd September 2026

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Actuarial Valuation 2026 and Funding Strategy

Purpose of Report:

To present preliminary results of the actuarial valuation as at 31st March 2026 together with a proposed Funding Strategy.

Recommendations:

The Committee is asked:

- **to NOTE** the preliminary results of the actuarial valuation as at 31st March 2026;
- **to APPROVE** the proposed Funding Strategy and Contributions Strategy; and
- **to APPROVE** the draft Funding Strategy Statement (FSS) for consultation with appropriate interested parties.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

1 Background

1.1 Funding Strategy Statement (FSS)

Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018 requires each administering authority, after consultation with such persons as it considers appropriate, to:

- prepare, maintain and publish a written statement setting out its funding strategy; and
- to keep the statement under review.

1.2 Actuarial Valuation

Regulation 60 requires each administering authority to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2020 and in every third year afterwards. In completing the valuation the actuary must have regard to the current version of the administering authority's FSS.

1.3 Practice

The actuarial valuation is essentially a measurement of the Fund's current and future liabilities, and the associated funding risk. The funding strategy deals with how the liabilities and the risk will be managed. In practice, review of the FSS and completion of the actuarial valuation are carried out in tandem to ensure that the measurement and management processes are cohesive.

2 2026 Actuarial Valuation

2.1 Initial Results

Initial results of the valuation are as follows.

Valuation Date	*31 March 2023*	31 March 2026
Past Service Liabilities	***(£m)***	**(£m)**
Employees	*8,156*	8,967
Deferred Pensioners	*2,145*	2,451
Pensioners	*8,669*	10,649
Total Liabilities	***18,970***	**22,067**
Assets	***27,872***	**33,436**
Surplus	*8,902*	11,369
Funding Level	***147%***	**152%**

These draft figures provide a high-level snapshot of the funding position but their limitations should be noted:

- the liabilities have been valued using a single set of assumptions about the future. The figures are very sensitive to the assumptions used;
- the assets are shown at their market value as at the valuation date but that figure is volatile and will change constantly with market movements; and
- The whole fund past service liabilities are the sum of the individual employer liabilities. The individual employer positions are next to be calculated and it is possible that changes may be made to individual employer membership data during this process that change the reported final whole fund position. However, any changes to employer positions

would be expected to only have a small impact on the whole fund position.

2.2 Fund Experience 2023 - 2026

The main outcomes since 2023 which have impacted on the valuation results are as follows.

	Expected	Actual	Difference	Impact
Investment Returns (% p.a.)	5.0	**7.3**	+2.3	**+**
Inflation (% p.a.)	2.7	**4.0**	+1.3	**-**
Salary Increases (% p.a.)	3.4	**5.9**	+2.5	**-**
Pensions Ceasing (£m)	61.1	**55.7**	-5.4	**-**

Strong investment returns were offset to some extent by other negative impacts.

2.3 Key Assumptions

The key assumptions which have impacted on the results are as follows.

	31 March 2023	31 March 2026	Impact
Financial Assumptions	***(% p.a.)***	**(% p.a.)**	
Discount Rate	***5.0***	**5.3**	**+**
Inflation	***2.7***	**3.0**	**-**
Salary Increases	***3.4***	**3.5**	**-**
Life Expectancy (from age 65)	***(Years)***	**(Years)**	
Male pensioners	*19.8*	**20.2**	**-**
Male non-pensioners	*20.6*	**21.2**	**-**
Female pensioners	*22.5*	**22.9**	**-**
Female non-pensioners	*24.2*	**24.8**	**-**

The discount rate is higher than at the 2023 valuation as a result of increases in global interest rates, which form the basis for future investment return expectations. This was offset to some extent by other changers in assumptions.

3 Impact of Improved Funding Position

In principle the strong funding position allows flexibility in 4 broad areas of the funding strategy:

- retain the surplus (as insurance against future adverse economic conditions)
- change the investment strategy (to take less investment risk)
- increase prudence levels (to take less funding risk)
- reduce employer contribution rates.

4 Employer Contributions

The next step in the valuation process is to calculate employer contribution rates for each of the Fund's 132 employers. (Member contribution rates are fixed by the regulations and are not affected by the actuarial valuation).

The reported funding level does not directly drive the employer contribution rates that will be set. Rates are set using similar actuarial modelling to that used to report the funding level, but projecting multiple, variable assumptions rather than relying on a single set. This allows a robust funding plan to be agreed for each employer which considers how their assets and liabilities will evolve over time in different economic scenarios.

Modelling has been carried out at a whole fund level, but not yet at an individual employer level. This included: stability of contributions, regret risk, long-term cost efficiency, self-sufficiency, how results compare on different time horizons and at different contribution rates, different funding targets, downside risk measures, stress testing, and climate scenario testing.

This preliminary analysis confirms that the very strong funding position allows flexibility to reduce contribution rates as part of the funding strategy adopted at this valuation. The proposed funding strategy is summarised below.

5 2026 Funding Strategy

The proposed funding strategy incorporates a combination of the options for flexibility outlined above. In brief:

- retention of surplus – whilst the target funding level remains 100%, much of the modelling has focused on short-term targets above that level, and on downside risk, to ensure that at least some of the surplus is retained and any risk of a return to deficit is minimised or avoided;
- change the investment strategy – the investment strategy has already been significantly de-risked in comparison to the Fund's history, but the review of investment strategy which is being carried out alongside the actuarial valuation is looking at further options for de-risking, in particular minimising downside risk;
- increasing prudence levels – the actuarial approach already incorporates significant levels of prudence and high probabilities of success. This has been increased with the use of a 2026 discount rate which produces a **83%** likelihood of success *(80% in 2023).* An additional margin of **0.2%** (above the market-implied rate) has been retained in the inflation and PI assumptions used in this valuation to reflect the high level of uncertainty in the current inflation environment;
- employer contribution rates – even after the measures above, the current position allows significant flexibility to reduce employer contribution rates. Calculation of individual employer rates has still to be carried out, but the proposed contributions strategy is summarised below.

6 Contributions Strategy

Regulation 60 requires the actuary to certify:

- the primary rate of the employer's contribution; and
- the secondary rate of the employer's contribution.

6.1 Primary Contribution Rate

The primary contribution rate is also referred to as the employer's future service rate. It is calculated by the actuary based on the employer's membership profile, ignoring any past service surplus or deficit.

A primary rate is calculated for each employer. The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates. The whole fund primary rates at the 2023 actuarial valuation was **21.8%** (of pensionable pay). The primary rate at the 2026 actuarial valuation has still to be calculated, but is expected to be a little higher.

6.2 Secondary Contribution Rate

The secondary rate is calculated with reference to the employer's current funding position (including any surplus or deficit), and is set to achieve the employer's funding target over the employer's target funding period with an appropriate degree of probability.

6.3 Total Contribution Rate

For any employer the contributions they are required to pay is the sum of the primary and secondary contribution rates – the total contribution rate.

6.4 Contributions Strategy - Principles

Given the difficult public finance environment and the gearing effect of the Fund's liabilities in comparison to employer payrolls, any future increases in contribution rates would be extremely difficult for employers to accommodate in budgets, particularly if they are unexpected. To address that, the following principles were adopted at the 2023 actuarial valuation, and remain appropriate for the current valuation.

- To ensure that employers factor a realistic long-term cost into future budgets, the contributions strategy will be based on a prudent estimate of the long-term sustainable total employer contribution rate.
- Where circumstances allow, reductions below that rate may be applied in the first 2 years of the certification period (2027/28 and 2028/29) but the rate will revert to the long-term rate in the final year (2029/30).
- Rates will not reduce to zero. In any year, the employer contribution rate will not be lower than the average member contribution rate.
- Rates will continue to be based on each employer's individual characteristics including their membership, risk profile, covenant and time horizon. Reductions will only be applied where the rate achieves an acceptable likelihood of success for the employer's funding target.

There may be some exceptions, but these principles will be applied as far as practicable, in particular to the Main Employer Group.

6.5 Conditional Certification

At the 2026 actuarial valuation, an additional mechanism is proposed: the rate in year 3 will be certified as provisional, but with an option to maintain the lower rate applied in years 1 and 2 if economic conditions remain supportive of that course of action.

A set of metrics will be included in the actuary's final report on the 2026 valuation to assess the interim position to assess the interim position as at 30th September 2028 in order to confirm which rate will be payable in year 3 (from 1 April 2029).

The provisional results of the 2026 valuation show:

- a funding level of **152%**; and
- a likelihood of success of **89%** at the end of the 13-year funding time horizon associated with paying **6.5%** of pay.

The draft proposed metrics are that one of the following 2 conditions must be met for the **6.5%** rate to apply in year 3:

- a funding level on or above **125%** as at 30 September 2028;
- at least an **83%** likelihood success associated with paying **6.5%** of pay

For the avoidance of doubt, if both metrics are failed (a funding level lower than **125%** and a likelihood of success less than **83%**), the fund is no longer in a sufficiently strong position to set the lower year 3 rate.

This mechanism is intended to support the previously adopted principles, but avoid any unnecessary volatility in the employer contribution rate.

7 Employer Contribution Rates

7.1 Main Employer Group (MEG)

The main employer group includes the 12 local authorities which participate in SPF, associated employers such as arm's length external organisations which share their covenant, and other long-term employers which are assessed as having a strong covenant or low risk profile. The MEG comprised around half of all employers at the 2020 valuation and around 40% at the 2023 valuation. Its composition has reduced at each valuation, and it may at some point be discontinued in favour of individual rates for all employers.

Employers in this group paid a contribution rate of **19.3%** of pensionable payroll from 1st April 2011 to 31st March 2024. As a result of the 2023 actuarial valuation the employer contribution rates certified for the MEG were

- **6.5%** (of pensionable payroll) from 1st April 2024
- **6.5%** (of pensionable payroll) from 1st April 2025
- **17.5%** (of pensionable payroll) from 1st April 2026.

It is now proposed that rates for the MEG should be:

- **6.5%** (of pensionable payroll) from 1st April 2027
- **6.5%** (of pensionable payroll) from 1st April 2028
- **15%** (of pensionable payroll) from 1st April 2029, with an option to maintain the rate at **6.5%** if agreed conditions are met.

Employers may make additional payments, or make payments in advance of the due date to achieve a more even payment profile, by prior agreement with SPF.

7.2 Other Employers

Employers not in the main group pay rates appropriate to their own individual circumstances. As a result of the 2023 valuation: most other employers paid rates similar to the MEG; employers closed to new entrants paid **6.5%** for each of the 3 years from April 2024 to March 2027; and a very few small employers with particularly high funding levels paid **0%** contributions for the 3 years. It is anticipated that rates for employers in this group will follow a similar pattern at this valuation. However, these other employers are less homogenous, particularly with regards to their time horizons, so there will be variations.

7.3 Employer Results

All employers will receive individual results schedules setting out their own:

- membership details;
- funding position as at 31st March 2026; and
- contribution rates for the 3 years from 1st April 2027.

SPFO staff will engage with employers on queries arising from these results schedules. The actuary's final report on the valuation will set out the individual rate agreed and certified for each employer.

8 Funding Strategy Statement (FSS)

8.1 2026 (Draft FSS)

The proposed funding strategy for the 2026 actuarial valuation is set out in a draft FSS which is attached at **Appendix A**. The preliminary results of the valuation as summarised above are based on this strategy. Some further background is set out below.

8.2 Format and Content

The content and format is as required by the regulations and in accordance with statutory guidance. The guidance was previously published by CIPFA (the Chartered Institute of Public Finance and Accountancy). However, in England and Wales this was replaced in 2025 by guidance issued jointly by the Scheme Advisory Board (England & Wales), CIPFA, and the Ministry of Housing, Communities and Local Government. In May 2026 SPPA (the Scottish Public Pensions Agency) wrote to administering authorities in Scotland proposing that they should adopt this guidance as far as possible.

The new guidance sets out a structure for the FSS which funds are strongly encouraged to follow. In summary:

Section A – Purpose of the Fund and the FSS
Section B – Key funding principles
Section C – Employer events

The attached draft SPF FSS follows this structure. The content has also been updated to reflect:

- changes in the regulatory background;
- changes in SPF's approach as summarised above; and
- some improvements in underlying processes.

Some stylistic improvements have also been incorporated.

8.3 Consultation

The regulations require SPF to carry out a consultation with such persons as it considers appropriate before agreeing and publishing a final version of the revised FSS. The statutory guidance sets out details of how that consultation should be managed.

9 Timetable

The regulations require the actuarial valuation to be completed within one year of the valuation date. Timetable for completion is summarised as follows.

Date	Action
Sep 23rd	SPF Committee considers preliminary whole Fund actuarial valuation results and draft Funding Strategy Statement (FSS). Committee approves draft FSS for statutory consultation with employers.
1st October	FSS issued for consultation.
November	Individual employer results issued to employers.
Nov /Dec/ Jan	Engagement with employers. May include some sort of event - live or webinar – date and details to be confirmed.
January 2027	FSS consultation closes. Employer results finalised.
March 2027	SPF Committee receives final actuarial valuation report and approves final FSS for publication.
1st April 2027	Revised employer contribution rates effective.

10 Policy and Resource Implications

Resource Implications:

Financial:	None at this time.
Legal:	The actuarial valuation is carried out in accordance with regulations 56 and 60 of the Local Government Pension Scheme (Scotland) regulations 2018.
Personnel:	None at this time.
Procurement:	None at this time.

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.***
The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts :

Does the proposal support the Council's Equality Outcomes 2025-29?	Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.
What are the potential equality impacts as a result of this report?	No specific equalities impacts.
Please highlight if the policy/proposal will help address socio economic disadvantage.	N/a.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	Not directly. The actuarial data will form the basis for climate scenario modelling at later stage in the process.
What are the potential climate impacts as a result of this proposal?	N/a.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.
Privacy and Data Protection Impacts:	
Are there any potential data protection impacts as a result of this report Y/N	No.
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a.

11 Recommendations

The Committee is asked:

- to NOTE the preliminary results of the actuarial valuation as at 31st March 2026;

- to APPROVE the proposed Funding Strategy and Contributions Strategy; and
- to APPROVE the draft Funding Strategy Statement (FSS) for consultation with appropriate interested parties.

Attachment

(Draft) SPF Funding Strategy Statement 2026