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London Borough of Haringey Pension Fund

Funding Strategy Statement

March 2023

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1 Welcome to London Borough of Haringey Pension Fund's Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for London Borough of Haringey Pension Fund.

The London Borough of Haringey Pension Fund is administered by London Borough of Haringey, which is known as the Administering Authority. London Borough of Haringey worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There's a regulatory requirement for the London Borough of Haringey to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact Pensions.Mailbox@haringey.gov.uk.

1.1 What is London Borough of Haringey Pension Fund?

London Borough of Haringey Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. London Borough of Haringey runs the Fund on behalf of participating employers, their employees, and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including the Council and employers like academies. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like foundation schools can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the Fund. You can find the investment strategy at haringeypensionfund.co.uk.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A).

1.6 How is the funding strategy specific to London Borough of Haringey Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The third element is an allowance for the Fund's expenses, and this is included in the primary rate.

The Fund Actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach allows for the maturing profile of the membership when setting employer contribution rates.

2.2 Prepayment of contributions

The Fund permits the prepayment of employer contributions in specific circumstances.

Employer contributions

- The Fund will consider requests from employers to make payment of their employer contributions early.
- Each case will be considered on its own merits, taking into account the type of employer, the employer rate, the amount and the value of cash the Fund holds.

Employee contributions

- The Fund will not consider requests to allow payment of employee contributions early.
- In exceptional circumstances, officers may consider this on a case-by-case basis.

Prepayment of contributions does not guarantee that the employer will benefit from earlier investment: the value of the prepaid contributions can fall if investment returns are negative.

2.3 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies		CABs and designating employers		TABs
Sub-type	**Local Authority**	**Academies (or schools not pooled with Haringey Council**	**Open to new entrants**	**Closed to new entrants**	**all**
Funding target	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis if no guarantor – refer to section 7	Ongoing, but may move to low-risk exit basis if no guarantor – refer to section 7	Contractor exit basis, assuming fixed-term contract in the Fund
Minimum likelihood of success	70%	70%	75%	80%	70%
Maximum time horizon	20 years	20 years	20 years	Average future working lifetime (or less if no guarantee)	20 years
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon*				
Secondary rate	Monetary amount or % of payroll for schools	% of payroll	Monetary amount	Monetary amount	% of payroll
Stabilised contribution rate?	Yes	Yes	No	No	No
Treatment of surplus	Covered by stabilisation arrangement		Preferred approach: contributions kept at primary rate. Reductions may be permitted by the Fund		Reduce contributions by spreading the surplus over the remaining contract term if contract to cease before next valuation, at admin authority's discretion
Phasing of contribution changes	Covered by stabilisation arrangement		None	Not typically permitted	None

** Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*

2.4 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund Actuary, the Fund believes a stabilised approach is a prudent longer-term strategy for some employers.

Table 2: current stabilisation arrangement

Type of employer	Council	Academies (or schools not pooled with Haringey Council)
Maximum contribution increase per year	+0.5% of pay	+2% of pay
Maximum contribution decrease per year	-0.5% of pay	-2% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The Fund may review them between valuations to respond to membership or employer changes.

2.5 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations for a 'significant change' to the liabilities or covenant of an employer, in line with its policy on contribution reviews. A review may be instigated by the Fund or at the request of a participating employer.

The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.6 What is pooling?

The Fund may operate funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In this type of pooling arrangement, employers do not target full funding at exit. While the Fund receives the contributions required, the risk increases that employers will be entitled to a surplus payment on exit.

Employers in a pool maintain their individual funding positions, tracked by the Fund Actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the Fund.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.7 What are the current contribution pooling arrangements?

- **Maintained schools** – generally pool with the Council, although there may be exceptions for specialist or independent schools.

- **Academies** – may be pooled within a Multi Academy Trust (MAT) at the MAT’s request.
- **Ceased employers** – legacy liabilities and assets may be pooled with the Council

2.8 Fund discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the Fund may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Fund may allow greater flexibility to the employer’s contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments. The Fund won't start to pay the unreduced benefits until the strain payment is made by the employer.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund Actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund Actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 or further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund?

Employers can join the Fund if they are a new scheduled body or a new admission body. New designating employers may also join the Fund if they pass a designation to do so.

The Fund will determine the assets and liabilities for a new employer. The calculation will depend on the type of employer and the circumstances of joining.

The Fund will also set a contribution rate. This will be set in the way described in section 2 unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement).

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund Actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, each responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). If they are part of a MAT, the new academy can be combined with the other MAT academies to set contributions. Otherwise, the new academy's contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future Funding Strategy Statements.

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (typically a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund Actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. More details on outsourcing options can be obtained from the Fund or in the contract admission agreement.

The fund's policy is to require all new admission bodies to be set up with a pass-through arrangement.

Additional information on outsourcing from an academy or free school is included in the Fund's Policy on Academies and Free Schools.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g., set up of a wholly owned subsidiary company by the council. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designating employers may also join the fund. This is unusual but would include bodies like a new foundation school or technical institute. Contribution rates will be set using the same approach as other designating employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund Actuary assesses this because the assessment must be carried out to the Fund's satisfaction.

After considering the assessment, the Fund may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the fund. The Fund, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time.
- insolvency, winding up or liquidation of an admission body.
- a breach of an admission agreement that isn't remedied to the Fund's satisfaction.
- failure to pay any sums due within the period required.
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor.
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the Fund will instruct the Fund Actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the fund.

7.2 What happens on cessation?

The Fund must protect the interests of the remaining Fund employers when an employer leaves the fund. The actuary aims to protect remaining employers from the risk of future loss. The funding targets adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If instead the guarantor is taking on the employer's assets and liabilities thereafter, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or may be reflected in the contribution rates set at the next formal valuation.

The Fund Actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – a surplus – the Fund can decide how much will be paid back to the employer (which may be £nil) based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (such as risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period if the employer enters into a deficit spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement, the employer stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

7.5 What if an employer has no active members?

When an employer leaves the Fund because their last active member has left or retired, they may: pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund Actuary will portion the liabilities on a pro-rata basis at the formal valuation.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund Actuary will apportion the remaining assets to the other Fund employers at the formal valuation.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Fund may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a Funding Strategy Statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a Funding Strategy Statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the Fund uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the Fund has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included:

1. A review of the updated FSS was provided at the Employers Forum on 16 February 2023 where all employers, whether attending in person or online, had the opportunity to raise questions about the changes made to the FSS.
2. A draft version of the FSS circulated on 13 March 2023 for comments by all participating employers
3. Comments requested by 20 March 2023 allowing 7 days for comments to be submitted.
4. Closure of the consultation on 27 March 2023 with Pension Committee and Board approval subject to no material changes following the consultation.
5. Publication off approved FSS will be made after 31 March 2023.

A3 How is the FSS published?

The FSS is emailed to participating employers and is published on the website at haringeypensionfund.co.uk. A full copy is included in the Fund's annual report and accounts. Copies are freely available on request and sent to investment managers and independent advisers.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and Board and included in the Pensions Committee and Board meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements including the investment strategy statement, governance strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at haringeypensionfund.co.uk.

Appendix B – Roles and responsibilities

B1 The Fund:

1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a Fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund Actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the Fund promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The Fund Actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on Fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the Fund to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the Funding Strategy Statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS

3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the Fund on processes and working methods

5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Fund's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The Fund has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the Combined Pensions Committee and Board is set out in Part Three, Section B of the Council's Constitution. Further details of committee and board's terms of reference are available on the Council's website.

The Fund considers strategic risks which are monitored throughout the year by the Pensions Committee and Board. Details of these key risks are available on the Pensions Committee and Board's governance website in advance of each meeting.

The Fund also manages specific funding risks as below.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward estimate of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Asset liability modelling used to assess appropriate interaction between funding strategy and investment strategy.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring gives early warning. Some inflation-linked assets are included as part of investment strategy to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of

Risk	Summary of Control Mechanisms
	any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation arrangement has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the actuary calculates the added cost spread pro-rata among all employers.
Effect of possible asset underperformance as a result of climate change	The Fund's management of these risks is covered by its Investment Strategy Statement and includes (but is not limited to) its investments in low carbon equity pooled investment vehicles and renewable energy infrastructure. Additional modelling of climate change scenarios is provided by the Fund Actuary and investment adviser to confirm resilience of investment strategy to the modelled changes

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing fund – ie proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	The Fund pools all ill health early retirement strain costs between employers to pool risk
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation.

Risk	Summary of Control Mechanisms
	However, there are protections where there is concern, as follows: Employers in the stabilisation arrangement may be brought out of that mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules eg changes arising from public sector pensions reform.	The Fund considers all consultation papers issued by the Government and comments where appropriate. The Fund is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits – is built into the actuarial valuation.
Time, cost and/or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on position of Fund and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS funds, leading to impacts on funding and/or investment strategies.	The Fund considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

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

Risk	Summary of Control Mechanisms
	Reviewing contributions well ahead of cessation if thought appropriate.
An employer ceasing to exist resulting in an exit credit being payable	The Fund regularly monitors admission bodies coming up to cessation. The Fund invests in liquid assets to ensure that exit credits can be paid when required.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admission bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Council	Tax-raising, no individual assessment required	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	All new admission bodies are required to provide a form of security, such as a guarantee from the letting employer, and indemnity or bond. The security must be to the satisfaction of the Fund as well as the letting employer	Will be reassessed on an annual basis

C7 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the Fund has carried out in-depth asset liability modelling to stress test both the funding and the investment strategies against possible future climate scenarios.

The current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The Fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the Fund (e.g., global climate policy changes).

Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the Funding Strategy Statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund Actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns										
		Cash	Index Linked Gilts (long)	UK Equity	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Multi Asset Credit (sub inv grade)	Direct Lending (private debt) GBP Hedged	Inflation (CPI)
10 Years	16th %ile	0.8%	-3.1%	-0.4%	-0.7%	-1.2%	-0.6%	-2.5%	0.7%	1.7%	2.7%	1.6%
	50th %ile	1.8%	-0.7%	5.7%	5.6%	9.4%	4.4%	5.8%	5.9%	3.5%	6.0%	3.3%
	84th %ile	2.9%	2.0%	11.6%	11.7%	20.1%	9.5%	14.4%	11.2%	5.2%	9.2%	4.9%
20 Years	16th %ile	1.0%	-2.6%	1.7%	1.5%	2.4%	1.4%	0.1%	2.6%	2.8%	4.3%	1.2%
	50th %ile	2.4%	-0.9%	6.2%	6.1%	10.0%	5.0%	6.3%	6.5%	4.4%	6.8%	2.7%
	84th %ile	4.0%	0.8%	10.6%	10.8%	17.6%	8.9%	12.8%	10.6%	6.0%	9.2%	4.3%
40 Years	16th %ile	1.2%	-1.1%	3.2%	3.1%	4.7%	2.6%	2.1%	3.9%	3.6%	5.5%	0.9%
	50th %ile	2.9%	0.3%	6.7%	6.5%	10.3%	5.5%	6.8%	7.0%	5.3%	7.7%	2.2%
	84th %ile	4.9%	1.9%	10.2%	10.2%	16.1%	8.8%	11.7%	10.3%	7.1%	10.0%	3.7%
	Volatility (5 yr)	2%	9%	18%	19%	30%	15%	26%	15%	6%	10%	3%

D3 What financial assumptions were used?

Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.0%
Low-risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the fund

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.3% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 70% likelihood that the Fund's assets will achieve future investment returns of 4.3% pa over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to CPI only, plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	52% of maximum tax-free cash
50:50 option	0.7% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2		
		FT &PT	FT	PT	FT	PT	FT	PT	
20	0.14	586.25	1016.26	0.00	0.00	0.00	0.00	0.14	
25	0.14	387.24	671.28	0.00	0.00	0.00	0.00	0.14	
30	0.16	274.76	476.22	0.00	0.00	0.00	0.00	0.16	
35	0.19	214.67	372.03	0.10	0.07	0.02	0.01	0.19	
40	0.33	172.83	299.43	0.16	0.12	0.03	0.02	0.33	
45	0.54	162.35	281.20	0.35	0.27	0.07	0.05	0.54	
50	0.87	133.82	231.53	0.90	0.68	0.23	0.17	0.87	
55	1.36	105.38	182.42	3.54	2.65	0.51	0.38	1.36	
60	2.45	93.93	162.52	6.23	4.67	0.44	0.33	2.45	

Females

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2		
		FT &PT	FT	PT	FT	PT	FT	PT	
20	0.08	528.64	514.11	0.00	0.00	0.00	0.00	0.08	
25	0.08	355.71	345.88	0.10	0.07	0.02	0.01	0.08	
30	0.11	298.17	289.90	0.13	0.10	0.03	0.02	0.11	

35	0.19	257.35	250.12	0.26	0.19	0.05	0.04	0.19
40	0.30	214.19	208.09	0.39	0.29	0.08	0.06	0.30
45	0.50	199.88	194.16	0.52	0.39	0.10	0.08	0.50
50	0.72	168.51	163.52	0.97	0.73	0.24	0.18	0.72
55	0.95	125.74	122.13	3.59	2.69	0.52	0.39	0.95
60	1.22	101.33	98.31	5.71	4.28	0.54	0.40	1.22

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

The LGPS benefit structure is expected to change, to reflect the outcome of the McCloud case which will increase some benefits for some members. The regulations have not yet been formally updated and it is not possible to accurately calculate the eventual benefit increase for any particular member.

To reflect this uncertainty (along with continuing uncertainty from the 2016 cost management exercise) the Fund's policy is that the actuary will apply an adjustment of 1.5% to the ceasing employer's total liabilities, as an estimate of the possible impact of resulting benefit changes. This will not be applied where the ceasing employer's liabilities, and share of the assets, are subsumed by another employer in the fund.

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

Prior to the Fund's change to a risk-based exit approach the financial and demographic assumptions underlying the low-risk exit basis were set as follows:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 2.0% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

The new low-risk exit basis will follow a risk-based approach based on the future expected returns from the appropriate investment strategy, similar to the funding approach set out above. After exit there will be no further contributions from the exited employer so there is more uncertainty about whether there will be enough assets to pay the benefits. The low-risk exit basis therefore uses a higher likelihood of success to reflect the need for the fund to be more certain about having sufficient assets.

Contractor exit basis

Where there is a guarantor (e.g., in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.