

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA**

**INVESTMENT COMMITTEE – 9 MARCH 2026**

**REPORT BY THE TRI-BOROUGH DIRECTOR OF TREASURY AND PENSIONS**

**ACTUARIAL VALUATION UPDATE**

**SUMMARY**

This paper follows the initial outcome of the 2025 triennial actuarial valuation, presented at the previous Investment Committee meeting, providing further details as requested by Members. The appendices present the valuation results and the Funding Strategy Statement for approval.

**FOR DECISION**

**1. RECOMMENDATION**

- 1.1. That the Investment Committee, having considered the actuarial advice, funding position, risk modelling and prevailing market conditions, including heightened geopolitical uncertainty, reviews and determines the appropriate employer contribution rate for RBKC as an employer body, within the actuary's certified range of 0% to 7.2%. In doing so, the Committee is asked to approve a rate within that range which it considers prudent, sustainable and consistent with the Fund's long-term funding strategy and risk appetite.
- 1.2. That the Investment Committee reviews and approves the Funding Strategy Statement (FSS).

**2. BACKGROUND**

- 2.1. The Local Government Pension Scheme Regulations 2013 require an administering authority to obtain an actuarial valuation of the assets and liabilities of its pension fund every three years, together with an actuarial report and a rates and adjustments certificate prepared by an actuary.
- 2.2. The rates and adjustments certificate specifies the employer contribution rates to the pension fund for each of the three years beginning the 1 April in the year following that in which the valuation date falls, i.e., 1 April 2026.
- 2.3. The 2025 valuation (at 31 March 2025) has been conducted by the Fund's appointed actuary, Hymans Robertson LLP.
- 2.4. At the Investment Committee held 3 November 2025, Members were presented with the Hymans whole fund results, offering initial insights and the emerging results across the LGPS universe (Appendix 1).
- 2.5. At the Investment Committee held on 2 February 2026, Members were presented with draft employer rates and the draft Funding Strategy Statement.

### 3. DRAFT CONTRIBUTION RATES

- 3.1. At the Investment Committee, held 2 February 2026, Members asked for a further analysis of results from the actuary before taking a final decision on the valuation outcome.
- 3.2. Appendix 1 details the actuary's results. This paper sets out the range of contribution rates requested by the Investment Committee, together with the likelihood of success associated with each.
- 3.3. To support a fully informed decision, the paper also sets out the risks and other quantitative and qualitative considerations that the Investment Committee may wish to take into account when determining an appropriate likelihood of success for the purpose of contribution rate setting.
- 3.4. A representative from the actuary, Hymans Robertson, will be in attendance to present and answer questions.

### 4. FURTHER CONSIDERATION

- 4.1. On request by the Executive Director of Resources, the actuary has given further consideration to the RBKC employer position. The actuarial modelling confirms that the Investment Committee has clear discretion to set the RBKC employer contribution rate anywhere between 0% and 7.2% of pay, relying solely on quantitative funding criteria.
- 4.2. The Funding Strategy requires a minimum 80% likelihood of success (LOS) of reaching full funding over 20 years. The results show:
  - **7.2% (proposed rate): 87% likelihood of success**
  - **0.0% (alternative rate): 84% likelihood of success**
- 4.3. All rates within this range remain comfortably above the 80% minimum. The difference in funding outcomes across the range is modest, reflecting the Fund's current strong surplus position.
- 4.4. Accordingly, a nil rate is actuarially supportable under the quantitative framework.
- 4.5. The original, proposed 7.2% rate reflects additional qualitative considerations (fairness, precedent, academies alignment, reputational factors), rather than a quantitative funding constraint.
- 4.6. The recommendation in the previous committee report was to adhere to the original, proposed rate of 7.2%, based on discussions with the actuary during the actuarial process. The decision around the rate adopted was based on views around the qualitative factors discussed in the actuary's paper. Both quantitative and qualitative factors are set out below.
- 4.7. Quantitative factors
  - **Regulatory framework:** Employer contribution rates are set in accordance with Regulation 62 of the LGPS Regulations 2013, requiring regard to

solvency, long-term cost efficiency, contribution stability, and consistency with the Funding Strategy Statement. Actuarial modelling undertaken for the 2025 valuation confirms that these requirements are met for a range of contribution rates from 0% to 7.2%.

- **Actuarial modelling and funding impact:** The range of rates results in a high likelihood of achieving the Fund's desired target funding objectives that is comfortably above target, and this provides a buffer against adverse experience and future uncertainty.
- **Excessive surplus:** It is necessary to ask the question how large a surplus is enough, particularly when Fund employers are struggling for resources due to other pressures. The RBKC Pension Fund is the best funded in the country and could withstand significant shocks. This is likely to continue to be the case even with a zero contribution rate for the next three years and not setting the lowest rate possible could force employers to make unnecessary decision to reduce public services or employment or make other undesirable decisions with little discernible benefit for the Pension Fund.

#### 4.8. Qualitative factors

- **Alignment with the Funding Strategy Statement:** The Funding Strategy Statement emphasises stability and the Fund should avoid unnecessary volatility in contribution rates. A positive (above zero) employer rate supports this objective by avoiding the introduction of a rate that could require sharper increases at future valuations, while remaining proportionate to the employer's strong funding position and low risk profile. The actuary's analysis does show there is a slightly higher level of risk of future increases with a 0% rate.
- **Consistent with existing funding strategy:** A rate based on the average employee rate is consistent with the approach adopted at the 2022 valuation. Therefore, it can be shown to be a consistent application of the existing funding strategy. This is aligned with the long-term nature of a pension fund like the LGPS which should be looking to make minor evolutions to funding strategy from time-to-time instead of significant changes from one triennial valuation to the next.
- **Consistency, fairness and stakeholder considerations:** Aligning with the average employee contribution is a stance that is more transparent and easier to explain to stakeholders, including member representatives and MHCLG. It reduces the risk of challenge from members, unions or other employers that could arise if the employer contribution rate were set materially below employee rates. It is also a strategy that MHCLG are familiar with while a zero rate for three years could trigger additional scrutiny and oversight of the fund. However, certification by the actuary of a lower or zero rate should mitigate this risk.
- **Cashflow considerations:** Setting a nil contribution rate over three years for the Council would exacerbate the difference between benefit outgo and contribution income, and lead to a greater income requirement from the Fund's assets to meet pension payments.

- 4.9. The choice of rate between 0% and 7.2% is ultimately a matter of Investment Committee judgement rather than actuarial necessity because the quantitative evidence confirms that choice along the entire range would satisfy the Fund's formal funding requirements. The modelling demonstrates that each rate delivers a likelihood of success comfortably above the 80% minimum set out in the Funding Strategy, with only a modest difference in projected outcomes due to the Fund's current surplus position. There is therefore no solvency driven imperative to adopt the higher rate.
- 4.10. This is particularly relevant in the current climate of heightened geopolitical uncertainty. The recent US airstrikes in Iran and the potential for escalation have already contributed to market volatility and a marked increase in global financial uncertainty. Events of this nature can transmit rapidly through equity, bond and currency markets, affecting funding levels and asset valuations in a very short period of time. However the Fund is heavily invested in equity markets and these have traditionally recovered quickly from previous downturns.
- 4.11. Therefore a 0% rate is actuarially supportable, but it would represent a material policy shift, with potential implications for perceived fairness, cashflow management and external scrutiny, particularly if adopted against a backdrop of elevated global risk.
- 4.12. In summary, the Investment Committee is not constrained by funding mechanics but is required to exercise informed judgement, balancing quantitative sufficiency against qualitative risk, long-term funding stability, geopolitical uncertainty and reputational considerations in determining the most appropriate and sustainable contribution rate for the employer. They also need to take account of the balance between the benefits the Fund gains from a higher rate set against the implications for employers.
- 4.13. The Investment Committee can therefore choose an RBKC employer rate along the range of 0% to 7.2%, having taken into account all factors set out above.

**FOR DECISION**

**Phil Triggs**  
**Tri-Borough Director of Treasury and Pensions**

**Background papers used in preparation for this report:** None

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**LIST OF APPENDICES:**

Appendix 1	Hymans Robertson Contribution advice 2025 valuation (Part B)
Appendix 2	Actuarial initial results (Part B)
Appendix 3	Draft Employer Rates (Part B)
Appendix 4	Draft Funding Strategy Statement

Papers have been included in Part B restricted section of the meeting as the valuation is not yet complete as subject to committee sign off. The papers also contain some proprietary modelling output that should be restricted to client only viewing.

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