

## **Pension Advisory Board**

**13 November 2020**

### **Policy Documents**

#### **Report by Director of Finance and Support Services**

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### **Summary**

It has been agreed that the Pension Advisory Board review relevant policy documents as part of its ongoing agenda.

### **Recommendations**

- (1) That the Board note the register of Policy Documents
  - (2) That the Board provide feedback on the policy documents presented at the meeting in respect of their compliance with regulations and guidance.
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### **Proposal**

#### **1 Background and context**

- 1.1 The Pension Regulators Code of Practice 14 requires that

*Pension board members must be conversant with their scheme rules which are primarily found in the scheme regulations and documented administration policies currently in force for their pension scheme.*

- 1.2 By reviewing policy documents on a regular basis the Board will be fulfilling their role in supporting the Scheme Manager by ensuring compliance with regulations. This would also assist members in ensuring they have the relevant knowledge and understanding of the Scheme.

#### **2 Pension Fund policy documents**

- 2.1 The Pension Fund is required by law to keep and maintain a number of policy documents. A list of all Pension Fund Policy Documents is included at Appendix A. It is proposed that as policies are reviewed by officers they will be presented to the Board for review against Regulations or Guidance.

### **3 Funding Strategy Statement**

- 3.1 The purpose of the Funding Strategy Statement is to set out 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.
- 3.2 The Funding Strategy Statement was considered by the Pension Advisory Board at their meeting on 22 May 2019, 26 February 2020 and 7 September 2020 and the relevant Regulations and Guidance were provided to the Board.
- 3.3 MHCLG has published new Regulations on employer flexibilities which will come into force from 23 September 2020. This follows their consultation in May 2019 on changes to the local valuation cycle and management of employer risk.
- 3.4 The newly introduced flexibilities relate to:
  - a. The ability to review contribution rates between formal valuations due to significant changes to the liabilities (already allowed), significant changes in covenant (this is new) and if an employer requests it (this is new).
  - b. The power to agree payment plans when employers have exit debts.
  - c. The introduction of deferred employer status, which allows an employer to stay in the Fund even if their last active leaves with contributions set at triennial valuations (for deficit recovery).
- 3.5 The update to the Funding Strategy Statement has been prepared by Officers to ensure that this opportunity is not increasing risk to the Fund by limiting the circumstances which this option might apply (ie. where there is a guarantee from a secure scheduled body still active in the fund, or those that have a sufficiently strong covenant (in which case they will need to consider how this might be assessed)). As a result the Funding Strategy now includes:
  - a. A definition of a "Deferred Employers" as "a Scheme employer which enters into a deferred debt agreement with the Administering Authority to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement"). Further information about Deferred Employer status has been included under "Exiting employers"".
  - b. The basis for setting employer contribution rates for a "deferred Employer" using the same discount rate as prior to their deferral, with a probability of meeting their funding target of 75% (which is the most prudent basis for employers participating in the Scheme) using a maximum time horizon of 50% of the duration of the liabilities or a period set by the Administering Authority.
  - c. To reflect that the Administering Authority will consider a request from the Scheme employer to review contributions where the Scheme employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be

expected to fall into one of the above categories, such as a belief that their covenant has changed materially or significant restructuring impacting their membership).

d. To advise that "Except in exceptional circumstances such as an employer nearing cessation, market volatility, and changes to asset values will not be considered as a basis for a change in contributions outside a formal valuation".

e. To set out the basis for a Deferred Debt Agreement.

3.6 The Policy was shared with employers on 26 October 2020 with the consultation due to close on 7 December 2020.

#### **4 Investment Strategy Statement**

4.1 Under the [LGPS Investment regulations](#) the Fund is required to formulate an Investment Strategy Statement.

4.2 The Investment Strategy Statement has been updated following the completion of the Fund's Asset Liability Modelling work and the considerations made by the Committee and its Task and Finish Group in relation to Responsible Investment.

4.3 Under the Regulations the authority must consult "such persons as it considers appropriate as to the proposed contents of its investment strategy". It is therefore proposed that stakeholders are consulted.

#### **5 Other options considered (and reasons for not proposing)**

N/A

#### **6 Consultation, engagement and advice**

N/A

#### **7 Finance**

N/A

#### **8 Risk implications and mitigations**

N/A

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#### **Appendices**

Appendix A – List of Policy Documents

Appendix B – Funding Strategy Statement

Appendix C – Investment Strategy Statement - Restricted for members of the Pension Advisory Board only

#### **Background papers**

None