Funding Strategy Statement

West Sussex County Council Pension Fund

Funding Strategy Statement (FSS)

- Statutory document
- Must show interlink between funding and investments
- Must be reviewed regularly
- Must be consulted on
- Must be published
- Must follow CIPFA guidance ?
- Must show how climate/transition risk is incorporated ?

Funding objectives

Stable & affordable contributions

Employer pay their own way

Transparent & consistent

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What's changing?

Format

Setting employer contributions

The balance of cost between the value of member benefits, employee contributions and the returns on investments is paid for through employer contributions. Employer contributions are set locally by the Fund Actuary and are normally made up of two elements:

1. **Primary Rate:** The estimated cost of new benefits being earned by members year to year, after deducting member's contributions and adding an allowance for administration expenses
2. **Secondary Rate:** Any adjustment to the primary rate to reflect the individual circumstances of each employer, to meet the Fund's desire for stable contribution rates and to recover any differences between the assets built up to date and the value of past service benefits.

As with the "funding target", employer contribution rates depend on employer characteristics. These characteris determine the period over which the employers funding target should be met and the certainty required that employer will achieve their funding target. The arrangements for each type of employer are set out in Appendix 1

Period to meet funding target	Contributions are set to meet each employer's funding target by the end of their respecti horizon. Employers may be given a lower time horizon if they have a less permanent anticipate membership, they are approaching the end of their participation in the Fund or they known funding source to afford increased contributions if investment returns under longest time horizon afforded any employer in the Fund is 20 years (generally reser term employers with reliable funding sources).
Likelihood of meeting the funding target	It is extremely unlikely that the contribution rate will absolutely ensure that the contributions and market movements will return a funding position of 100% w reaches the end of their time horizon and therefore the Fund applies likelihoo nature and security of an employer. Typically, a higher required likelihood (for employers with less permanent a membership, those approaching the end of their participation in the Fund have a guarantor) will give rise to higher contribution rates. Employers who are open to new entrants are considered to be long ter may be appropriate. In general, the Fund will require all employers to of being fully funded by the end of their time horizon.
Smoothing	To achieve stability in contribution rates for employers who are rela appropriate security, the Pension Fund may (at its absolute discret contributions. This can be done through capping contribution rate changes (st changes, extending time horizons (maximum applied is 20 year circumstances where negative secondary rates might apply. However, this can 'hide' the true contribution rates and em will be expected to fund their own long-term liability (i.e. t their employees and ex-employees) and payin turn on an employer's assets meaning it

APPENDIX 1C: Funding Strategy for Town and Parish Councils (Designating Employers)

Opening Position

Typically, new Town or Parish Councils outset and no assets). However, this wo

The new Town and Parish Council's init pool.

Funding Target

To value the Town and Parish Council's funding basis").

In the unlikely event that a Town or Pa may move towards using expected retu may have an adjustment to their secon

Time horizon & Likelihood

Because Town and Parish Councils are c the assets held on behalf of the Town ar a funding position of 100% on the relev

Smoothing

The key principle for Town and Parish Co through "pooling". "Pooling" is a way t and smoothing out the effects of costly setting a combined single contribution r

Whilst over longer time periods, it wou each employer in the pool will, on avera "pooled" contributions may be paying m liability, and it may take longer to reach

All Town and Parish Councils participat rate may be phased in where the assess or reduce by 3% of pay, this would be p

APPENDIX 1F: Funding Strategy for Admission Bodies (Guarantor)

Opening Position

Where there is a new Admission Body set up as a result of a TUPE transfer of staff from a letting employer to the contractor, the Admission Body would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees. Unless agreed otherwise, the funding level will be calculated as the market value of assets being equal to the value placed by the actuary on the benefits built up to date for the transferring employees on the ongoing funding basis (so the admission body will start fully funded on an ongoing funding basis).

The Admission Body's initial contribution rate will be set on an individual basis except if agreed otherwise between the letting authority and the Fund.

Funding Target

To value the Admission Body's benefits built up to date, and future benefits, the Fund will use the "ongoing funding basis".

Time Horizon & Likelihood

Because an Admission Body is considered to be a shorter term employer, the Fund will use the likelihood associated with the letting authority as the minimum likelihood that assets held on behalf of the Admission Body meets (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) over the shorter of the future working lifetime of the active membership or the remaining contract term (to a maximum of 20 years).

Smoothing

Under normal circumstances, no smoothing is applied to Admission Body contribution rates.

Security

Security to the satisfaction of the letting authority and the Fund (such as a suitable bond, a legally-binding guarantee

TSON

Changes in approach

Clarify our approach to collecting exit debts for all employers

Admitted bodies with guarantor

- 2019 – 75% chance of fully funded
- 2022 – set the same as guarantor

Reason for change

- 2020 Regulation change
- Consistency of approach

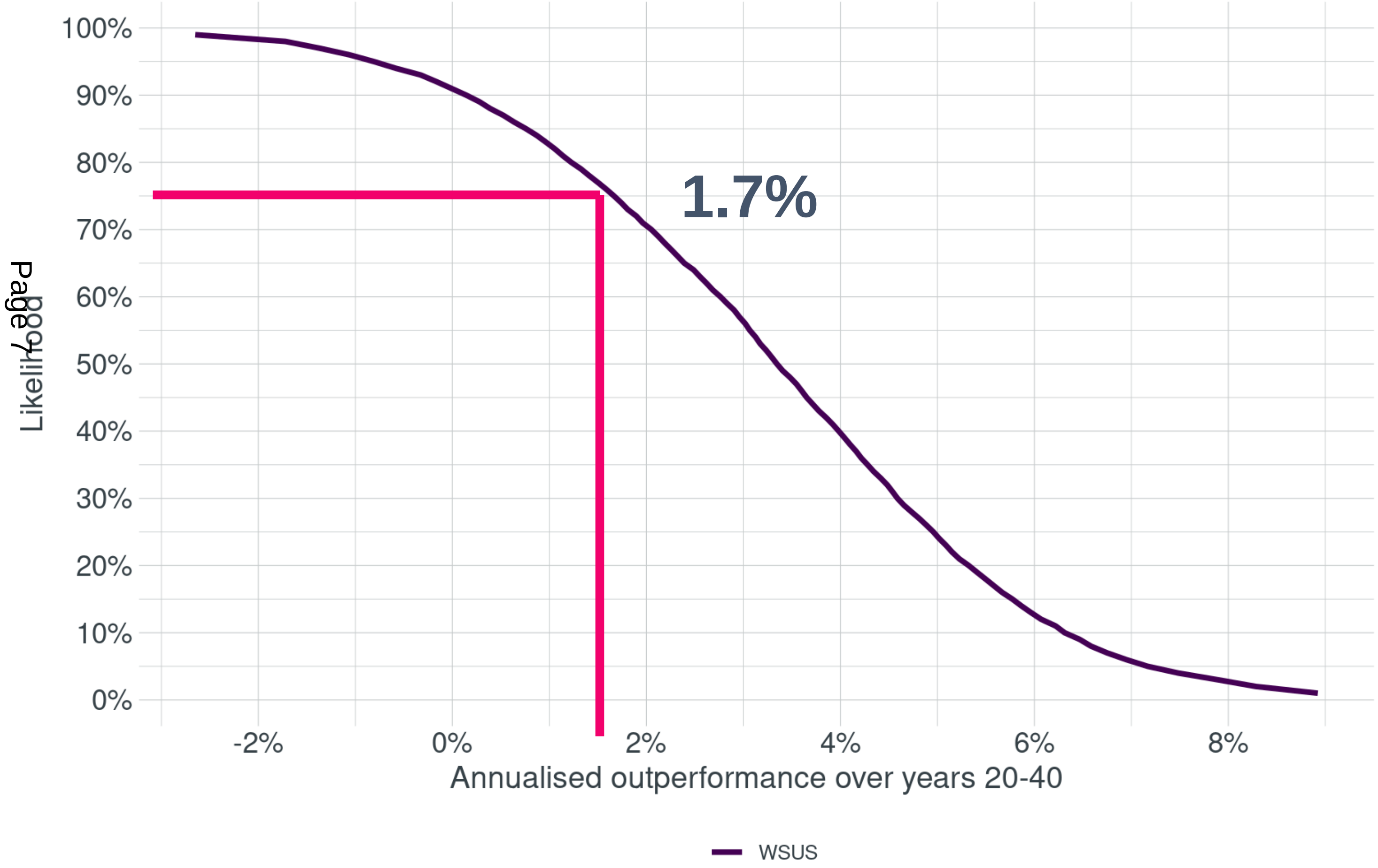
Admitted bodies with no guarantor

- 2019 – 75% chance of fully funded
- 2022 – between 50% and 75%
- Depending on funding target

Reason for change

- 2020 Regulation change
- Limit risk of excess surplus

Investment returns



- Fund targets 75% chance the investment strategy will outperform the discount rate over the very long term
- Improved long-term market expectations versus 2019
- 2019: 1.6% above risk free rates
- 2022: 1.7% above risk free rates

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Agenda Item 6

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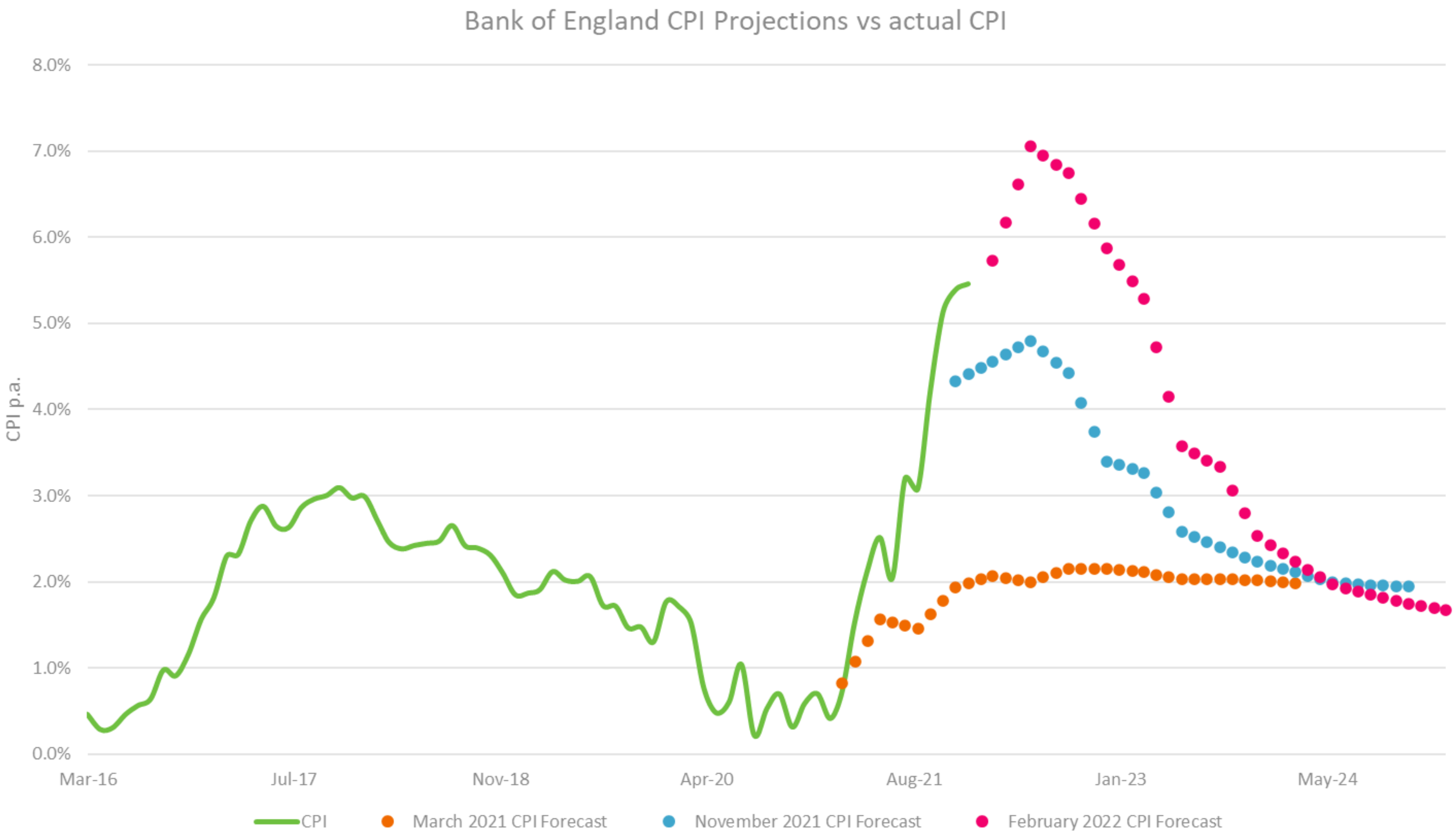
Benefit increases - predicting CPI



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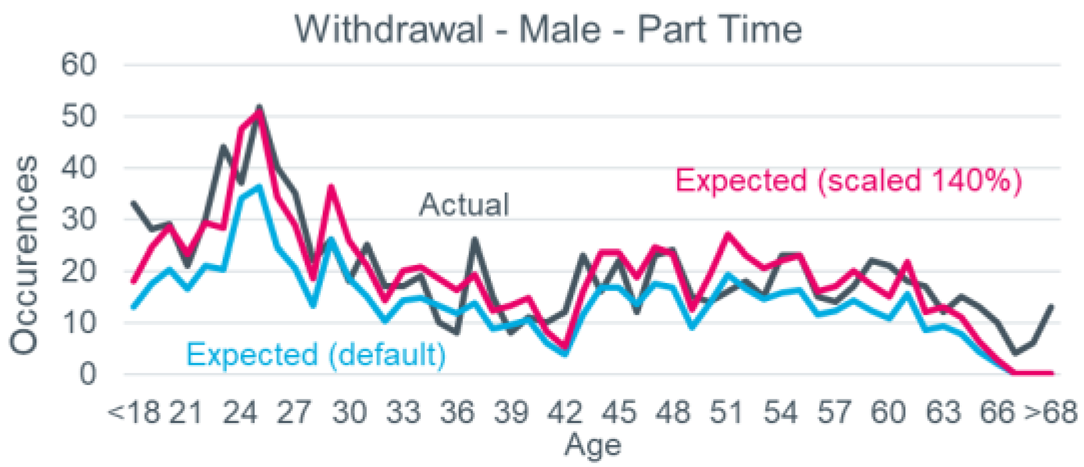
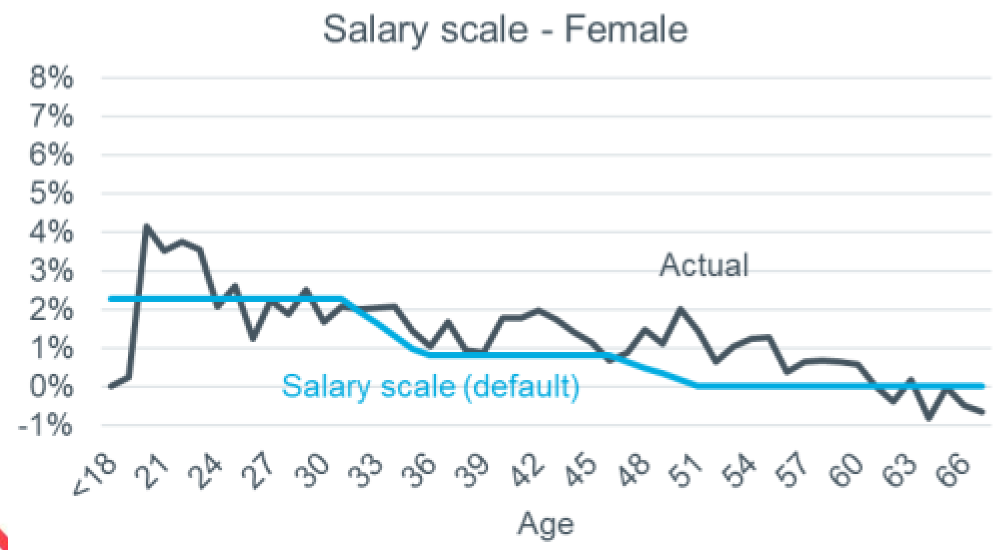
Benefit increases - CPI

2019	2022
• Estimate RPI from yields on long dated gilts and index linked gilts • Subtract 1% (the “RPI – CPI” gap from RPI	• Improving technology • Move to derive consistently to discount rate • 50% likelihood
• 2019: 2.3% p.a.	• 2022: 2.7% p.a.

Other assumptions





- Best estimate
- Based on a combination of national and local data
- Judgement applied on future behaviors
- Little impact on liabilities, but better prediction of expected cashflows

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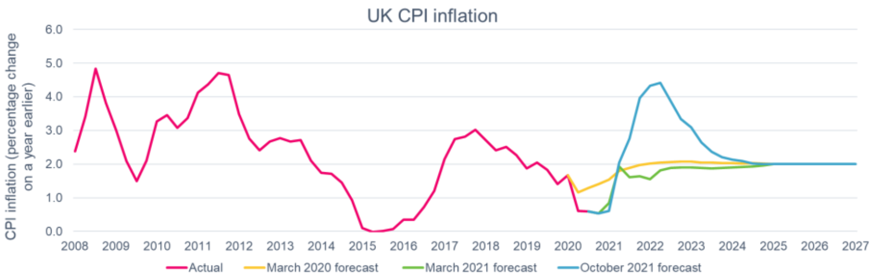
Summary of changes to assumptions

Date of market conditions	2019	2022	2022
Methodology	2019	2019	2022
Discount rate	Risk-free rate + 1.6% 3.1% p.a.	Risk-free rate + 1.6% 3.4% p.a.	Risk-free rate + 1.7% 3.5% p.a.
Benefit increases	2.3% p.a.	2.7% p.a.	2.7% p.a.

Little impact from changes to assumptions

How are we incorporating unknowns?

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES



<u>Climate / Transition Risks</u>
TCFD requirements for funding

<u>Consumer Prices Inflation</u>
Higher inflationary environment and structural changes to RPI

<u>COVID</u>
Impacts on long term mortality

<u>Regulatory</u>
Potential impact of judicial review on cost-sharing

Thank you

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