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Funding Strategy Statement

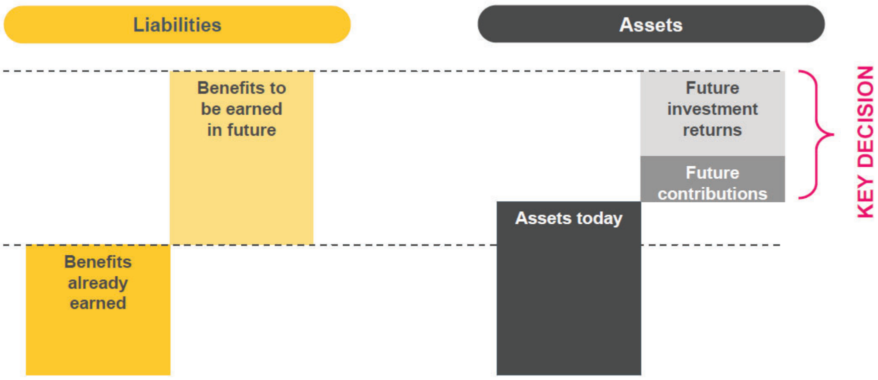
West Sussex County Council

lgps | Local Government Pension Scheme

Background

The LGPS is a funded pension scheme, with employee benefits guaranteed by the LGPS Regulations and funded through a combination of employee contributions (fixed nationally), investment returns and employer contributions.

The West Sussex Pension Fund manages a substantial investment portfolio which is there to help pay for benefits to members and their dependents now, and in the future (liabilities). The balance of cost between the value of member benefits, employee contributions and the return on investments is paid for through employer contributions. This is illustrated below. The extent to which liabilities are funded through contributions versus investments is a key decision.



This strategy has been prepared by the Fund 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 2022 Actuarial Valuation and is effective from 1 April 2023 and applies to all participating employers. However, at the time of this document being prepared, there is uncertainty in relation to the LGPS. These are described below along with the approach being adopted by the Pension Fund in response:

Uncertainty	Consideration
The McCloud case: In 2018 the Court of Appeal ruled that the 'transitional protection' offered to some members as part of previous pension reforms amounted to unlawful discrimination (directly on grounds of age and indirectly on other grounds). Regulatory changes are required as a result. to comply with the ruling.	In the absence of new Regulations, DLUHC issued a letter setting out instructions on how McCloud should be allowed for in the 2022 valuation. In particular, it sets out who the Actuary should assume has McCloud protections in order to make allowances when valuing the liabilities.
The HM Treasury and Scheme Advisory Board "cost control mechanism": These mechanisms were introduced as part of the previous pension reforms with the intention to maintain a process for managing the cost of the scheme between members and employers. There will be a judicial review into whether McCloud should be included as a 'member cost' within the 2016 HM Treasury cost control mechanism. If it is deemed McCloud is not a member cost, then it is likely benefit changes will be required from 1 April 2019.	The 2022 valuations will proceed on the basis of the current benefit and member contribution structure for the purposes of valuing the liabilities, unless advised differently by DLUHC or SAB. As a result, employers should collect employee contributions on the basis of current Regulations

Consultation Outcomes: Several consultations or Government decisions remain outstanding which may affect the LGPS. These include the outcome of the Government's Fair Deal II Consultation, which may introduce new classes of employer into the LGPS and the rectification of issues associated with Guaranteed Minimum Pensions.	Liabilities on 31 March 2022 will be based on the Scheme presently in place. The Fund 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 Valuation Approach

The value of member benefits and the employer contribution rates required are calculated by the Fund Actuary. The Pensions Committee have agreed the following objectives:

- Keep employer contributions **affordable and stable** through the adoption of an investment strategy which balances risk and return, the use of reasonable assumptions to measure~~s~~ liabilities and through contribution stabilisation approaches for certain employers.
- Understand the diversity of the Pension Fund's employers and ensure (as far as possible) **each employer covers their liabilities for member / dependent benefits as they fall due** for payment by maintaining separate accounts for each employer, adopting different funding approaches to different employer groups and taking a prudent, long term view
- **Be transparent and consistent** in the strategy and its application

To achieve these objectives, the Fund Actuary calculates and sets employer contribution rates differently for different employers. The following sections describe the general approach taken with more detail by employer type in the Appendix.

To support these objectives, the Fund's risk management framework considers how it can manage risks that are most likely to impact the funding strategy. More context is in Appendix 4.

Valuing liabilities for member / dependent benefits as they fall due (the "funding target")

To ensure it holds sufficient assets to be able to pay all its members benefits the Pension Fund 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) i.e. a funding position of 100%.

To place a value on these future and past service benefits (the liabilities) the Actuary will make both financial and demographic assumptions about the future.

Financial assumptions include investment returns, salary growth and pension increases;

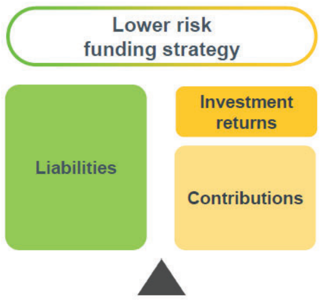
Demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

The combination of all assumptions becomes the funding target. A more optimistic funding target might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic funding target will give lower liability values and lower employer costs. A more prudent funding target will give higher liability values and higher employer costs. A summary of the assumptions applied are shown in Appendix 2.

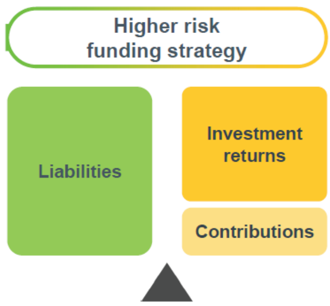
The funding target is adjusted to reflect employer characteristics – taking into account for example, whether an employer has any guarantees or whether an employer will eventually leave. The funding target for each type of employer is set out in Appendix 1.

Funding Target

The funding target affects how much the Fund needs to hold now to provide members' pensions in the future.



The more prudent "~~gilts~~ cessation basis" ~~will~~ is determined such that there will be at least 95% chance of the investment strategy delivering the return assumption over 20 years. ~~use the return on government bonds for the discount rate.~~ This is used for higher risk ~~or~~ , shorter term or exiting employers where market volatility could impact short term funding levels ~~and the ability of an employer to meet any exit debt~~. It means that the Fund needs to hold more money now to provide member pension benefits in the future, because it cannot rely on investment returns to make up any funding gap.



The more optimistic "ongoing funding basis" is determined such that there will be at least 75% chance of the investment strategy delivering the return assumption over 20 years. ~~allows for the greater return which is expected to be generated from the Fund's equity-type investments.~~ This is used for secure, ~~longer term~~longer-term employers because over time the Fund has more certainty that investment returns can make up a funding gap.

A phasing from the ongoing funding basis to the ~~gilts~~ cessation basis may be used for employers approaching the end of their participation in the Fund (i.e. more than four years away).

Setting employer contributions

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

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

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

Time Horizon	Contributions are set to meet each employer's funding target by the end of their respective time horizon. Employers may be given a lower time horizon if they have a less permanent anticipated membership, they are approaching the end of their participation in the Fund or they 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 Fund is 20 years (generally reserved for long term employers with reliable funding sources).
% Likelihood of meeting the funding target	It is extremely unlikely that the contribution rate will absolutely ensure that the combination of contributions and market movements will return a funding position of 100% when an employer reaches the end of their time horizon and therefore the Fund applies likelihoods depending on the nature and security of an employer. Typically, a higher required likelihood (for employers with less permanent anticipated membership, those approaching the end of their participation or those who do not have a guarantor) will give rise to higher contribution rates. Employers who are open to new entrants are considered to be long term and a lower likelihood may be appropriate. In general, the Fund will require all long term employers to have at least a 66% chance of being fully funded by the end of their time horizon.
Smoothing	To achieve stability in contribution rates for employers who are relatively low risk or who provide appropriate security, the Fund may (at its absolute discretion) smooth changes in contributions. This can be done through capping contribution rate changes (stabilisation), phasing contribution changes, extending time horizons (maximum applied is 20 years), pooling employers, or limiting circumstances where negative secondary rates might apply. However, this can 'hide' the true contribution rates and employers should be aware that they will still be expected to fund their own long-term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) and paying a smoothed rate in the short term may impact on the return on an employer's assets meaning it takes longer to reach full funding, all other things being equal.

Covenant Analysis

The strength of an employer covenant is an important consideration within the Funding Strategy Statement and the setting of employer contribution rates. It is therefore important to review the strength of covenants from all employers participating in the Scheme.

The Fund may appoint an independent covenant adviser to support the Actuarial Valuation. The advice will cover indicators including an employer's reported earnings and their reported balance sheet.

Where the advice indicates an employer is higher risk (on both balance sheet and / or earning indicators) their contribution rate reductions will not typically be permitted at an actuarial valuation if the employer does not have security in place to the satisfaction of the Administering Authority. Where an employer believes their covenant has improved, the employer can request a review of their contribution rate be reviewed in line with the terms of this FSS.

Adjusted Employer Contribution

The certified rate within the Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report, is the minimum employer contribution due for the next three years – or until the next valuation. In addition:

- Employers can opt to pay contributions at a higher rate if they choose and this will be taken into account by the Actuary at subsequent valuations.
- ~~All~~ Some employers are required to make an upfront payment of strain charges wherever an employee retires before reaching Normal Retirement Age (~~except~~ including for as a result of ill health early retirements). This is covered in more detail in the following section.
- ~~Employers may be required to make an upfront payment for strain charges whenever an employers retires before reaching Normal Retirement Age as a result of ill health.~~
- Employer contribution rates may be amended by the Fund between valuations for any "significant change" to the liabilities or covenant of an employer. Significant changes are considered to be where it is likely that the employer will become an exiting employer, the employer has incurred costs following an award of additional pension,[1] there are changes to the LGPS benefit structure, an employer's liabilities, membership or covenant has changed significantly since the last valuation or where an employer has failed to pay contributions. It should be noted that any review may require increased contributions.
- An employer may request a review of contributions between valuations, provided they set out their reasoning and they cover all costs incurred by the Fund in relation to their request. Market volatility and changes to asset values will not be considered as a basis for a change in contributions outside a formal valuation, except where an employer is nearing cessation. It should be noted that any review may require increased contributions.
- Some employers may elect to make an advance / lump sum payment for their employer contributions at the start of a financial year, or valuation period. In these circumstances a contribution rate adjustment reflecting appropriate actuarial discounts may apply (this is set out in the Rates and Adjustment Certificate). However, employers adopting this approach should acknowledge the risks involved, particularly in respect of the impact of investment returns during the inter-valuation period. This is subject to approval by the Fund, Actuary, employer and their auditors.

[1] regulation 31(3) of the LGPS regulations 2013

Upfront payment of strain charges

In some circumstances members are entitled to early payment of their retirement benefits.

Redundancy	Members (over 55) are entitled to receive unreduced pension benefits if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of redundancy or business efficiency. The eligibility for an early retirement is set out within the LGPS regulations. For all employers, where a member retires with an unreduced pension before reaching their earliest retirement age, the employer is required to pay an upfront additional contribution (strain). An employer can make a request to the Chief Finance Officer to consider any exceptions (such as spreading the payment over a set period).
Ill health	Members (at any age) are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill health or infirmity of mind or body before the member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by an employer should be made on the opinion of the Independent Registered Medical Practitioner and other relevant evidence. For Councils and non-uniformed Police, where a member retires with an unreduced pension before reaching their earliest retirement age this will be considered a Membership Experience item by the Fund Actuary at the next valuation (e.g., The impacted employer will see a reduction to their surplus / increase in their deficit all other things being equal which would then be recovered through normal employer contributions in the future). However, an upfront additional contribution (strain) can be paid to the Fund by the employer if preferred. For all other employers where a member retires with an unreduced pension before reaching their earliest retirement age the preference is for the employer to pay an upfront additional contribution (strain) but alternatives will be considered based on the employer's covenant. Employers can take out insurance to protect themselves against the strain cost.

Early retirement strain factors are determined by the Fund Actuary and are used by the Fund when calculating early retirement strain costs set out above. The Fund's approach is to review factors at each valuation for consistency with the assumptions set out in the FSS.

The strain cost calculations make allowance for:

- Any uplift to a member's pension (in cases of ill health)
- The earlier start date for the payment of benefits, and therefore the longer expected payment period
- The contributions and investment returns missed, as funds have been applied to pay early benefits rather than retained and invested.

Exiting Employers

The Fund seeks to manage employer funding positions and contribution rates based on the time period over which they are actively participating in the Fund. However, when an employer exits the Fund will instruct the Fund Actuary to undertake an actuarial assessment of the assets and liabilities at the exit date.

An employer may exit the Fund because it no longer has active members participating, it becomes insolvent, is wound up or is liquidated or it breaches its obligations under the Admission Agreement (if relevant).

Full details on how each employer’s position on exit is determined are set out in Appendix 1.

Suspension Notice

In some circumstances a Suspension Notice may be put in place (at the discretion of the Fund) to defer an exit debt for up to three years if the employer is expected to acquire one or more active members in the Fund over the period. It should be noted, the employer may be required to pay secondary contributions during the period of the suspension notice. If the suspension notice lapses and the employer has not acquired one or more active members in the Fund, then an exit debt may become payable.

Cessation Valuation

When an employer exits, the Fund will instruct the Actuary to carry out a cessation valuation to determine whether there is any deficit or surplus in respect the exiting employer's current and former employees.

The approach adopted will look to protect other employers in the Fund from the likelihood of any material loss emerging in future and take into account future funding sources, guarantees or pooling arrangements.

The Fund Actuary’s valuation will either certify an exit debt (deficit) or an excess of assets in relation to the employer’s liabilities (surplus).

Exit debt (deficit)

Where there is a deficit, the normal approach is for payment of this amount in full as a single lump sum payment from the exiting employer or their guarantor. However, if this is not possible there are two options which could be considered by the Fund as summarised on the following page. Full details on how each employer’s position on exit is determined are set out in Appendix 1.

Option	Application
Deferred Debt Agreement	An employer may defer their obligations to make an exit payment and continue to make secondary contributions as determined by the Fund Actuary. This will be considered at an employer's request provided they are expected to be a going concern and have a sufficient covenant (or security). It should be noted that the employer will remain exposed to all pension risks until final settlement is made. Employer's requesting a deferred debt agreement must meet the Fund's costs associated with considering, entering into and monitoring the agreement.
Payment Plan	An employer may be allowed to make regular payments to fund the remainder of the employer obligations over an appropriate period alongside provision of suitable security (bond, indemnity or guarantee). The appropriate period will be no longer than three years. It should be noted that the employer's deficit is crystalised at their exit date and are therefore they are not exposed to any pension risks during the repayment period. Interest at the discount rate used to value the liabilities in the cessation valuation will apply at the discretion of the Penson Fund.

Any unpaid amounts will fall to any related scheme employer (for admission bodies) or multi-academy trust (for academies). Where there is no related scheme employer or multi-academy trust, any unpaid amounts will be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund or instead be reflected in the contribution rates set at the next formal valuation following the exit date.

Exit Credit (Surplus)

Where there is a surplus the Fund will determine, at its absolute discretion, the amount of any exit credit payment due, having regard to any relevant considerations. The following are considered relevant:

- The extent to which there is an excess of assets in the Fund over the employer's liabilities;
- The proportion of excess assets which has arisen because of the value of the employer's contributions;
- Any representations made to the Fund by the exiting employer, the scheme employer in connection with that body and (where the employer is an admission body) any of the following:
    - a person who funds the admission body in whole or in part, the connected scheme employer
    - a person who owns, or controls the exercise of the functions of the admission body; and
    - the Secretary of State but only in the case of specific admission bodies (such as those established by or under any enactment and providers of probation services).

- any other relevant factors which may include:
    - the date that the employer joined the Fund
    - the level of pensions risk the employer has taken on during its period of participation (including pooling arrangements the employer has benefited from)
    - any agreements on the treatment of the employer on exit~~;~~ and/or
    - whether there are any outstanding sums owed to the Fund;

The amount of the payment will be determined by the Director of Finance and Support Services, per the County Council's Constitution. The reasons for the decision will be documented.

If an exit credit is determined to be payable it must be paid within six months of the date on which the employer ceased to participate in the Fund, six months from the date their deferred employer arrangement ended, or such longer time as the Fund and exiting employer agree. Once the exit credit has been paid, no further payments are due from the Authority to the exiting employer in respect of the surplus. [2]

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the Regulations would apply. The Pensions Ombudsman also has jurisdiction to hear complaints of maladministration against LGPS administering authorities, if the internal dispute resolution process is unsuccessful.

Employers with no remaining active members

When an employer ceases their participation in the Fund, 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 Fund will be required to contribute to pay all remaining benefits by the apportioning the remaining liabilities on a pro-rata basis at successive formal valuations; or
- 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 Fund Actuary to the other employers participating in the Fund at successive formal valuations.

[2] Exit credits are to be authorised payments in accordance with section 176 of the Finance Act 2004 (payments by public service pension schemes).

Bulk transfers

Bulk transfers of members take place where ten or more members transfer to another Fund's LGPS fund 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 Fund 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.

The Fund reserves the right to use alternative approaches if an Employer has an 'exit event' as a result of the bulk transfer.

For transfers involving deferred and pension members (such as when employers in different funds merge) the Fund 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 Fund permits shortfalls to arise on bulk transfers if the employer participating in the Fund has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to the Fund to increase between valuations. Where this is not met, the Fund may require a higher transfer amount or immediate contribution from the employer(s) involved.

APPENDIX 1: Funding Strategy by Employer Group

The following pages set out how the Funding Strategy is applied to different employer groups.

Application to Scheduled Bodies Summary

	Local Authority / Police	Academies	Town and Parish Councils	Other Scheduled Bodies
General	Open, long term and tax raising	Open, long term (with reliable funding) and government guarantee	Open and long term	Open
Opening Position	Case by case Individual rate	Share of assets and liabilities from West Sussex County Council	Case by case but usually no assets or liabilities	Case by case Individual rate
Max Time Horizon	20 years	20 years	20 years	Future working lifetime (subject to max 20 years)
Min Likelihood	66%	70%	66%	70%
Funding Target	Ongoing basis	Ongoing basis	Ongoing basis	Ongoing basis
Smoothing	Stabilisation	Pooled (if agreed) Phasing in rate changes or minimum rate in limited circumstances	Pooled (default) Phasing in rate changes or minimum rate in limited circumstances.	Phasing in rate changes or minimum rate in limited circumstances
Exit Basis	~~Gilts~~ Cessation basis	Cessation ~~Gilts~~ basis	Cessation ~~Gilts~~ basis	Cessation ~~Gilts~~ basis
Suspension Notice	Considered	Considered	Considered	Considered
Exit Payment Terms (Deficit)	Lump sum (default), payment plan or deferred debt agreement	Lump sum (default), payment plan or deferred debt agreement	Lump sum (default), payment plan or deferred debt agreement	Lump sum (default), payment plan or deferred debt agreement
Ill Health	Membership experience item (default) or upfront, additional contribution ('strain')	Preference for an ~~Upfront~~upfront, additional contribution ('strain') but alternatives	Preference for an ~~Upfront~~upfront, additional contribution ('strain') but alternatives	~~Membership experience item or~~ Preference for an upfront~~,~~ additional contribution ('strain') but

		considered based on covenant.	considered based on covenant.	alternatives considered based on covenant. ~~dependent on employe~~r

Application to Admission Bodies Summary

	Pass Through	Guarantor	No Guarantor
General	(Normally) closed, shorter term and no assets or liabilities	(Normally) closed, shorter term and related scheme employer guarantee	Shorter term
Opening Position	No assets or liabilities Individual rate unless otherwise agreed with related scheme employer	Fully funded on an ongoing funding basis unless agreed otherwise Individual rate unless otherwise agreed with related scheme employer	Case by case Individual rate
Max Time Horizon	Same as letting authority	Shorter of future working lifetime or contract length (subject to maximum of 20 years)	Shorter of future working lifetime or contract length (subject to a maximum of 20 years)
Min Likelihood	Same as letting authority	Same as letting authority	50%-75% dependent on funding Target
Funding Target	Same as letting authority	Ongoing basis	Cessation ~~Gilts~~ basis or blended depending on time horizon
Smoothing	None	None	None
Exit Basis	No assets or liabilities	Ongoing basis	Cessation ~~Gilts~~ basis
Suspension Notice	N/A	Very limited circumstances	Very limited circumstances
Exit Payment Terms (Deficit)	N/A	Lump sum (default), payment plan or	Lump sum (default), payment plan or

		deferred debt agreement	deferred debt agreement
Ill Health	Same as letting authority	Preference for an ~~U~~upfront, additional contribution ('strain') but alternatives considered based on covenant	Preference for an ~~Upfront~~upfront, additional contribution ('strain') but alternatives considered based on covenant

APPENDIX 1A: Funding Strategy for Local Authorities and Police

Opening Position

Scheduled Bodies are listed in LGPS Regulations and therefore, it is unusual for new Scheduled Bodies, including Local Authorities or the Police, to join the Fund.

As these events are rare and tend to be unique in nature, there is no prescribed method for allocating an opening position. This would be determined on a case-by-case basis.

For any new Local Authority or the Police, the initial contribution rate is likely to be an individual rate calculated by the Fund Actuary.

Funding Target

The funding target for Local Authority and Police will be the ongoing funding basis.

Time Horizon & Likelihood

Because Local Authorities and the Police are considered a long term employer, the Fund will require a 66% minimum likelihood that the assets held on behalf of the Local Authorities and the Police meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) at the end of their time horizon. The maximum time horizon used will be 20 years.

Smoothing

The key principle for Local Authorities and the Police is the Fund's approach to stabilising contribution rates. "Stabilisation" is an approach which allows for short term volatility to be managed and keep employers' rates relatively stable. Provided there are no anticipated material events the following will be adopted:

	Better funded	Other scenarios
Min contribution level	18% of pay	18% of pay
Max contribution level	n/a	2022/23 rate
Max contribution increase	1% p.a.	20% p.a.
Max contribution decrease	1% p.a.	20% p.a.

Employers whose contribution rates have been "stabilised" may be paying more or less than they might otherwise have paid which hides the true long-term liability, and it may take longer to reach full funding, all other things being equal.

Some Local Authorities or the Police may be allowed to make an advance / lump sum payment of employer contributions 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.

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a maximum three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. Wherever an employee retires with an unreduced pension before reaching their earliest retirement age this will be considered as a Membership Experience item by the Fund Actuary at the next triennial valuation (e.g. the impacted employer will see a reduction in their surplus / increase in their deficit all else being equal which would then be recovered through normal employer contributions in future). However, an upfront, additional contribution ('strain') can be paid to the Fund by an employer if preferred.

Exit and Exit Obligations

The Fund considers a Local Authority and the Police to be long term employers. However it is important to consider arrangements when a Local Authority or the Police leaves the Fund, for whatever reason.

Suspension Notice

If and when a Local Authority or the Police ceases to have active members contributing to the Fund but the individual employer position is in deficit the Fund may issue a Suspension Notice - provided it reasonably believes that the employer is likely to have one or more active members contributing to the LGPS Fund within a three year period.

Where a Suspension Notice is issued, the Local Authority or Police may be required to pay secondary contributions during the period of the Suspension Notice.

The suspension notice will be lifted if one or more active members join the Local Authority or Police's individual position. If lifted, an individual contribution rate will be calculated by the Fund Actuary.

Other circumstances

In all other cases, and if the employer does not have one or more active members actively participating in the Fund at the conclusion of a Suspension Notice, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine the level of deficit or surplus in the individual employer position.

Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

Therefore, on exit, liabilities will be valued using expected returns on government bonds only (the "cessation ~~gilts~~ basis"). The calculation may include an allowance for future administration costs, reserves for retrospective changes to Fund benefits, and/or additional prudence for the risk of members living longer than anticipated.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Local Authority or Police may be permitted to make regular payments or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Contractors

Local Authorities and the Police should note the impact of setting up new Admission Bodies on their liabilities. It is normal for an Admission Body to be set up in the Fund as a new employer.

- The new employer can have responsibility for all the accrued (and future) benefits of the transferring employees and if this is the case, the Admission Body will usually start fully funded on an ongoing funding basis. The contractor's initial contribution rate would be set on an individual basis by the Fund Actuary and the Local Authority or Police will carry out an assessment (taking account of actuarial advice) concerning the level of risk arising on the premature termination of the service or in the event of insolvency, winding up or liquidation. This risk assessment needs to be carried out to the satisfaction of the Fund and where required an indemnity or bond must be put in place to meet the level of risk. This should be reviewed periodically. When an Admission Body exits the Fund and it is not possible to obtain all or part of the exit payment due from the exiting Admission Body, or from an insurer, or any person providing an indemnity, bond or guarantee on their behalf, any unpaid amounts will fall to any related Fund employer.
- Alternatively, the new employer can be set up on a "Pass Through" basis. Under most pass through arrangements no pension fund assets or liabilities will transfer to the contractor's portion of the Fund. The contractor would pay a fixed contribution rate agreed with the Local Authority or Police, over the entire contract length. When the Admission Body exits the Fund, provided that all pass through arrangements have been complied with, the Local Authority or Police will have responsibility for any future liabilities.

APPENDIX 1B: Funding Strategy for Academies and Free Schools

Opening Position

All Academies will have an initial opening position which is based on:

- **Liabilities** reflecting the value of benefits built up by the transferring members of staff active in the Fund on the day before conversion. Ex-employees of the school who have deferred or pensioner status will not be included in these liabilities.
- **Assets** allocated from West Sussex County Council's assets in the Fund, using the estimated funding position of WSCC on the day of the conversion. The asset position for WSCC assumes that ex-employees of the school who have deferred or pension status are fully funded. The maximum starting funding level at outset is 100% of the liabilities.

Free schools typically start with no assets and liabilities. Where members do transfer from other employers in the Fund, the opening position will be set consistently to that done for new academies.

For an Academy, the initial contribution rate will be equal to the Academies who are part of the Multi Academy Trust (MAT) pool or, if this is not applicable, that of WSCC. ~~except where the Academy elects to be pooled with other Academies who are part of the same Multi Academy Trust (where the rate set will be equal to the MAT's pooled rate) or where the Academy wishes to pay an individual rate calculated by the Fund Actuary.~~

For a Free School, the initial contribution rate will be an individual rate calculated by the Fund Actuary. ~~except where the Free School elects to be pooled with other Academies who are part of the same Multi Academy Trust (where the rate set will be equal to the MAT's pooled rate).~~

Funding Target

The Funding Target used for Academies and Free Schools is the "ongoing funding basis".

For Academies or Free Schools nearing the end of their participation in the Fund, the Fund may use the "cessation ~~gilts~~ basis" as the Funding Target.

Time horizon & Likelihood

Because Academies and Free Schools are considered long term employers, the Fund will look for a 70% minimum likelihood that the assets held on behalf of the Academy or Free School meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) at the end of a maximum time horizon of 20 years.

Smoothing

A key principle for Academies and Free Schools is the Fund's approach to keeping contribution rates as stable as possible through "pooling". "Pooling" is a way for some Academies and Free Schools to share experience of membership movements and smoothing out the effects of costly, but relatively rare events, such as ill health retirements or death in service by setting a combined single contribution rate.

Whilst over the longer time periods, it would be expected that the experience for an individual may even out between Academies and that each Academy in the pool will, on average, pay a fair level of contributions it should be noted that Academies who pay "pooled" contributions may be paying more or less than they might otherwise have paid which hides the true long-term liability, and it may take longer to reach full funding, all other things being equal.

Due to the long term nature of Academies and Free Schools, changes to contribution rates may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a maximum three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is for employers ~~are required~~ to pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant. ~~An employer can make a request to the Chief Finance Officer to consider any exceptions.~~

Exit and Exit Obligations

The Fund considers an Academy or Free School to be a long term employer. However it is important to consider arrangements when an Academy leaves the Fund, for whatever reason.

Suspension Notice

If and when an Academy or Free School ceases to have active members contributing to the Fund and the individual employer position is in deficit, the Fund may issue a Suspension Notice - provided it reasonably believes that the employer is likely to have one or more active members contributing to the Fund within a three year period.

Where a Suspension Notice is issued, the Academy or Free School may be required to pay secondary contributions during the period of the Suspension Notice.

The suspension notice will be lifted if one or more active members join the Local Authority or Police's individual position. If lifted, the Academy or Free School will either pay their MAT's rate where pooled with their associated MAT or an individual contribution rate calculated by the Fund Actuary.

Other circumstances

In all other cases, and if the employer does not have one or more active members actively participating in the Fund at the conclusion of a Suspension Notice, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine the level of deficit or surplus in the individual employer position.

Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

Therefore, on exit, the liabilities will be valued on the "cessation ~~gilts~~ basis". The calculation may include an allowance for future administration costs, reserves for retrospective changes to Fund benefits, and/or additional prudence for the risk of members living longer than anticipated.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Academy or Free School may be permitted to make regular payments (payment plan) or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Provided the Academy or Free School meets its exit obligations, they will have no further obligation to the Fund. The Academy will remain in the pooling arrangement even when they have no active members.

Contractors

Academies should note the impact of setting up new Admission Bodies on their liabilities. It is normal for an Admission Body to be set up in the Fund as a new employer.

- The new employer can have responsibility for all the accrued (and future) benefits of the transferring employees and if this is the case, the Admission Body will usually start fully funded on an ongoing funding basis. The contractor's initial contribution rate would be set on an individual basis by the Fund Actuary and the Academy will carry out an assessment (taking account of actuarial advice) concerning the level of risk arising on the premature termination of the service or in the event of insolvency, winding up or liquidation. This risk assessment needs to be carried out to the satisfaction of the Fund and where required an indemnity or bond must be put in place to meet the level of risk. This should be reviewed periodically. When an Admission Body exits the Fund and it is not possible to obtain all or part of the exit payment due from the exiting Admission Body, or from an insurer, or any person providing an indemnity, bond or guarantee on their behalf, any unpaid amounts will fall to any related Fund employer.
- Alternatively, the new employer can be set up on a "Pass Through" basis. Under most pass through arrangements no pension fund assets or liabilities will transfer to the contractor's portion of the Fund. The contractor would pay a fixed contribution rate agreed with the Academy, over the entire contract length. When the Admission Body exits the Fund, provided that all pass through arrangements have been complied with, the Academy will have responsibility for any future liabilities.

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

Opening Position

Typically, new Town or Parish Councils constitute new membership in the Fund (there is no past service liabilities at outset and no assets). However, this would be determined on a case-by-case basis.

The new Town and Parish Council's initial contribution rate will be set equal to that of the Town and Parish Councils pool.

Funding Target

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

In the unlikely event that a Town or Parish Council is considered to be nearing the end of their participation, the Fund may move towards using expected returns on government bonds only (the "cessation ~~gilts~~ basis") and the Town or Parish Council may have an adjustment to their secondary contribution rates.

Time horizon & Likelihood

Because Town and Parish Councils are considered a long term employer, the Fund will look to be at least 66% sure that the assets held on behalf of the Town and Parish Councils meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100% on the relevant funding target) over a maximum time horizon of 20 years.

Smoothing

The key principle for Town and Parish Councils is the Fund's approach to keeping contribution rates as stable as possible through "pooling". "Pooling" is a way to share experience of membership movements for smaller, similar, employers, and smoothing out the effects of costly, but relatively rare events, such as ill health retirements or death in service by setting a combined single contribution rate.

Whilst over longer time periods, it would be expected that the experience may even out between employers and that each employer in the pool will, on average, pay a fair level of contributions it should be noted that employers who pay "pooled" contributions may be paying more or less than they might otherwise have paid which hides the true long-term liability, and it may take longer to reach full funding, all other things being equal.

All Town and Parish Councils participate in the 'Town and Parish Councils" pool. Changes to the pooled contribution rate may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is for employers ~~are required~~ to pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant. ~~An employer can make a request to the Chief Finance Officer to consider any exceptions.~~

Exit and Exit Obligations

Whist Town or Parish Councils are considered to be long term employers, it is important to consider arrangements when a Town or Parish Council leaves the Fund, for whatever reason.

Suspension Notice

If and when a Town or Parish Council ceases to have active members contributing to the Fund but the individual employer position is in deficit the Fund may issue a Suspension Notice provided it reasonably believes that the employer is likely to have one or more active members contributing to the LGPS Fund within a three year period.

Where a Suspension Notice is issued, the Town or Parish Council may be required to pay secondary contributions during the period of the Suspension Notice.

The suspension notice will be lifted if one or more active members join the Town or Parish Council's individual position. If lifted, the Town or Parish Council will resume paying the Town and Parish Councils pooled rate.

Other circumstances

In all other cases, and if the employer does not have one or more active members actively participating in the Fund at the conclusion of the three-year Suspension Notice, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine the level of deficit or surplus in the individual employer position.

Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

Therefore, on exit, liabilities will be valued using expected returns on government bonds only (the "cessation ~~gilts~~ basis"). The calculation may include an allowance for future administration costs, reserves for retrospective changes to Fund benefits, and/or additional prudence for the risk of members living longer than anticipated.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Town or Parish Council may be permitted to make regular payments (payment plan) or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Provided the Town or Parish Council meets its exit obligations, they will have no further obligation to the Fund. These bodies will remain in the Town and Parish Councils pool after exit.

APPENDIX 1D: Funding Strategy for Other Scheduled Bodies

Opening Position

Scheduled Bodies are listed in LGPS Regulations and therefore, it is unusual for new Scheduled Bodies to join the Fund.

As these events are rare and tend to be unique in nature, there is no prescribed method for allocating an opening position. This would be determined on a case by case basis.

For any new Scheduled Body, the initial contribution rate is likely to be an individual rate calculated by the Fund Actuary.

Funding Target

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

Where the Scheduled Body is considered to be nearing the end of the participation, the Fund would move towards using expected returns on the lowest risk investments held (government bonds) only (the "cessation~~gilts~~ basis").

Time Horizon & Likelihood

Because Scheduled Bodies are considered a long term employer, the Fund require a minimum 70% likelihood that the assets held on behalf of the Scheduled Body meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) over the future working lifetime of their active membership (to a maximum of 20 years).

Smoothing

Due to the long term nature of Scheduled Bodies, changes to contribution rates may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

Security

There may be flexibility when setting employer contributions if a Scheduled Body provides added security (to the satisfaction of the Fund). Such security may include a suitable bond or guarantee from an appropriate third party or security over an asset of sufficient value.

Whatever rate is certified by the Fund Actuary in the Rates & Adjustment Certificate is the minimum employer contribution payable.

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members.

As a result, ~~Wherever~~ wherever~~an employee retires from any other employer in this category~~ the preference is for employers to pay an upfront~~the employer is required to pay an upfront~~, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant.~~An employer can make a request to the Chief Finance Officer to consider any exceptions~~.

Exit and Exit Obligations

The Fund considers a Scheduled Bodies to be long term employers. However it is important to consider arrangements when a Scheduled Body leaves the Fund, for whatever reason.

Suspension Notice

If and when a Scheduled Body ceases to have active members contributing to the Fund but the individual employer position is in deficit the Fund may issue a Suspension Notice provided it reasonably believes that the employer is likely to have one or more active members contributing to the Fund within a three year period.

Where a Suspension Notice is issued, the Scheduled Body may be required to pay secondary contributions during the period of the Suspension Notice.

The Suspension Notice will be lifted if one or more active members join the Scheduled Body's individual position. If lifted, an individual contribution rate calculated by the Fund Actuary.

Other circumstances

In all other cases, and if the employer does not have one or more active members actively participating in the Fund at the conclusion of the three-year Suspension Notice, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine the level of deficit or surplus in the individual employer position.

Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

Therefore, on exit, liabilities will be valued using the "~~gilts~~ cessation basis". The calculation may include an allowance for future administration costs, reserves for retrospective changes to Fund benefits, and/or additional prudence for the risk of members living longer than anticipated.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Scheduled Body may be permitted to make regular payments (payment plan) or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Provided the Scheduled Body meets its exit obligations, they will have no further obligation to the Fund.

APPENDIX 1E: Funding Strategy for Admission Bodies (Pass Through Risk Sharing)

Opening Position

Different 'pass through' arrangements have been adopted by letting employers when commissioning services from a third party.

However, (unless advised otherwise) where there is a new Admission Body set up under a pass through arrangement the letting employer will retain responsibility for all the accrued and future benefits of the transferring employees. As a result, no assets will be transferred (so no funding position will be calculated for the Admission Body).

The contractor's initial contribution rate will be set on an individual basis except if agreed otherwise between the letting authority and the Fund.3

Funding Target, Time Horizon & Likelihood

Because an Admission Body is not considered to have any assets or liabilities in the Fund no individual funding position will be calculated.

Smoothing

Under normal circumstances, no specific smoothing is applied to Admission Body contribution rates as the rates are dictated within the pass through arrangement.

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. The approach taken to any "strain" costs when an employee retires with an unreduced pension before reaching their earliest retirement age will be in line with the arrangements for the letting authority.

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[3] The main approach adopted is for a rate to be calculated which is 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) using the funding target of the letting employer unless otherwise specified in the pass through agreement or as agreed between the letting authority and the Fund.

Exit and Exit Obligations

When an Admission Body leaves, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine whether there is any deficit or surplus.

An Admission Body on a pass through arrangement is not normally considered to have any assets or liabilities in the Fund provided it has met the conditions of the pass through arrangement. Therefore, no exit debt or credit will be due provided the conditions of the pass through arrangement are met. Provided the Admission Body meets its exit obligations, they will have no further obligation to the Fund. These bodies will be pooled with the letting employer.

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

Opening Position

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

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

Funding Target

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

Time Horizon & Likelihood

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

Smoothing

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

Security

Security to the satisfaction of the letting authority and the Fund (such as a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value) may permit greater flexibility within the framework for setting employer contributions.

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is that employers ~~are required to~~ pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant. ~~An employer can make a request to the Chief Finance Officer to consider any exceptions.~~

Exit and Exit Obligations

When an Admission Body leaves, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine whether there is any deficit or surplus.

Provided that the Admission Body's opening position was calculated as fully funded on an ongoing funding basis then the same approach will be adopted when the Actuary completes a cessation valuation.

Therefore, on exit, liabilities will be valued using the "ongoing basis". Allowances may be made for future administration costs and/or reserves for retrospective changes to scheme benefits.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Admission Body may be permitted to make regular payments (payment plan) or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Provided the Admission Body meets its exit obligations, they will have no further obligation to the Fund. These bodies will be pooled with the letting employer.

APPENDIX 1G: Funding Strategy for Admission Bodies (No Guarantor)

Opening Position

The circumstances where an employer would be admitted to the Fund without a body guaranteeing their liabilities or providing security are rare and tend to be unique in nature.

Therefore, when setting the opening position, the particular circumstances related to an Admission will be considered on a case-by-case basis.

Funding Target

To value the Admission Body's benefits built up to date, and future benefits, the Fund usually use the "cessation ~~gilts~~ basis".

Security to the satisfaction of the Fund (such as a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value) may permit a blended funding target between the ongoing funding basis and the "cessation~~gilts~~ basis".

Time Horizon & Likelihood

Because Admission Bodies with no guarantor are considered to be a shorter term employer, the Fund requires a minimum 75% likelihood that the assets held on behalf of the Admission Body meets (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) over the shorter of the future working lifetime of the active membership or the remaining contract term (to a maximum of 20 years).

Security to the satisfaction of the Fund (such as a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value) may permit greater flexibility in terms of time horizon and likelihood.

Where an Admission Body is nearing cessation, the Fund may vary the probability of being fully funded by the end of their time horizon to 50%. This is to reduce the chances of a surplus on cessation.

Smoothing

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

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is that employers ~~are required to~~ pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant. ~~An employer can make a request to the Chief Finance Officer to consider any exceptions.~~

Exit and Exit Obligations

When an Admission Body leaves, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine whether there is any deficit or surplus. Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

Therefore, on exit, liabilities will be valued using the "cessation ~~gilts~~ basis" and the calculation will include an allowance for future administration costs, reserves for retrospective changes to scheme benefits, and/or additional prudence for the risk of members living longer than anticipated.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Admission Body may be permitted to make regular payments (payment plan) or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Provided the Admission Body meets its exit obligations, they will have no further obligation to the Fund.

APPENDIX 2: Actuarial assumptions

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

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 affect the actual benefits payable by the Fund in future.

The table below shows the assumptions for the 2022 valuation. The assumptions used in the 2019 and 2016 valuation have been shown for comparison. The same financial assumptions are adopted for all employers. The demographic assumptions, in particular the life expectancy assumption, reflect the different membership profiles of employers.

Assumption	Description	31 March 2016	31 March 2019	31 March 2022
Discount rate	Annual returns over the next 20 years on the Fund's investment portfolio under 5,000 different economic scenarios. The investment return assumption has then been set such that more than 75% of the scenarios produced a return in excess of the assumption.	3.80% p.a.	3.10% p.a.	3.50% p.a. ~~(the return on long dated gilts plus 1.7% p.a. investment return assumption)~~
Salary growth	The same salary assumptions are applied to all employers.	2.90% p.a.	2.80% p.a.	4.25% p.a.
Pension Increases	Reflects best estimate of long term CPI Under the 5,000 different economic scenarios used to model the Fund's annual returns.	2.10% p.a.	2.30% p.a.	2.70% p.a.

Assumption	Description	31 March 2016	31 March 2019	31 March 2022
Longevity Baseline Improvements	This is the best estimates of future experience in the Fund based on detailed analysis of past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary. These are specifically tailored to fit the membership profile of the Fund.	Club Vita CMI 2013 "Non-peaked" projections 1.50% p.a. long term improvements	Club Vita CMI 2018 Standard smoothing (7.0) Initial adjustment of 0.5% for males and 0.25% for females 1.50% p.a. long term improvements	Club Vita CMI 2021 Standard smoothing (7.0) Initial adjustment of 0.25% 0% weighting to 2020 and 2021 data 1.75% p.a. long term improvements
Male Pensioner	Note, these represent whole Fund averages. In effect, each employer will have mortality assumptions based on their own underlying membership.	23.6 years	22.2 years	22.3 years
Male Non Pensioner		26.0 years	23.3 years	23.1 years
Female Pensioner		25.0 years	24.2 years	24.7 years
Female Non Pensioner		27.8 years	25.9 years	26.5 years
Withdrawals		2016	2019	2022
Ill health retirements		2016	2019	2022
Promotional salary growth		2016	2019	2022
Cash commutation		50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008)	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008)	All retirements commute 50% of the maximum allowed by HMRC

Assumption	Description	31 March 2016	31 March 2019	31 March 2022
50:50 option take up		1%	1%	0.3%

The Fund may adopt alternative actuarial bases for some employees for both funding valuations and exit valuations as set out in the main FSS document and Appendices detailing the application of the FSS on different employer groups.

The ~~gilts~~ cessation basis assumes the Fund will invest in fixed interest gilts to 'match' the expected cashflows of an exiting employer's membership. The discount rates adopted are set in line with the Bank of England yield curve. To be consistent with these discount rates, CPI will be determined by subtracting 1% p.a. from the corresponding Bank of England inflation curve up to 2030 and 0.1% p.a. thereafter.

Where an employer is approaching exit, or where additional security is put in place, the fund may consider "blended" strategies that lie between the ~~gilts~~ cessation basis and the ongoing basis.

In the opinion of the actuary, the current financial assumptions are consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the ongoing 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.

APPENDIX 3: Actuarial Results

The table below compares previous valuation results (all figures as at 31 March)

	2007	2010	2013	2016	2019	2022
Assets £m	1,549	1,759	2,370	2,989	4,374	5,501
Liabilities £m	1,763	2,047	2,741	3,141	3,919	4,402
Surplus / (Deficit) £m	(214)	(288)	(371)	(152)	455	1,099
Funding Level	88%	86%	86%	95%	112%	125%

APPENDIX 4: Key risks and controls

The Fund has an active risk management programme in place and the full risk register is reviewed regularly. The risk register includes those risks that may impact on the funding strategy and appropriate measures are in place to mitigate those risks.

Risk management is central to the Fund and measures are in place to manage the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

The risks that are most likely to impact the funding strategy are –

- **Investment risk:** the risk of investments not performing (income) or increasing in value (growth) as forecast.
- **Employer risk:** those risks that arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.
- **Liquidity/maturity risk**: the LGPS is going through a series of changes, each of which will impact upon the maturity profile of the Fund and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the Fund; transfers of responsibility between different public sector bodies; scheme changes that might lead to increased opt-outs; the implications of spending cuts – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.
- **Liability risk**: inflation, life expectancy and other demographic changes, and interest rate and wage and salary inflation will all impact upon future liabilities.
- **Regulatory and compliance risk**: occupational pensions in the UK are heavily regulated, with thousands of pages of both general and LGPS-specific legislation that must be complied with.
- **Climate related risk**: the impact of the physical and transitional risks of climate change in the long term, and the responses of policy makers, on the finances of the Fund.

The above risks are included within the overarching risk management framework and strategy of the Fund.

APPENDIX 5: Statutory reporting and comparison to other LGPS funds

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 Department of Levelling Up, Housing and Communities (DLUHC) 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 Fund 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 scheme 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 and could include the implied deficit recovery period; and the investment return required to achieve full funding after 20 years.

Absolute considerations are not primarily concerned with comparing funds and could include

- 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;
- 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 Fund'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 Fund.

DLUHC 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 6 – Regulatory framework

The requirement to maintain and publish a Funding Strategy Statement is contained in the LGPS Regulations and the Department for Levelling Up, Housing and Communities has stated that the purpose of the Funding Strategy Statement 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 Statement has been written taking into consideration guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted following consultation with employers (a draft version of this document was issued to all active employers in September 2022 and employer events were hosted in October / November 2022).

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 LGPS 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.

APPENDIX 7 – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part. Responsibilities of key parties are covered in other fund documents and summarised below:

Administering Authority

- operate the Scheme in compliance with the LGPS Regulations;
- 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 Fund;
- ensure that cash is available to meet benefit payments as and when they fall due and pay the relevant benefits and entitlements that are due from the Fund;
- 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 Fund;
- 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.

Individual Employer

- 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;
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership which could affect future funding; and
- notify the Administering Authority of any risk sharing arrangements or other pertinent information in the context of an exit credit.

Actuary

- 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 Fund, 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 Fund 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 Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements including the Administering Authority's own procedures;
- The Department for Levelling Up, Housing and Communities (as assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS funds to meet Section 13 requirements.