Pension Panel

24 July 2019 **Part I**

Funding Strategy Statement

Report by Director of Finance and Support Services

Summary

The Pension Fund has commenced its triennial valuation. However there are a number of factors which may impact the outcome or the period that rates need to be set (eg. the McCloud case, HM Treasury's cost control mechanism and the Scheme Advisory Board's (SAB) cost control mechanism and the outcome of several consultations or Government decisions, including a consultation on the frequency of the Local Government Pension Scheme valuation cycles).

Since the Pension Panel last met, the Government's request for an appeal against the December 2018 the Court of Appeal judgement relating to transitional protections has been denied by the Supreme Court. This means that the Court of Appeal's decision will be upheld and the case will be returned to an employment tribunal for a detailed decision. The court will require steps to be taken to compensate employees who were transferred to the new Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions – with the benefit structure becoming more generous.

Notwithstanding the above uncertainty the Pension Fund has drafted its Funding Strategy Statement. The Statement summarise the Administering Authority's approach to funding its liabilities and how employer liabilities are measured and follows the Pension Panel's training on funding strategies. The full Statement and feedback is included within this report.

Recommendation

1. The Panel notes the update on the McCloud judgment

2. The Panel consider the feedback from Employers relating to the draft Funding Strategy Statement.

3. The Panel agree the current version of the Funding Strategy Statement as the approach assumed by the Actuary when calculating employer liabilities and determining the pace at which these liabilities are funded.

4. The Panel agree that further minor changes to the document can be made by the Director of Finance and Support Services in consultation with the Chairman. Any material changes will be brought back to the Pension Panel.

5. The Panel provide comments on the draft response on the changes to the local valuation cycle and management of employer risk and agree that the final response is sent by the Director of Finance and Support Services in consultation with the Chairman.

Background

1. The Fund has commenced its triennial valuation. It is anticipated that this will set employer contributions from 1 April 2020 until 31 March 2023. However there are a number of developments which provides significant uncertainty:

    - **The McCloud case**: Where the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the recent pension reforms amounts to unlawful discrimination – directly on grounds of age and indirectly on other grounds. The Government's request for an appeal has been denied but uncertainty of the resulting benefit changes remains.

    - **The HM Treasury cost control mechanism and the Scheme Advisory Board (SAB) cost control mechanism:** Introduced as part of the recent pension reforms to periodically assess the costs of benefits to ensure that the reforms are affordable and sustainable. The cost control mechanism may trigger changes to LGPS benefits and member contributions, but is currently paused in light of the McCloud case.

    - **The outcome of several consultations or Government decisions**: The implementation of these may affect the Scheme (eg. Fair Deal II, Exit Credits, Guaranteed Minimum Pension Indexation and Equalisation and changes to the local valuation cycle and management of employer risk).

McCloud judgment – leave to appeal denied

2. The Pension Panel have received information previously relating to the Court of Appeal's judgement that transitional protections in place following Scheme changes in 2014.

3. On 27 June 2019 the Supreme Court denied the Government's request for appeal. A summary of the issues is included in Addendum 1.

Local government pension scheme: changes to the local valuation cycle and management of employer risk

4. The Ministry for Housing, Communities and Local Government (MHCLG) launched a consultation on 8 May 2019 covering the following areas:

    - Amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle and measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle

    - Proposals for flexibility on exit payments, further policy changes to exit credits and changes to the employers required to offer local government pension scheme membership

5. It is proposed that the response from the County Council:

- Raises concerns about moving to a four yearly valuation cycle due to the potential impact on management of employer risks and maintaining the objective of stable employer contribution rates.

- Supports the ability for Administering Authorities to have the discretion to do an interim valuation at either whole fund or specific employer level (on an approximate basis or otherwise), with the decision depending on the reasons for undertaking the valuation.

- Requests that safeguards are put in place and clear, considered Guidance is provided to ensure there is a clear framework for requests for interim valuations to avoid short-termism.

6. A full draft response has been attached (Addendum 2) and comments are sought from the Pension Panel. Responses must be provided by 31 July 2019.

Funding Strategy Statement

7. Following the training about funding strategies at the April Pension Panel, and as part of its preparatory work for the 2019 Actuarial Valuation Fund, officers have reviewed and drafting a Funding Strategy Statement for the West Sussex Scheme.

8. The FSS is reviewed in detail at each valuation or between valuations for any minor amendments required reflecting regulatory changes or alterations to the way the Scheme operates. This is in line with CIPFA guidance. The last review was completed as part of the 2016 valuation, and the Statement was agreed by the Pension Panel at their meeting on 30 January 2017.

9. The purpose of the Funding Strategy Statement is to summarise the Administering Authority's approach to funding its liabilities and how employer liabilities are measured (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities in order to achieve the Administering Authority's funding aims of:

    - Affordability and stability of employer contributions

    - Prudence in the funding basis

    - Transparency of processes

10. The draft Funding Strategy Statement has been reviewed by the Pension Advisory Board in their role of supporting the Scheme Manager by ensuring compliance with Regulations. The comments from the Board are included in their draft minutes (Agenda Item 5).

11. The draft Funding Strategy Statement has been attached for the Panel's review and approval (Addendum 3).

12. The draft Funding Strategy Statement was shared with employers as part of a consultation exercise (Start date: 19/06/2019 // Deadline: 10/07/2019). Responses received are summarised on the following page:

Employer Type	Comments / Feedback
Academy	• Appears to be good and solid, much as one might expect. • With a fully funded scheme, to do all that we can to minimise costs / reduce employer monthly contribution rates. • With regard to potential pressures (not least of which the McCloud case), there is a preference to await the outcome and deal with it once it becomes a reality, rather than anticipating "bad news" and keeping contributions high "just in case". • Consideration should be made of the impact of providing additional security to the Fund to move an employer through risk categories (eg. medium to lowest).
Parish Council	• Happy with consolation document.
Academy	• Happy to follow the proposed schedule, etc, detailed in the Funding Strategy Statement. • At this point, with the on-going government appeal, it does not seem appropriate to make any recommendation for change even if we thought there was a need.
Admission Body	• Happy to go with the recommendations/majority of feedback.
Scheduled Body	• No comments to add on the draft statement or proposed approach.
Scheduled Body	• Nothing comments
Admission Body	• Correction of typographical errors
Admission Body	• TBC (extension agreed)

13. The Statement may need to be reviewed as and when the outcomes of the above consultations (and resulting legislative changes), decisions and guidance are known. Wider consultation will be undertaken on any material changes in approach as a result of these changes.

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Addendum

- Addendum 1 – McCloud
- Addendum 2 – Draft response to changes to the local valuation cycle and management of employer risk consultation
- Addendum 3 - DRAFT Funding Strategy Statement

Background

- Court of Appeal decision (McCloud) - https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf
- Guidance for the 2019 Valuation in respect of cost cap process and the McCloud and Sargeant age discrimination case (McCloud) https://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf

- Letter on the Pause to the Cost Management Process - https://www.lgpsboard.org/images/CM/LetterPause.pdf
- MHCLG Consultation on Changes to the Valuation Cycle: https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk Valuations

Addendum 1

1. When the Scheme was amended in 2014 the Government introduced 'underpins' to protect members who were nearing retirement. For the LGPS, if a member was aged 55 or above in 2012, was still active in 2014 and retired by 2022 their post 2014 benefits would be calculated based on:

   a. the new CARE scheme
   b. the old 1/60th final salary Scheme

   with the member receiving the higher benefits.

2. In December 2018 the Court of Appeal found that transitional protections provided to older members of the judges and firefighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme changes, were unlawful on the grounds of age discrimination and could not be justified (the "McCloud" case)

3. On 27 June 2019 the Supreme Court denied the Government's request for appeal. This means that the Court of Appeal's decision will be upheld and the case will be returned to an employment tribunal for a detailed decision.

4. HM Treasury has previously indicated they want a single solution for all public sector schemes, and it will likely involve a change in benefit structure.

   <u>Impacts</u>

5. The Panel should note the following impacts:

   - The court will require steps to be taken to compensate employees who were transferred to the new Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions – with the benefit structure becoming more generous.

   - The must be seen alongside the cost control mechanism (SAB and HM Treasury), which was expected to improve benefits to members by 1.3% of pay. These changes have been delayed until the Government responds to the McCloud case and the baseline 'cost envelope' used in these valuations will need to be completely re-evaluated. The employee benefit changes were due to be effective from 1 April 2019.

   - Given the unknown nature in the scale and timing of any impact on liabilities as a result of McCloud and the Cost Control Mechanism the Scheme Advisory Board has advised that, unless the Ministry for Housing, Communities and Local Government (MHCLG) notify of detailed benefit changes by 31 August 2019, then the scheme benefit design used in the valuation should be as set out in current Regulations.

   - As part of the valuation, the risk and potential extra costs around McCloud should be considered in the same way as they would for other financial, employer and demographic risks to allow employers to be aware of and make

provision for the potential cost (even though any additional contributions may not commence until after the outcome is known).

- A further valuation may be required once the Government's response to McCloud and the cost control mechanism is known.

Addendum 2

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk
Policy consultation

Quadrennial Cycle

Question 1:
As the Government has brought the LGPS scheme valuation onto thsame quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

The Government brought the LGPS scheme valuation onto the same quadrennial cycle as other public service schemes with an effective date of 31 March 2024.

However we believe that three years remains an appropriate period and do not consider that the case has been made to move the local valuations to quadrennial, nor that it will deliver great stability in employer contribution rates and reduce costs.

It should be noted that:

- Regulation 62 of the LGPS Regulations 2013, CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement and the Pension Fund's own Funding Strategy Statement include mechanisms to delivery stability of employer contribution rates.

- The LGPS is funded and holds assets with values and performance that can fluctuate significantly over time. This volatility needs careful and regular management. A longer cycle may lead to the funding position drifting over a longer period and therefore a sharper correction to contribution rate being required at the end of the period (particularly for shorter term employers such as closed charities).

- Accounting standards and guidance require that employers determine the net defined benefit liability with sufficient regularity so that the amounts recognised in the financial statements do not materially differ from the amounts that would be determined at the end of the reporting period. As IAS19/IAS26 reports are calculated on a roll-forward basis, it is not clear what the views of private sector and public sector auditors are if an inter-valuation period is extended and whether interim valuations are required for accounting purposes, increasing costs.

- Employer circumstances and their financial covenant can change quickly, and lengthening the valuation cycle may expose LGPS funds to greater covenant risk. In this context, interim valuations as considered within the Consultation (whether at a whole of fund level or for individual employers) will also increase costs.

- Moving to a four year cycle, with the use of interim valuations, will also add to the burden of already stretched administration teams. When considering any changes to the current arrangements it is equally important to ensure that administering

authorities have the capacity to comply with those changes, at no detriment to their current obligations to scheme members and their dependents.

In the context of the above it is difficult to be certain that moving to a four yearly cycle will save costs given the cost of carrying out interim valuations and any other additional employer work required as a result and not necessarily present value given the more substantive possible costs arising from the funding impacts of a delayed valuation.

Question 2:
Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

In addition to points raised above, a formal valuation is not just about number crunching. It provides a governance opportunity to undertake a 'health check' on the Fund's data and risk management policies, and the metrics provided (cash flows, benefit projections, funding positions etc.) are often used for strategic investment reviews. Increasing the cycle may encourage less governance.

There is a risk of a repeat of the current situation where the 2019 valuations are to be carried out without knowing what the benefit structure of the LGPS as at the valuation date will be as a result of the mis-alignment of timing of benefit/member contribution changes following the cost management process and the local valuation calculations.

Question 3:
Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

We consider that the 'as at' date of the scheme valuation should be ahead of the local fund valuations. This would allow time for:

- The Government Actuary's Department (GAD) to gather the necessary data and do the calculations;

- Discussion to take place on the results with the various national oversight bodies;

- Agreement to be reached over any changes to the benefit structure or employee contribution rates to get the cost of the scheme within the +/- 2% of pay corridor; and

- Software providers to make the necessary changes to systems and for those changes to be fully tested ahead of the effective date.

This should avoid changes to benefits or employee contributions being implemented retrospectively and allow time for administration and valuation systems to be updated to reflect the correct structure for the local valuations.

Question 4:
Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Notwithstanding the comments above, we agree that approach b) (completion of the 2019 valuation with a three year Rates and Adjustments Certificate followed by another valuation as at 31 March 2022 and a two year Certificate) is preferred to a five year gap between the 2019 valuation and the next.

Dealing with changes in circumstances between valuations

Question 5:
Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

We are supportive of the introduction of a broader power (outside of Regulation 64) to carry out an interim valuation and believe that this is important to support administering authorities' risk management generally given the diverse range of sponsoring employers - and specifically should local valuations be moved to a quadrennial cycle.

We consider it would be sensible for funds to have the discretion to do an interim valuation at either whole fund or specific employer level (on an approximate basis or otherwise), with the decision depending on the reasons for undertaking the valuation

Question 6:
Do you agree with the safeguards proposed?

We agree with the proposal that the circumstances in which an interim valuation would be carried out should be properly documented and defined within the Funding Strategy Statement. Regulations and statutory Guidance on protections is also welcome to ensure that there is some consistency across funds. It is important that the scope for requesting and agreeing to interim valuations does not become an unwelcome distraction and divert attention from the delivery of administration services to scheme members and their dependants.

We would consider that the Local Pension Board would have an important role in ensuring that the Scheme Manager is then complying with the above guidance.

It would be of benefit to understand the factors that the Secretary of State would take into account before requiring an interim valuation on representation from a scheme employer. We are particularly keen to avoid 'moral hazard' situations where employers lobby for a valuation to take advantage of favourable market conditions, for example.

It will also be important to:

- Define the necessary outcomes if an interim valuation is carried out eg. the adoption of the required rate, or otherwise.
- Consider the administrative burden of providing data for interim valuations, particularly where requested by scheme employers.

Question 7:
Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

We consider the following circumstances as being appropriate for an Administering Authority to change employer contributions (across all employer types):

- If an employer closes the fund to new entrant
- If there is a material transfer of staff to or from an employer, for example caused by a Machinery of Government change or outsourcing a large numbers of staff to another body.
- If there is a change in covenant

We consider that safeguards should be put in place to remove the ability avoid a scheme employers requesting a reassessment driven by short termism which would negate MHCLG's objective of stability of contributions.

Question 8:
Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these tools?

We consider that there is merit in considered and consulted statutory Guidance being provided. It would make sense that this was an extension of CIPFA's existing Funding Strategy Statement Guidance, or wherever the responsibility for statutory guidance referred to in Regulation 58 resides.

We would caution against the guidance being too prescriptive. It is important to ensure local decision-making and the diversity of funding levels and employers within funds is recognised but as referred above it would be helpful if such guidance were to cover the tests that would need to be met in order for a scheme employer to request an interim valuation itself from the Secretary of State.

Question 9:
Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

The fact that a valuation is interim rather than full does not take away the need for professional advice. Our assumption therefore is that an interim valuation should not be undertaken without having been signed off by the Fund Actuary and this constitutes "*proportionate level of actuarial advice*". However it would be beneficial if this was clarified.

Whilst employers may request interim valuations for accounting purposes it will be important to be clear that it is the administering authorities and not employers who have the final say on reviewing employer contributions. Guidance on this would be helpful to ensure consistency between Administering Authorities.

Our response to # 8 provides some thoughts on who is best placed to offer guidance.

Question 10

Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

It is important to clarify that "exit payments" from the LGPS are not calculated on a full buy-out basis and the Regulations as they currently stand do not subscribe any one basis for valuing exit debts. In practice, these can differentiate materially between different types of employer and between funds.

We believe that additional flexibilities would be helpful in constructively managing the exit of any employer, independent of the basis of the exit valuation.

Whilst there are circumstances when the timing of an exit event and the magnitude of any exit debt may not be known until well after the exit event, Administering Authorities also manage an employer flight path to reduce the likelihood of liabilities on exit being "significantly higher than their ongoing contributions".

We would consider spreading exit payments a risk, even with a legal side agreement being in place. But in appropriate circumstances this additional risks could be managed through:

- The payment arrangement being at the discretion of the Administering Authority (and the guarantor where appropriate), allowing them to make a judgement on the covenant of the underlying employer;
- Locally, there is a maximum period for repayment
- Interest be charged at an appropriate rate
- The Administering Authority should have the ability to request additional security be put in place during the repayment period.

Question 11:
Do you agree with the introduction of deferred employer status into LGPS?

We agree with the introduction of a deferred employer status, subject to further detailed consultation.

However consideration needs to be given as to how we would manage and be aware of the 'relevant events'.

Question 12:
Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

We agree with the introduction of deferred employer debt arrangements, subject to further detailed consultation.

We would consider the following safeguards as being necessary:

- Termination could be triggered on significant deterioration of covenant without an associated insolvency event.

- Either the employer or the fund can trigger termination without agreement of the other party providing that this then leads to an exit valuation being carried out

- A "flight plan" approach whereby the funding and investment strategy are regularly reviewed in light of the longer-term target of being fully funded on a gilts basis may be appropriate, particularly for larger employers.

Question 13:
Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

The Regulations should be limited to key obligations and entitlements of parties, supplemented by supporting Guidance formed with significant input from LGPS practitioners throughout the drafting and consultation stages.

Question 14:
Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

We agree options 2 and 3 should be available as alternatives to the current rules on exit payments.

Question 15:
Do you consider that statutory guidance or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of the proposals?

We believe that guidance is needed. A balance will need to be struck between compulsion to ensure a consistent interpretation of the Regulations and the ability of funds to manage their own funding and employer risks. We would strongly encourage any guidance to go out for full public consultation.

Exit credits

Question 16:
Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

We believe that exit credits should not be applied retrospectively to any contracts that were in force prior to 14 May 2018, whether on a risk-sharing basis or otherwise. In other words, the exit credit regime should only apply to new contracts that were set up from 14 May 2018 onwards.

However, it is worth noting that there is a very wide range of risk sharing arrangements in place and it is important to avoid circumstances where the onus is on the Administering Authority adjudicating on what is, in many cases, a contractual arrangement between two employers, outside of the admission agreement and exit

calculations can vary materially between different types of employer and between funds, based on their own local funding strategy.

Question 17:
Are there other factors that should be taken into account in considering a solution?

It is important to consider the breadth of arrangements in which an employer may bear less pension risk (including "pass through" or cap and collar arrangements, allocation of specific risks (e.g. excessive pay increases), a fixed contribution rate) and the commitment that is often in place for the awarding authority to absorb any assets and liabilities after the contractor exits the fund.

As the contract price and other terms and conditions will have been determined on whatever basis was agreed at the outset, we believe it is important for the Regulations to be amended so that no exit credits are payable for transferee admissions entered into before the date of the Regulatory changes.

Even if a change is agreed to state that the administering authority can determine (as part of its funding strategy) that an exit credit is only due for existing admissions if the contractor is in surplus on a low risk/gilts basis on exit, this would result in a move away from the arrangements intended at the time of the contract being let.

Consideration should also be given of suspension notice cases where there is a potential credit with the grounds for the suspension being consistent with those where a deficit is determined.

Employers required to offer LGPS membership

Question 18:
Do you agree with our proposed approach?

It is a policy decision for MHCLG on which employers must and which can participate in the LGPS but given the changes in this sector it does now appear arguable that HE/FE is not "public sector" and hence should not be required to admit new members.

It is important however to recognise that choosing this approach may not immediately reduce a HE/FE's pension costs, and contributions may increase in the short term, as administering authorities are likely to want to recalculate the employer contribution rate, allowing for the fact the employer is now closed to new entrants and potentially altering the funding basis to reflect the shorter term nature of the participation of the employer.

We would note that closing the scheme to new members via an Admission Agreement is preferable to an employer becoming a designating employer. The Admission Agreement would form a contractual agreement between the fund and the employer which governs the employer's participation.

We would also note that employers that use this proposal would create a two-tier work force in terms of pensions provision. There will be a need to monitor and ensure that promises are kept to those members currently in the LGPS i.e. that they are not induced

out of the LGPS. The accompanying legislation should make it clear where that responsibility lies and the possible penalties for non-compliance.

Addendum 3

DRAFT Funding Strategy Statement

Introduction and Purpose

This is the Funding Strategy Statement (FSS) of the West Sussex County Council Pension Scheme ("the Scheme"), which is administered by West Sussex County Council, ("the Administering Authority"). The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. Importantly:

- Employees' benefits are guaranteed by the LGPS Regulations.
- Employees' contributions are fixed in the same Regulations, at a level which covers only part of the cost of the benefits.
- Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee.
- Employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The purpose of the FSS is to summarise the Administering Authority's approach to funding its liabilities. This includes reference to the Fund's other policies but it should be noted that it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework that includes:

- The LGPS Regulations.[1]
- The Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report.[2]
- Actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service.
- The Fund's Investement Strategy Statement.[3]

The FSS has been prepared by the Administering Authority in collaboration with its actuary, Hymans Robertson LLP, [and after consultation with the Fund's employers. It has been adopted for the purpose of the 2019 Actuarial Valuation and is effective from 1 April 2019].[4]

[1] https://www.lgpsregs.org/
[2] https://www.westsussex.gov.uk/about-the-council/pensions/local-government-pension-scheme-lgps/pension-fund/
[3] https://www.westsussex.gov.uk/about-the-council/pensions/local-government-pension-scheme-lgps/pension-fund/
[4] Consultation to be launched (June 2019). Feedback will inform any revisions.

Important Note

This Funding Strategy Statement (FSS) has been written during a period of significant uncertainty caused by:

- The McCloud case (where the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the recent pension reforms amounts to unlawful discrimination – directly on grounds of age and indirectly on other grounds).[5]
- The "HM Treasury cost control mechanism" (also introduced as part of the recent pewnsion reforms) being engaged, which may trigger changes to LGPS benefits (currently paused in light of the McCloud case).
- The "Scheme Advisory Board (SAB) cost control mechanism" (also introduced as part of the recent pension reforms) being engaged, which may trigger changes to LGPS benefits and member contributions (also paused in light of the McCloud case).
- The Government's decision to appeal the McCloud case.

At present there are no timescales for the outcome of this appeal or the resulting benefit changes which will largely depend on the outcome.

The Administering Authority has therefore proceeded on the assumption that the scheme will not change in April 2019. As a result:

- Employers should collect employee contributions on the basis of current Regulations
- The 2019 valuations will proceed on the basis of the current benefit and member contribution structure

As and when there are developments, there will need to be reflection on how best to incorporate these into the 2019 Actuarial Valuation employer contribution-setting process.

- If the Government is sucessful in its appeal:
  - there will be not change to accrued benefits
  - changes to future employee benefits are likely to be implemeneted as part of the "cost control mechanism" (applicable from 1 April 2019)
  - employer contribution rates are likely to increase as a result.
- If the Government is not sucessful in its appeal:
  - the court will require steps to be taken to compensate employees who were transferred to the new Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions
  - the SAB and HM Treasury will then review their respective "cost control mechanisms", which may or may not result in future employee benefit changes (from 1 April 2019)
  - it is possible that employer contribution rates could increase as a result.

[5] https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf

In addition to the above, the Fund is currently waiting the outcome of several consultations or Government decisions which may affect the scheme and the FSS, including but not limited to:

- The outcome of the Government's Fair Deal II Consultation, which may introduce new classes of employer into the Scheme.
- A further Consultation on Exit Credits.
- Rectification of issues associated with Guaranteed Minimum Pension Indexation and Equalisation.
- A review of the valuation cycle for the LGPS to align with that of the unfunded schemes (quadrennially).
- Revised CIPFA Guidance for the FSS.

The Administring Authority may revisit the FSS as and when the outcomes of the above consultations (and resulting legislative changes), decisions and guidance are known, and will seek wider consultation on any material changes in approach as a result of these changes.

The Aims and Purpose of the Pension Fund

The Administering Authority runs the Fund, ensuring it:

- Receives the proper amount of contributions from employees and employers, and any transfer payments;
- Invests the contributions appropriately with the aim that the Fund's assets grow over time with investment income and capital growth; and
- Uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The FSS focuses on how the Administering Authority measures employer liabilities (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities in order to achieve the Administering Authority's funding aims of affordability, prudence and transparency. These aims are described in more detail below:

Aim	How this is achieved
Affordability and stability of employer contributions	Through minimising the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return. By reflecting the different characteristics of different employers in determining contribution rates and understanding how each employer can best meet its own liabilities over future years By using reasonable measures to reduce funding risks on employer cessations.
Prudence in the funding basis	By using a prudent long term view. This will help ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
Transparency of processes	By consultating and publishing this FSS. By adopting a consistent application of the FSS.

All employers are responsible for their own section of the Scheme, tracked by the actuary.

Setting Employer Contribution Rates

The way in which the Administering Authority calculates and sets employer contribution rates will vary for different employers to ensure that each employer pays for their own liabilities and the assets meet (as closely as possible) the value of its liabilities when its participation ends. . In doing so, the Administering Authority recognisies the balance which needs to be struck between its need for maintaining prudent funding levels and the employers' need to allocate their resources appropriately.

Employer contributions are normally made up of two elements:

1. 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, referred to as the "primary contribution rate"; plus
2. Any adjustment to the primary rate to reflect the individual circumstances of each employer is referred to as the "secondary contribution rate" which reflects any adjustments required 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.

The following sections describe how the Administering Authority sets employer contribution rates.

Funding Target Basis, Time Horizon and Probability

General Principles

The Administering Authority groups employers with similar characteristics when determining employer contributions. Examples include funding sources, whether there is anyone guaranteeing an employer's participation in the Scheme and whether an employer will eventually leave the Scheme. Examples of the broad categories in which employers are grouped include:

- Scheduled Bodies, Designated Employers and Academies (for the period that they have a guarantee from the Department for Education) are generally open to new entrants, are considered to be long term and have reliable funding sources.
- Admission Bodies with a guarantee from a Local Authority, Police, other Scheduled Body or a Designated Employer or appropriate security are generally closed to new entrants, are considered to be shorter term and the Administering Authority has less insight into their funding sources.
- Admission Body with no guarantee from a Local Authority, Police, other Scheduled Body or a 'Designated Employer' or appropriate security are generally closed to new entrants, are considered to be shorter term and the Administering Authority may have no insight into their funding sources.

This categorization determines an employers funding target, the period over which this funding target should be met and the certainty required that the employer will achieve their funding target.

Please note, the above are examples of the broad categories, in practice, there are a range of employers with varying categorisations as described through this Funding Strategy Statement.

<u>Funding Target</u>

The Administering Authority seeks to ensure the long-term solvency of the Scheme through ensuring that it holds sufficient assts to be able to pay all its members benefits. It therefore needs to ensure that the assets held on behalf of each employer meet (as closely as possible) the value of benefits built up to date for the employer's employees and ex-employees (the liabilities) ie. a funding position of 100%.

However, different assumptions will be applied to calculate the value placed by the actuary on the benefits built up to date (and for future benefits).

- If an employer is considered higher risk or approaching the end of its participation in the Scheme or is considered higher risk, then the funding target may be set on more prudent assumptions using a discount rate based on expected returns on the lower riss investments held (government bonds) without applying a margin for greater returns from equity-type investments held.
- For other employers the actuary will calculate expected reutrns on the lowest risk investments held (government bonds) plus a margin to allow for the greater return that is expected to be generated from equity-type investments held.

- Where an employer is approaching the end of its participation in the Scheme, but this is still more than [4] years away, the actuary may move the discount rate towards a gilts cessation basis gradually over time.

The time horizon over which the employer should achieve its funding target

Each employer in the Scheme will have a time period over which they need to achieve their funding target.

Employers may be given a lower time horizon if they have a less permanent anticipated membership, is approaching the end of its participation in the Scheme or do not have a known funding source to afford increased contributions if investment returns under-perform.

The longest time horizon afforded any employer in the Scheme is 20 years (generally reserved for long term employers with reliable funding sources).

The probability required achieving the funding target over a given time horizon, allowing for different liklihoods of various possible economic outcomes

It is extremely unlikely that the contribution rate will absolutely ensure that the combination of contributions and market movements will return a funding position of 100% when an employer reaches the end of their time horizon. Therefore the Administering Authority will take a view on the minimum required probability of an employer reaching their funding target over their time horizon.

Typically, a higher required probability will give rise to higher contribution rates, and vice versa.

Probabilities are applied depending on their nature and security of an employer. The Administering Authority may look for more certainty that an employer will reach its funding target over the given time if they have a less permanent anticipated membership, are approaching the end of their participation in the Scheme or do not have a guarantor. For employers who are open to new entrants considered to be long term a lower level of probability may be appropriate.

In general, the Fund will require all employers to have at least a 66% chance of being fully funded by the end of their time horizon.

Application

The application of the above factors by employer group is shown below:

	Funding Basis	Probability	Time Horizon [6]
Local Authorities and Police	Ongoing	66%	20 years
Designating Employers	Ongoing	66%	20 years
Academies	Ongoing	70%	20 years
Other Scheduled Bodies	Ongoing	70%	Future Working Lifetime
Admission Body with no Guarantor	Gilts plus an additional allowance for future improvements in life expectancy and future administration expenses.[7]	75% [8]	Minimum of Future Working Lifetime and remaining contract period
Admission Body with Guarantor	Ongoing	75%	Minimum of Future Working Lifetime and remaining contract period.
Admission Body on pass through or other risk sharing arrangements	Contractual	75%	Same as ceding employer

[6] **Whilst the Administering Authority would normally expect the same period or derivation method to be used at successive triennial valuations, it reserves the right to propose alternative periods, for example where there were no new entrants.**

[7] Not applicable when moving towards gilts over time

[8] Where an employer is nearing cessation, the Administering Authority may vary the probability of achieving the funding target to 50% to reduce the chances of a surplus on cessation.

Achieving Stability

The Administering Authority has an overarching objective to keep contributions as stable as possible over time. Therefore, where an employer is considered relatively low risk or provides appropriate security, the Administering Authority, at its absolute discretion, may smooth changes in contributions in the expectation that the employer will still be able to meet its obligations for many years to come (or the Fund will be able to call on any security provided if required). Smoothing techniques include:

- A cap to its employer contribution rate changes within a pre-determined range ("stabilisation"). This can allow for short term investment market volatility to be managed and keep some employers' rates relatively stable. This can be viewed as a prudent long-term approach for some employers. Further details are set out in Appendix 1.
- Phasing in contribution rises or reductions.
- Use of extended time horizons (although the maximum applied is 20 years).
- Pooling of contributions amongst employers with similar characteristics. Pools currently exist for small designated employers and some academies which participate in Multi Academy Trusts. Council funded schools generally are also pooled with their funding Council (although there may be exceptions for specialist or independent schools, where applicable). Those employers which have been pooled are identified in the Rates and Adjustments Certificate and are reviewed at each valuation.

These smoothing techniques will temporarily produce lower contribution levels than would otherwise have applied. It should be noted, that paying lower contributions, even in the short term, may lead to higher contributions in future.

Payment and Review of Contribution Rates

The rates for all employers are shown in the Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. It should be noted:

- The Rates and Adjustment Certificate shows employer contributions expressed as minimum contributions, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken into account by the actuary at subsequent valuations.
- Where employers are in surplus, the secondary rate will be set as a percentatge of pay. Where an employer is in deficit, the secondary rate is set as monetary amounts. Exceptions to these guidelines may apply where an employer anticipates large increases in membership (e.g. as a result of auto-enrolment), in which case the Administering Authority reserves the right to require deficit repaid as a percentage of pay with a monetary underpin. Alternative arrangements can be agreed at the ultimate discretion of the Administering Authority.
- The Administering Authority, taking advice from its actuary, may permit some employers to elect to make a lump sum payment at the start of a financial year, or valuation period. In these circumstances a contribution rate adjustment reflecting appropriate actuarial discounts may apply. However, employers adopting this approach should acknowledge the risks involved, particularly in respect of the impact of investment return during the inter valuation period.
- Review of the rates for all employers may be triggered by significant events including but not limited to:
  - changes to LGPS Regulations
  - significant reductions in payroll
  - altered employer circumstances including where an employer is approaching cessation or closes their membership to new entrants
  - Government restructuring affecting the employer's business
  - failure to pay contributions or arrange appropriate security as required by the Administering Authority.

  The result of a review may be to require increased contributions by strengthening the actuarial assumptions adopted and/or an increased level of security or guarantee.

Additional Employer Costs

Non ill-health early retirement costs

When the atuary calculates an employers liabilities he will assume that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire).[9]

Therefore no allowance is made for premature retirement except on grounds of ill-health.

As a result, employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age.

The Administering Authority's requires employers to make upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).

An employer can request to pay instalments over a three year period, but this would be by exception.

The Chief Finance Officer to agree exceptions to the current practice.

Ill-health early retirement costs

When the atuary calculates an employers liabilities he will make an allowance of ill-health early retirements where a member is entitled to receive early payment of their benefits.[10]

The Administering Authority monitors each employer's ill-health experience on an ongoing basis against an allowance determined by the actuary.

If the cumulative strain cost of an employer's ill-health retirements in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as applied for non ill-health cases.

However individual employers may take out ill-health insurance on an individual basis. Under these circumstances:

- the Administering Authority would not monitor the employer's ill health experience against the actuary's allowance
- the employer will be charged additional contributions whenever an employee retries early on ill health grounds under the expectation the employer can recoup the chages from their insurer
- the Administering Authority may allow the insurance premium to be offset against their certified contribution rates. This arrangement is allowed for the period the insurance is in place.

New Employers

[9] The relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014.

[10] The relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014.

General Principles

Scheduled Bodies

Scheduled Bodies are listed in LGPS Regulations and therefore, it is unusual for new Scheduled Bodies to join the Scheme. As these events are rare and tend to be unique in nature, the Administering Authority does not have a prescribed method for allocating an initial funding position. This would be determined on a case by case basis.

The new body's contribution rate would be determined in line with the guidance in this FSS.

Designating Employers

Typically, new Designating Employers constitute new membership in the Scheme (there is no past service liabilities at outset), therefore there no assets are usually transferred to the new employer at outset. However this would be determined on a case by case basis.

The new Designating Employers initial contribution rate will be set equal to that of the Small Scheduled Bodies pool.

Academies & Free Schools

The initial liabilities of a new Academy or Free School will be based the past service liabilities of its active members in the Scheme on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.

The new Academy or Free School will then be allocated an initial asset share from West Sussex County Council's (WSCC's) assets in the Scheme. This asset share will be calculated using the estimated funding position of WSCC at the date of Academy or Free School conversion, having first allocated assets in WSCC's share to fully fund deferred and pensioner members subject to a maximum of 100% of liabilities. The asset allocation will be based on market conditions and the new Academy or Free School's active membership in the Scheme on the day prior to conversion. The initial assets are then determined by multiplying this funding level by the new Academy or Free School's initial liabilities.

The new Academy or Free School's initial contribution rate will beset equal to that of WSCC except:

- where a new Academy is part of a Multi Academy Trust (MAT) already participating in the Fund, where the new Academy can elect to be pooled with the other Academies in the MAT (and within the Fund) for contribution rate purposes. In this scenario, the Academy's initial contribution rate will be set equal to that of the MAT's pooled rate.
- where a new Academy or Free School wishes to pay an individual rate calculated by the Fund Actuary.

At subsequent valuations an Academy or Free School's rate will be determined on an individual basis, unless pooled with their MAT in which case they will pay the MAT rate as deterimed in line with the guidance in this FSS.

It should be noted that its underlying cashflows and experience will be tracked individually by the actuary whether pooled or not.

Admission Bodies

Contractors

Where there is a new Admission Body set up as a result of a TUPE transfer of some staff from the letting employer to the contractor the Admission Body would be set up in the Scheme as a new employer with responsibility for all the accrued benefits of the transferring employees.

Unless agreed otherwise with the Administering Authority, 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 (so the admission body will start fully funded on an ongoing funding basis).

The contractor's initial contribution rate will be set on an individual basis except if agreed otherwise between the letting authority, the contractor and the Administering Authority.

Employers who "outsource" have some flexibility in the way they deal with the pension risk potentially taken on by the contractor, such as Pass Through. Under Pass Through, the contractor pays the certified rate and the contract price being adjusted such that the contractor's pension costs and the letting employer retains some (but possibly not all) pensions risks. The application of any Pass Through arrangement is a contractual provision between the contractor and Employer. Employers may choose to put other risk sharing arrangements in place, in consultation with the Fund.

Other

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as Section 75 NHS Partnerships) to join the Scheme if they are sponsored by a Scheduled Body, guaranteeing their liabilities and also providing a form of security. Given the rare occurance of these bodies joining the Scheme, their initial asset allocation and contribution rate will be considered on a case by case basis considering the guidance provided by this FSS.

Application

The application of the above factors by employer group is shown below:

	Asset Allocation	Initial Rate	Treatment at subsequent valuations
Local Authorities and Police	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.
Designating Employers	N/A	Small Scheduled Bodies Pooled rate.	Small Scheduled Bodies Pooled rate.
Academies	Estimated funding position of the active liabilities of WSCC after fully funding WSCC's deferred and pensioner liabilities. This is subject to a maximum initial funding level of 100%	Option to pay WSCC's rate, a rate determined by the actuary in line with the FSS or if part of a MAT may elect to pay rate equal to that of the MAT's pooled rate.	Determined on an individual basis, or MAT pooled rate.
Other Scheduled Bodies	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.
Admission Body with no Guarantor	Where contractor, fully funded on the Fund's ongoing funding basis, otherwise determined on case by case basis.	Determined on an individual basis.	Determined on an individual basis.
Admission Body with Guarantor	Where contractor, fully funded on the Fund's ongoing funding basis, otherwise determined on case by case basis.	Determined on an individual basis.	Determined on an individual basis.
Admission Body on pass through / other risk sharing arrangements	Determined on a case by case basis	Determined on a case by case basis	Determined on a case by case basis

Exiting employers: cessation valuations

General Principles

The Administering Authority may consider any of the following as triggers for the cessation on an employer's participation in the Scheme:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Administering Authority;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Administering Authority.

<u>Assessment</u>

On cessation, the Administering Authority will instruct the actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

The actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Scheme from the likelihood of any material loss emerging in future. This may include making an allowance for future administration costs associated with administering the benefits of the former employer's members and the risk of members living longer than anticipated.

Where there is a deficit:

- The normal approach is for payment of this amount in full by the Admission Body as a single lump sum payment.
- In some instances, the Administering Authority has the discretion to defer charging a cessation liability for up to three years if the employer is expected to acquire one or more active members in the Scheme over the period by issuing a written notice ("a suspension notice").
- If it is not possible for the deficit to be paid as a single lump sum the Administering Authority may permit the employer to make regular contributions to fund the remainder of the employer obligations over an appropriate period alongside provision of suitable security (bond, indemnity or guarantee). The Administering Authority would reserve the right to invoke the cessation requirements in the future.
- In the event that the Administering Authority is not able to recover the required payment in full and there is no guarantor, then the unpaid amounts fall to be shared amongst all of the other employers in the Scheme. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Scheme or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

Where there is a surplus:

- An employer is entitled to receive an exit credit from the Administering Authority. This must be paid within three months of the date on which the employer ceased to participate in the Scheme, or such longer time as the Administering Authority and exiting employer agree.[11]

Employers with no remaining active members

When an emploiyer ceases their participation in the Scheme, and provided their exit obligations are met, they will have no further obligation. However as member benefits are guaranteed, it is expected that one of two situations will eventually arise:

- The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other employers participating in the Scheme will be required to contribute to pay all remaining benefits: this will be done by the actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the actuary to the other employers participating in the Scheme at successive formal valuations.

Application

The application of the above factors by employer group is shown below:

	Basis	Exit Liability Payment Terms	Exit Credit Payment Terms
Local Authorities and Police	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased
Designating Employers	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased
Academies	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased
Other Scheduled Bodies	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased

[11] Currently being reviewed by Central Government

Admission Body with no Guarantor	Gilts cessation basis	Immediate or Payment Plan	Within three months of the date on which the employer ceased
Admission Body with Guarantor	Ongoing basis	Immediate or Payment Plan	Within three months of the date on which the employer ceased
Admission Body on pass through / other risk sharing arrangements	Ongoing basis	Immediate or Payment Plan	Within three months of the date on which the employer ceased

Other Actuarial Matters

Security as a requirement for participation

All new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The Administering Authority requires security to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit on the employer's appropriate cessation basis.

In addition it should be noted:

- Where the Admission is to a contractor, the Administering Authority requires that the security must be to the satisfaction of the Administering Authority as well as the letting employer.
- Where a new admission body is not a contractor, the security must be to the satisfaction of the Administering Authority (and any employer providing a guarantee where applicable).
- All security requirement must be reassessed periodically.

Security in the context of setting employer contribution rates

The Administering Authority may permit greater flexibility within the framework for setting employer contributions if the employer provides added security to the satisfaction of the Administering Authority. Such security may include, but is not limited to a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and/or
- whether the Admission Agreement is likely to be open or closed to new entrants

It should be noted, that Local Authorities and the Police are already afforded the maximum flexibility in respect of setting contribution rates due to the security of their funding sources. Therefore, this policy does not apply to them.

Policies on bulk transfers

Bulk transfers of member take place where ten or more members transfer to another Administering Authority's LGPS or where two or more members transfer to a non-LGPS fund. Each case will be treated on its own merits, but in general, where active members are transferring the Administering Authority will pay bulk transfers in line with factors provided by the Government Actuary's Department for individual transfers with an allowance for known fund returns between the transfer date and payment date. This also forms the minimum amount the Fund will accept on a transfer in.

For transfer involving deferred and pension members (such as when employers in different funds merge)the Administering Authority will pay the asset share attributed to the transferring members including an allowance for known fund returns between the transfer date and payment date. This also forms the minimum amount the Fund will accept on a transfer in.

The Administering Authority permits shortfalls to arise on bulk transfers if the employer participating in the Scheme has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to the Scheme to increase between valuations. Where this is not met, the Administering Authority may require a higher transfer amount or immediate contribution from the employer(s) involved.

Appendix 1 – Stabilisation

"Stabilisation" is an approach used by the Administering Authority to allow for short term investment market volatility to be managed and keep some employers' rates to be relatively stable.

The application for Scheduled Bodies is shown in more detail below (provided there are no anticipated material events e.g. significant reductions in active membership):

Type of employer	
Max cont level	To be determined as part of the 2019 Valuation modelling
Max cont increase	
Max cont decrease	

Employers whose contribution rates have been "stabilised" may therefore be paying more or less than they might otherwise have paid at any one time. Employers should be aware that:

- Their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- Lower (higher) contributions in the short term will be assumed to incur a greater loss (gain) of investment returns on any deficit. Thus, deferring (or not) a certain amount of contribution may lead to higher (lower) contributions in the long-term; and
- It may take longer to reach full funding, all other things being equal.

Appendix 2 – Funding strategy and links to investment strategy

General Principle

The Scheme has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner.

The investment strategy is set by the Administering Authority and describes the precise mix, manager make up and target returns.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers. Link between funding strategy and investment strategy

The Scheme must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the Actuarial Valuation and funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the actuary, the current funding policy is consistent with the current investment strategy of the Scheme. The asset outperformance assumption contained in the discount rate is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government.

However, in the short-term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium-term, asset returns will fall short of this target. The stability measures described in will damp down, but not remove, the effect on employers' contributions.

How does this differ for a large stable employer?

The actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- **Prudence** - the Fund should have a reasonable expectation of being fully funded in the long-term;
- **Affordability** – how much can employers afford;

- **Stewardship** – the assumptions used should be sustainable in the long-term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- **Stability** – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key objectives often conflict. For example, minimising the long-term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling ("ALM"). An ALM is a set of calculation techniques applied by the actuary, to model the range of potential future solvency levels and contribution rates.

The actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

[Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation].

Does the Administering Authority monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, at least quarterly. It reports this regularly to the Pensions Panel.

Appendix 3 - Statutory reporting and comparison to other LGPS funds

Background

Under Section 13(4)(c) of the Public Service Pensions Act 2013 The Government Actuary's Department (GAD) must, following each actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on whether the rate of employer contributions are set at an appropriate level to ensure the solvency of each fund in the LGPS England & Wales and to ensure the long term cost efficiency of each fund in the LGPS England & Wales.

This additional oversight may have an impact on the strategy for setting contribution rates at future valuations.

Solvency

For the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if the rate of employer contributions is set to target a funding level for the Scheme of 100% over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

- employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

Long term cost efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, GAD may have regard to following absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is not primarily concerned with comparing funds with a given benchmark.

Relative considerations include:

- the implied deficit recovery period; and
- the investment return required to achieve full funding after 20 years.

Absolute considerations include:

- if there is a deficit, the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on the deficit over the current inter-valuation period;
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future;
- the extent to which the required investment return under "relative considerations" above is less than the estimated future return being targeted by the Administering Authoriry's investment strategy;
- the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
- the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual experience of the Scheme.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix 4 – Regulatory framework

Background

The Funding Strategy Statement is the framework within which the actuary carries out valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund.

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

- "to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities."

The requirement to maintain and publish a FSS is contained in the LGPS Regulations which are updated from time to time.

In publishing the FSS the Administering Authority has to have regard to any guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and to its Investment Strategy Statement.

The FSS applies to all employers participating in the Fund.

Consultation

The FSS must first be subject to consultation with such persons as the Authority considers appropriate.

The Administering Authorities consultation process for this FSS was as follows:

a) The Administering Authority hosted employer events in May 2019, July 2019 and [November 2019] at which questions regarding the funding strategy could be raised and answered.

b) A draft version of the FSS was issued to all participating employers and the Pension Advisory Board in May and June 2019 for comment;

c) The FSS was updated where required and then published, in March 2020.

Publication

The FSS is made available through the following routes:

- Published on the website, at www.westsussex.gov.uk/pensions;
- A full copy linked from the annual report and accounts of the Fund;
- Copies made available on request.

Review

The FSS is reviewed in detail at each valuation.

It is possible that minor amendments may be needed between valuations. These would be needed to reflect any regulatory changes or alterations to the way the Scheme operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers; and/or
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Panel and would be included in the relevant Panel Meeting minutes.

Related policy documents

The FSS is a summary of the Administering Authority's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.westsussex.gov.uk/pensions.

Appendix 5 – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

The Administering Authority should:-

- operate the Scheme as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Scheme employer;
- collect employer contributions and employee contributions, investment income and other amounts due to the Scheme;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's investment strategy and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Scheme;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the actuary;
- prepare and maintain a Funding Strategy Statement ("FSS") after consultation;
- provide data and information as required by GAD to carry out their Section 13 obligations;
- notify the actuary of material changes which could affect funding; and
- monitor all aspects of the Fund's performance and funding and amend the related policy document as necessary and appropriate.

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own, as determined by the actuary by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership which could affect future funding.

The actuary should:-

- prepare valuations, including the setting of employer contribution rates. This will involve agreeing assumptions with the Administering Authority having regard to the FSS and LGPS Regulations and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Scheme, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- provide data and information required by GAD to carry out their Section 13 obligations;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

Other parties:-

- investment advisers (either internal or external) should ensure the Fund's investment strategy remains appropriate and consistent with its funding strategy;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Scheme assets in line with the investment strategy;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Scheme;
- legal advisers (either internal or external) should ensure the Scheme's operation and management remains fully compliant with all regulations and broader local government requirements including the Administering Authority's own procedures;
- The Ministry of Housing, Communities and Local Government (as assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS funds to meet Section 13 requirements.

Appendix 6 – Key risks and controls

Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- Financial (F);
- Demographic (D);
- Regulatory (R); and
- Governance (G).

Financial risks

	Risk	**Summary of Control Mechanisms**
F	Assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three-yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
F	Inappropriate long-term investment strategy.	Consider overall investment strategy options as an integral part of the funding strategy. Use asset liability modelling to measure 4 key outcomes.
F	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer-term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.

	Risk	Summary of Control Mechanisms
F	Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring of active managers relative to their benchmark.
F	Pay and price inflation significantly more than anticipated.	Focus the actuarial valuation process on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
F	Effect of possible increase in employer contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
F	Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
D	Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund actuary has direct access to the experience of over 50 LGPS Funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
D	Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

	Risk	Summary of Control Mechanisms
D	Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill-health retirement experience is monitored, and insurance is an option.
D	Effects of Auto enrolment	Mechanism for reviewing and addressing the factors in the Regulations to ensure that systems (Payroll, Pensions and HR) can support auto-enrolment, e.g. correct processing and timely payment of contributions
R	Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
R	Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis
R	Changes by Government to particular employer participation in LGPS funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consolation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategies as appropriate.

	Risk	Summary of Control Mechanisms
G	Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions expressed as monetary amounts.
G	Actuarial or investment advice is not sought, or is not heeded or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
G	Administering Authority failing to commission the Fund actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
G	An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission.

	Risk	Summary of Control Mechanisms
		Where permitted under the Regulations, requiring a bond to protect the Fund from various risks. Requiring new Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix 7 – Actuarial assumptions

Background

Actuarial assumptions are expectations of future experience used to place a value on future benefit payments ("the liabilities").

Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

2019 valuation assumptions

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The table below shows the recommended assumptions for the 2019 valuation relative to the assumptions used in the 2016 valuation. The Administering Authority believes that these assumptions are appropriate for the West Sussex Fund.

Assumption	3131 March 2019	31 March 2016
Financial assumptions		
Discount rate		3.8% p.a.
Salary growth		2.9% p.a.
Pension Increases		2.1% p.a.
Demographic assumptions		
Longevity **Baseline** **Improvements**		 Club Vita "Non-peaked" CMI 2013 projections subject to a 1.5% underpin
Withdrawals		2016
Ill health retirements		2016
Promotional salary growth		2016

Cash commutation		75% max
50:50 option take up		1%

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

Basis Used

The Administering Authority's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Scheme in the long-term.

However, in certain circumstances a more prudent basis applies.

What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Scheme's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of assets returns relative to long-term yields on UK Government bonds ("gilts"). There is, however, no guarantee that the mix of assets returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long-term view of prospective asset returns is taken. The long-term in this context would be 20 to 30 years or more.

For the purpose of the valuation at 31 March 2019 and setting contribution rates effective from 1 April 2020, the actuary has assumed that future investment returns earned by the Fund over the long term will be [X.X%] per annum greater than gilt yields at the time of the valuation.

In the opinion of the actuary, based on the current investment strategy, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth
[TBC]

The same salary assumptions are applied to all employers.

c) Pension increases
Since 2011 the consumer prices index (CPI), rather than the retail prices index (RPI), has been the basis for increases to public sector pensions in deferment and in payment. The basis of such increases is set by the Government and is not under the control of the Adminstering Authority or any employers.

[TBC]

d) Life expectancy
The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS Funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Scheme. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future.

[TBC]

General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the contribution rate unless otherwise deemed appropriate. These calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix 8 – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long-run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer-term.
Deficit	The shortfall between the assets value and the **funding target**. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed

interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an academy.

LGPS The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Primary contribution rate The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for more details.

Pooling Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally

agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).

Profile The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

Rates and Adjustments Certificate A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Scheduled Bodies Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate The difference between the employer's actual and Primary rates. In broad terms, this relates to the shortfall of its asset share to its funding target. See Appendix D for further details.

Stabilisation Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation An actuarial investigation to calculate the **funding targets** as well as the **Primary rates** and **Secondary rates** for employers**.** This is normally carried out in full every three years (last done as at 31 March 20132016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the funding targets and contribution rates are based on long-term bond market yields at that date also.

Appendix 9 – Previous Valuation Results

Summary of Past Valuation Results

A summary of the whole Fund valuation results and key assumptions for each of the previous three valuations is given below. For further details relating to the previous valuation results and assumptions please refer to the relevant valuation reports.

Valuation Results

Valuation date	31 March 2007	31 March 2010	31 March 2013	31 March 2016	31 March 2019
Assets (£m)	1,549	1,759	2,370	2,989	
Liabilities (£m)	1,763	2,047	2,741	3,141	
Surplus/(Deficit) (£m)	(214)	(288)	(371)	(152)	
Funding level	88%	86%	86%	95%	

Assumptions

Valuation date	31 March 2007	31 March 2010	31 March 2013	31 March 2016	31 March 2019
Discount rate p.a.	6.1%	6.1%	4.6%	3.8%	
Salary growth p.a.	4.7%	1% for 2 years then 5.3%	3.8%	2.9%	
Pension increases p.a.	3.2%	3.3%	2.5%	2.1%	
Longevity – baseline table	PXA92 mortality tables (with age ratings)	Club Vita Curves	Club Vita Curves	Club Vita Curves	
Longevity – future improvements	calendar year 2017 for current pensioners, calendar year 2033 for prospective pensioners	80% of medium cohort with a 10 year lag and 1.0% p.a. minimum improvements	'non-peaked' CMI 2010 projections with 1.25% underpins and declining mortality at older ages	'non-peaked' CMI 2013 projections with 1.5% underpins and declining mortality at older ages	

Appendix 10 - Rates and adjustments certificate