

Gloucestershire Pension Fund
Funding Strategy Statement
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Gloucestershire Pension Fund – Funding Strategy Statement

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1 Welcome to Gloucestershire pension fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for the Gloucestershire Pension Fund.

The Gloucestershire pension fund is administered by Gloucestershire County Council, known as the administering authority. Gloucestershire County Council 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 Gloucestershire County Council 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 peninv@gloucestershire.gov.uk

1.1 What is the Gloucestershire pension fund?

The Gloucestershire pension fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority 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 councils and employers like academies and further education establishments. 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 town and parish councils 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 administering authority. You can find the investment strategy [here](#)

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 and contribution rates are set with reference to the investment strategy, including a margin for prudence. This is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities.

1.6 How is the funding strategy specific to the Gloucestershire 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 two 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 primary rate also includes an allowance for the fund's expenses. The primary rate will always be set as a percentage of pay. The secondary rate may be set as a percentage of pay or as a monetary amount. A monetary amount is usually set where payroll is expected to decline.

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 takes into account the maturing profile of the membership when setting employer contribution rates.

A definition of the funding targets used can be found in Appendix D. Table 1 defines the parameters that will apply for the contribution rate calculation for different types of employers.

Employers may opt to pre-pay contributions. The Fund's policy on contribution prepayments can be found [here](#)

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies				Designated employers	CABs and admission bodies with no guarantor	TABs and admission bodies with a guarantor ¹
	Local authorities and police	Colleges & universities	Academies and Multi Academy Trusts	Other scheduled bodies			
Funding target	Ongoing	Ongoing but may move to low-risk exit basis	Ongoing	Ongoing if open Low-risk exit basis if closed	Ongoing	Low-risk exit basis	Contractor exit basis, assuming fixed-term contract in the fund
Likelihood of success	75% ²	70% or 75%	75%	80% if ongoing 50% if closed	75%	50%	50%
Maximum time horizon	17 years	14 years	20 years	20 if open Average future working lifetime if closed	20 years	average future working lifetime but may extend to maintain stability of contributions	Same as the letting employer
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	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll	Monetary amount	% of payroll	Monetary amount	% of payroll
How is stability of contributions achieved	Stabilised contribution strategy	Phasing over 3 years	Test current rate (see 2.2 below)	Phasing over 3 years	Test current rate (see 2.2 below)	N/A	N/A
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at primary rate				Reductions may be permitted by the administering authority	Reduce contributions by spreading the surplus over the remaining contract term

¹ For employers joining the Fund with a pass-through agreement, contributions will be calculated using a 80% likelihood of success

² The primary rate is calculated using a 66% likelihood of success for these employers

2.2 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. This is achieved through a number of methods:

- Setting a stabilised contribution strategy
- Phasing in any employer increases or decreases
- Testing if the current contribution rate meets a minimum likelihood of success.

A stabilised contribution rate strategy is adopted for all local authorities where contributions move each year with a maximum of the parameters shown in Table 2. After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 2: current stabilisation approach

Employer	Maximum contribution increase per year	Maximum contribution decrease per year
Gloucestershire County Council and Schools	+ 0.5% of pay	- 0.5% of pay
Cheltenham Borough Council	+ £202,000	- £202,000
Cotswold District Council	+ £195,000	- £195,000
Forest of Dean District Council	+ £95,500	- £95,500
Gloucester City Council	+ £126,000	- £126,000
Stroud District Council	+ £137,000	- £137,000
Tewkesbury Borough Council	+ £96,500	- £96,500
Gloucestershire Police	+ 0.5% of pay	- 0.5% of pay

Maximum contribution increases and decreases are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

For all academies, multi-academy trusts and town and parish councils, the likelihood of success of the current rate in payment will be tested at the time horizon shown in Table 1. If the likelihood of success is within 2.5% of the likelihood of success shown in Table 1, the contribution rate will remain stable. If the likelihood of success is outside of this range, the contribution rate will be calculated to bring the likelihood of success back within the likelihood of success “corridor”.

The same approach applies for Town and Parish Councils.

Phasing of employer increases over three years may be permitted for academies, colleges and other scheduled bodies.

2.3 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is [here](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.4 What is pooling?

The administering authority may operate pools for similar types of employer. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this.

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 calculated for pooled employers, unless agreed by the administering authority.

If an employer leaves the fund, the fund will request a cessation payment based on a proportionate share of the pooled funded position (based on liabilities). The funding position will be determined on the fund's ongoing basis.

2.5 What are the current contribution pools?

- **Town and parish councils** – sharing experience and smoothing the effects of costly but rare events like ill-health retirement or deaths in service.
- **Non- academy schools** – pooled with Gloucestershire County Council
- **Ceased employers** – these are pooled with the awarding authority (where relevant) or with another employer providing a guarantee
- **Multi-academy trusts** – a pool operates for each multi-academy trust. The positions of each participating academy school are tracked individually.

2.6 Administering authority discretion

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

Additionally, the administering authority 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 Additional pension costs on early retirement

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 may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread by no more than 3 years for scheduled bodies with tax-raising powers.

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.

The administering authority has arranged an external insurance policy to cover ill-health early retirement strains. Each employer's contribution that participates in this arrangement includes a share of the premium. When an active member retires on ill-health early retirement, the claim amount is credited to the employer's asset share.

The fund's policy is that all Academy Schools, Town and Parish Councils, Admitted Bodies with closed Admission Agreements and Admitted Bodies without a guarantor will be required to be automatically covered by the ill health pension strain insurance policy organised by the Fund.

All other employers will also automatically be covered by the ill health policy organised by the Fund unless they choose to opt out of such cover.

Where an employer formally opts out of the cover their employer contributions will remain unchanged. When a member retires because of ill-health the employer will be asked to meet the funding strain where this exceeds the allowance for ill-health within the existing contribution rate.

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.

The fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

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.

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. The assumption for future investment return is determined by the funding target adopted for that employer. These are defined in Appendix D.

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

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

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 for 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 designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

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 ceding 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, who are 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).

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership. If a new academy joins an existing MAT, they will be asked instead to pay the contribution rate currently in payment by that MAT.

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 results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually 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 (on the ongoing basis) 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.

The fund's preferred approach is to request that all new admission bodies are set up with a pass-through arrangement. The fund's guidance on pass through is available upon request.

5.4 Other new employers

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

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated 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 administering authority's satisfaction.

After considering the assessment, the administering authority 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 when an employer leaves the fund?

6.1 What is a cessation event?

Triggers for cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, 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 that period
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations 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).

The administering authority 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 scheme.

6.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target 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.
- (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 this isn't the case, 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. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

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 be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations. Fees and any other cessation expenses are deducted from the employer's asset share.

6.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities they employer has a surplus, known as an exit credit. The administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions

- any representations (like 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.

The fund's approach to payment of exit credits is detailed within the cessation policy which is available [here](#)

6.4 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 deferred spreading agreement ("DSA")
- if an exiting employer enters into a deferred debt agreement ("DDA"), it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The options available to employers are detailed in the fund's cessation policy, available [here](#)

6.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond the DDA/DSA 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 based on liability share 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 based on liability share.

6.6 Are bulk transfers allowed?

Employers or a group of employees may leave the fund as the result of a bulk transfer. The calculation of transferring assets will be agreed as part of the bulk transfer terms.

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 past service 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 are the statutory reporting requirements?

7.1 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.

7.2 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.

7.3 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 administering authority 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 administering authority 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 administering authority 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 issuing a draft version to participating employers, including the CIPFA guidance, and holding a consultation period no shorter than 20 business days.

A3 How is the FSS published?

The FSS is made available through the following routes:

- publishing on the administering authority's website
- sending copies to each employer
- including the full statement or summary in final accounts
- sending copies to members of the local pension board
- sending copies to independent advisers
- making copies freely available on request.

The FSS is published at [Gloucestershire Pension Fund Website](#).

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 included in the Committee 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 like the statement of investment principles, 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 [Gloucestershire Pension Fund Website](#)

Appendix B – Roles and responsibilities

B1 The administering authority:

- 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 administering authority 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 administering authority 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 administering authority 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 administering authority'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 administering authority has a risk management programme to control financial, demographic, regulatory and governance risks.

Details of the fund-specific risks and controls are taken to every [Pension Committee meeting](#) and [Pension Board meeting](#). The Fund's risk management framework is available [here](#).

The role of the Pensions Committee and the local pension board are defined in the Governance Policy Statement.

C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted 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
Local Authorities and Police	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	Engagement with employers in this group occurs at each formal valuation.	Position is reassessed at each formal valuation
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)	Covenant assessment is responsibility of the awarding authority who guarantee the contract. The Fund regularly engages with closed employers with no guarantor.	Position is reassessed at each formal valuation
Designating employers	No individual assessment is carried out due to small size of liabilities and pooling approach to setting contributions.	Position is reassessed at each formal valuation

C3 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. The fund included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that

the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Appendix D – Actuarial assumptions

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.

D3 What financial assumptions are used?

Future investment return 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 existing transferee admission bodies and closed community admission bodies	1.8%
Low-risk exit basis	Community admission bodies closed to new entrants	Consistent with a level of investment return with likelihood of success of 90%
Contractor exit basis	Transferee admission bodies	Will be calculated in a consistent way with the method used to allocate assets to the employer on joining the fund

Discount rate (for funding level calculation only)

For the purpose of calculating a funding level on an ongoing basis, a prudent estimate of investment returns is calculated. This is the level of investment returns that the fund is expected to achieve with a 75% likelihood for the 20 years following the valuation date.

To assess the funding level on a low-risk exit basis, the level of investment returns is calculated with reference to a 90% likelihood of success.

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 the median value of CPI from the ESS model.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.3% above CPI pa 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 improvement has been applied, with a 1.5% pa minimum underpin to future improvements in mortality.

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

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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	50% of maximum tax-free cash
50:50 option	0% 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	105	0.17	404.31	934.96	0.00	0.00	0.00	0.00	
25	117	0.17	267.06	617.58	0.00	0.00	0.00	0.00	
30	131	0.20	189.49	438.12	0.00	0.00	0.00	0.00	
35	144	0.24	148.05	342.27	0.10	0.07	0.02	0.01	
40	150	0.41	119.20	275.48	0.16	0.12	0.03	0.02	
45	157	0.68	111.96	258.70	0.35	0.27	0.07	0.05	
50	162	1.09	92.29	213.01	0.90	0.68	0.23	0.17	
55	162	1.70	72.68	167.83	3.54	2.65	0.51	0.38	
60	162	3.06	64.78	149.52	6.23	4.67	0.44	0.33	
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00	

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	105	0.10	317.18	397.27	0.00	0.00	0.00	0.00	
25	117	0.10	213.42	267.27	0.10	0.07	0.02	0.01	
30	131	0.14	178.90	224.01	0.13	0.10	0.03	0.02	
35	144	0.24	154.41	193.27	0.26	0.19	0.05	0.04	
40	150	0.38	128.51	160.80	0.39	0.29	0.08	0.06	
45	157	0.62	119.93	150.03	0.52	0.39	0.10	0.08	
50	162	0.90	101.11	126.35	0.97	0.73	0.24	0.18	
55	162	1.19	75.44	94.38	3.59	2.69	0.52	0.39	
60	162	1.52	60.80	75.96	5.71	4.28	0.54	0.40	
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00	

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D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?**Low-risk exit basis**

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

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- For the purpose of calculating a funding level on the low-risk exit basis, a more prudent estimate of investment returns is calculated. This is the level of investment returns that the fund is expected to achieve with a 90% likelihood for the 20 years following the valuation date.
- The CPI assumption is based on the median value of CPI from Hymans Robertson's ESS model.
- 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.

Contractor exit basis

Where there is a guarantor (eg 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.