Briefing note

2026 Scottish LGPS valuations: 3 things on your surplus bingo card

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Every fund is different — and there is no single “correct” approach to funding in a surplus environment

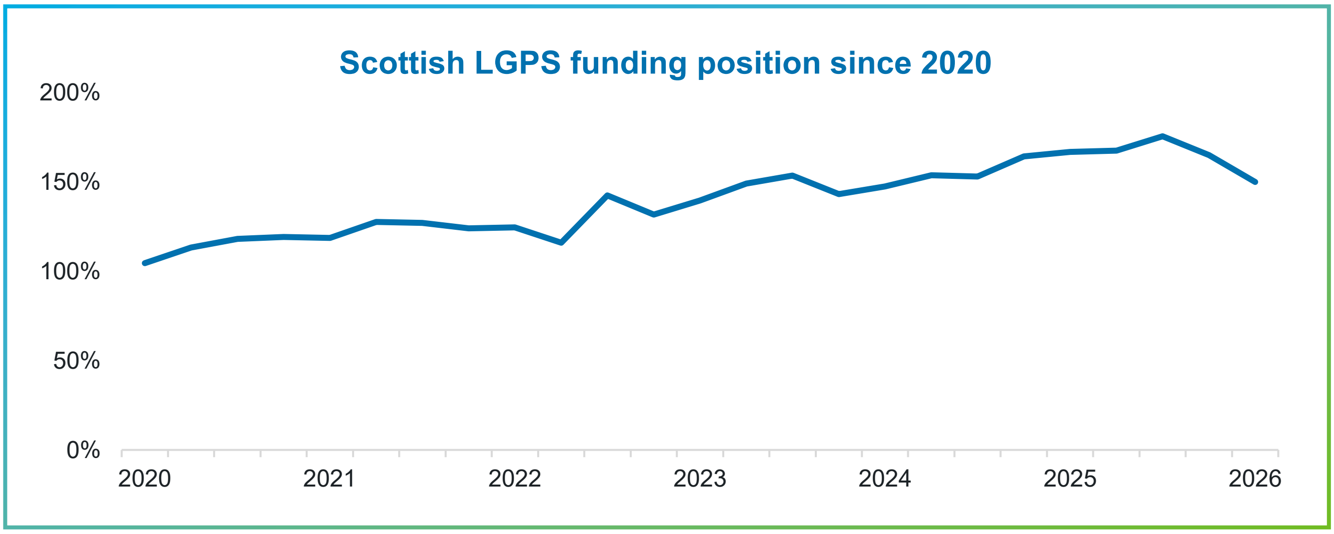
The story for the 2026 LGPS valuations in Scotland may look simple: strong funding and employer budgetary pressures, leading to contribution reductions. But the reality is more nuanced.

Strong funding creates choices — and choices need governance, evidence and a clear message. Here are 3 things to look out for on the ‘bingo card’ for the Scottish LGPS 2026 valuations.

1. “Strong funding” does not equal “simple answer”

The improvement at the 2023 Scottish LGPS valuations was significant. Strong asset growth and a short, sharp change in economic environment (typified by increases in the Bank of England Base Rate) moved many funds rapidly into surplus.

Since then, funding levels have generally remained robust.



Source: Hymans Robertson estimated aggregate funding level across Scottish LGPS funds

But the headline funding level is only part of the picture. It says little about future service costs, investment risk, fund maturity, employer covenant or the contribution volatility that could emerge if future experience disappoints.

This matters because the external narrative is shifting. Surpluses are more visible, and employers, committees, boards, government and external commentators are all more interested in what those surpluses mean. The risk is that a nuanced funding position is reduced to a simple question: “why are employers still paying so much?” Funds will need a better answer than “trust us, we’ve taken lots of advice and thought about it very carefully”.

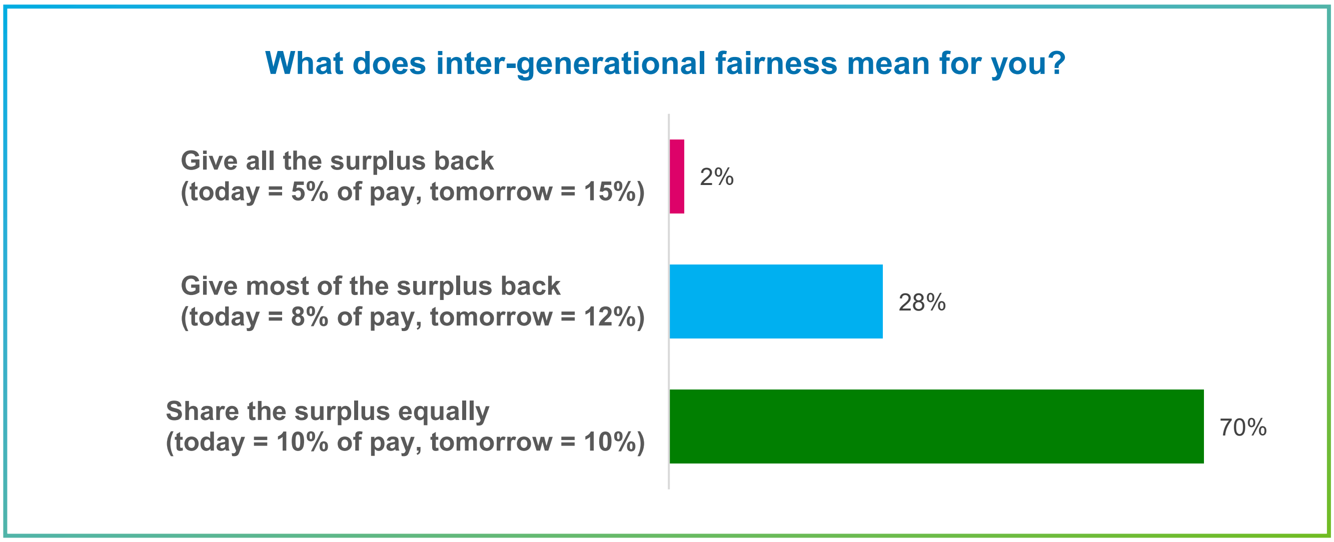
Surplus management choices

At the 2023 valuations, many funds were responding to strong surplus positions in real time. Significant market changes in the lead up to the valuation date left funds little time to prepare for this new funding environment. By 2026, surplus management choices will need to look more deliberate.

That does not mean every fund should make the same choice. Different employers, investment strategies, maturity profiles and risk appetites will justify different choices. Some funds may retain buffers, some may smooth changes over time, and some may opt for stability rather than larger immediate savings.

The challenge for funds is to balance affordability today with sustainability tomorrow – helping to meet the regulatory requirement of long-term cost efficiency and ensuring fairness between different generations of taxpayers.

Intergenerational fairness is a clear objective for the LGPS. What this means in practice may be less clear.



Source: Hymans Robertson poll of 80 LGPS stakeholders (May 2026). Contribution rates shown are illustrative.

In our recent poll, notably only 2% view this as giving all the surplus back to today’s generation, despite this being a strong narrative in some external commentaries on the LGPS.

The lesson for 2026 is simple: there is no single “right choice” to surplus management, but there must be a deliberate one, which needs to be backed by analysis, engagement and a clear rationale.

Time to cut contribution rates?

For many employers, the answer may be yes. Strong funding should feed through into outcomes. Affordability pressures are real, and the LGPS can help support public service delivery across Scotland.

But cutting rates is easy; increasing them again is not. Once reductions are built into medium-term budgets, they quickly become the new expected cost. Short-term relief can become a longer-term headache.

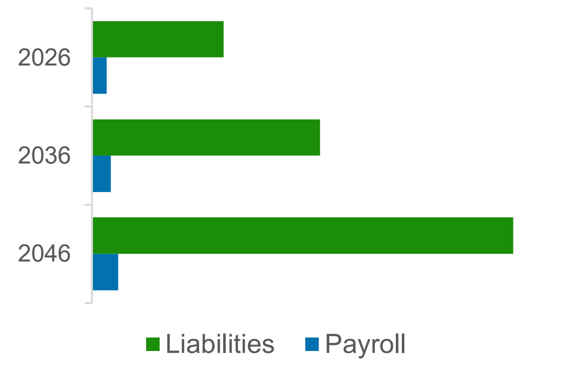
So, the key choice is not just whether rates can fall. It is whether reductions are sustainable, fair between generations, resilient to downside risk and consistent with the long-term cost of an open scheme. Contribution reductions may be justified — but sustainability is the test.

What about prudence?

In a surplus environment, prudence can be portrayed as unnecessary caution or money being held back from employers. That framing misses the point.

Prudence is not about locking money away. It is about recognising that expected returns are not guaranteed, inflation remains uncertain, markets move quickly and the LGPS is maturing. And, as payroll shrinks relative to liabilities, funding shocks can require sharper contribution responses.

Maturing of the LGPS



Contribution increase needed to recover 10% fall in funding level over 20 years

2026	**4% of pay**
2036	**6% of pay**
2046	**8% of pay**

Source: Hymans Robertson, modelling projections for a sample LGPS fund

The strongest strategies will reflect today’s funding strength in employer rates while retaining enough resilience for 2029 and beyond. Prudence is not the most cautious choice; it is the choice that best balances affordability, stability and long-term value.

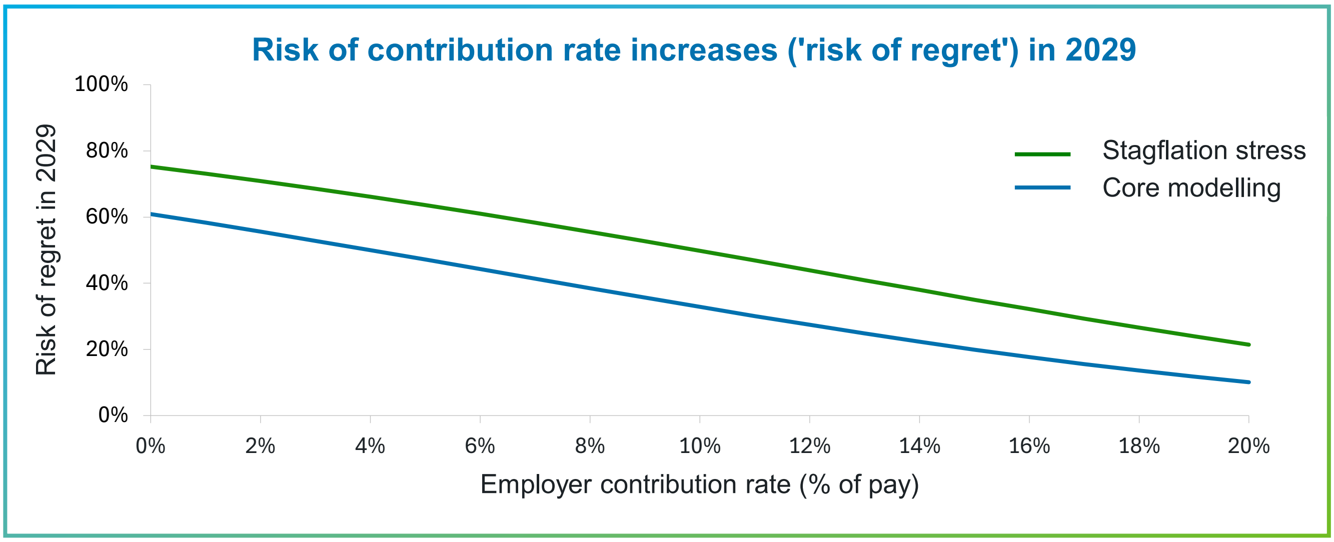
2. Good governance will make choices easier to explain

All these choices may lead to increased scrutiny. But that isn't a reason to be defensive. It is a reason to be clear. Different funds will make different choices, but they should expect to explain their choices.

A strong governance trail will be vital. It should capture the objectives and beliefs of the fund, and point to the evidence on how affordability, prudence, stability, risk and intergenerational fairness have been balanced.

Evidence-based decision making

With so many choices — and so much uncertainty — funds need more than a single answer. They should test how different approaches could play out across a range of scenarios, working with their actuary and, where relevant, their investment consultant. That means looking not only at long-term benefit security, but also at the risk of contribution increases at future valuations (which we call the 'risk of regret').



Source: Hymans Robertson, 'risk of regret' contribution modelling for a sample LGPS fund

That means robust risk analysis across a meaningful range of scenarios — not just a single expected outcome. The output should be clear quantitative evidence, alongside the fund's qualitative beliefs and objectives. Together, that creates a stronger basis for decisions and a clearer explanation of why the balance between success, risk and affordability is right for the fund and its employers.

3. The message will matter as much as the maths

The 2026 valuations will be a communication exercise as much as a technical funding one. If funds do not control the message, others will. And the simplest message — “large surplus means lower contributions” — is not always the right one.

Funds should be ready to explain that surplus is not spare cash. Expected future returns still need to be earned, future service costs remain significant, and contribution stability has real value. These messages are straightforward, but they need to be repeated and evidenced as part of a deliberate communication strategy.

This is also a positive story. Strong funding reflects good long-term management. The task now is to use that strength responsibly to support employers today without weakening resilience tomorrow.

Employer engagement

Employers will come to the 2026 valuations with expectations. Many have seen previous reductions, continued funding strength and wider commentary on LGPS surpluses. Some will expect further, and possibly significant, reductions.

That makes early engagement essential. Funds should explain the risks and rationale before results are finalised. The most effective engagement will help employers understand the trade-offs, not simply present the answer at the end.

Bingo!

The headlines for the 2026 Scottish LGPS valuations are positive. Funding positions are strong, employers may see further support through lower contributions, and funds have more flexibility than in many previous cycles. That is a success story.

But it is not a simple story. Surplus management creates choices, and those choices need care. The best-prepared funds will explore options, test risks, engage employers, agree the message and document the rationale.

In short, the challenge is not just deciding how much surplus to use. It is showing that the answer is affordable today, sustainable tomorrow, and robust enough to withstand scrutiny.

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