DRAFT – SUBJECT TO CONSULTATION

FUNDING STRATEGY STATEMENT

DYFED PENSION FUND

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Dyfed Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

December 2022

This Funding Strategy Statement has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. Guide to the FSS and Policies

The information required by overarching guidance and Regulations is included in Section 2 and Section 3 of the Funding Strategy Statement. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate, are set out here.

2. Deficit Recovery and Surplus Offset Plans (Appendix B)

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out here.

3. Employer Types and Admission Policy (Appendix C)

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out here

4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found here

5. Covenant Assessment and Monitoring Policy (Appendix E)

The key risk criteria frequency of monitoring and Fund's approach to covenant risk can be found here.

6. Review of Employer Contributions between Valuations (Appendix F)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out here.

7. Ill Health Captive Arrangements (Appendix G)

The Fund has implemented a captive arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by ill health retirement of one of their members. Specifically this is the employer base outside of the five major employers. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out here.

8. Glossary (Appendix H)

A glossary of the key terms used throughout is available at the end of this document here.

2. Background

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Ensuring that the Dyfed Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Carmarthenshire County Council). The Funding Strategy adopted by the Dyfed Pension Fund will therefore be critical in achieving this. The Administering Authority has taken advice from the actuary in preparing this Statement.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Dyfed Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Dyfed Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

Integrated Risk Management Strategy

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength, where deemed appropriate by the Administering Authority.

The Regulations

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

The Solvency Objective

The Administering Authority’s long-term objective is for the Fund to achieve and then maintain 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund’s objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

Long Term Cost Efficiency

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise. Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency" of the Local Government Pension Scheme (the “LGPS”) so far as relating to the Fund.

Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution.

3. Key Funding Principles

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Purpose of the FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

The aims of the fund are to:	**The purpose of the fund is to:**
• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due • enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes • maximise the returns from investments within reasonable risk parameters taking into account the above aims.	• receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS

The Administering Authority should:	**The Individual Employer should:**
• operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations • pay from the pension fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the fund against the consequences of employer default • manage the valuation process in consultation with the Fund's actuary • prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties, and • monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.	• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the actuary, promptly by the due date • undertake administration duties in accordance with the Pension Administration Strategy. • develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and • notify the Administering Authority promptly of any changes to membership which may affect future funding. • understand the pension impacts of any changes to their organisational structure and service delivery model. • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The Fund Actuary should:	A Guarantor should:
• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as such as pension strain costs, ill health retirement costs etc. • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.	• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

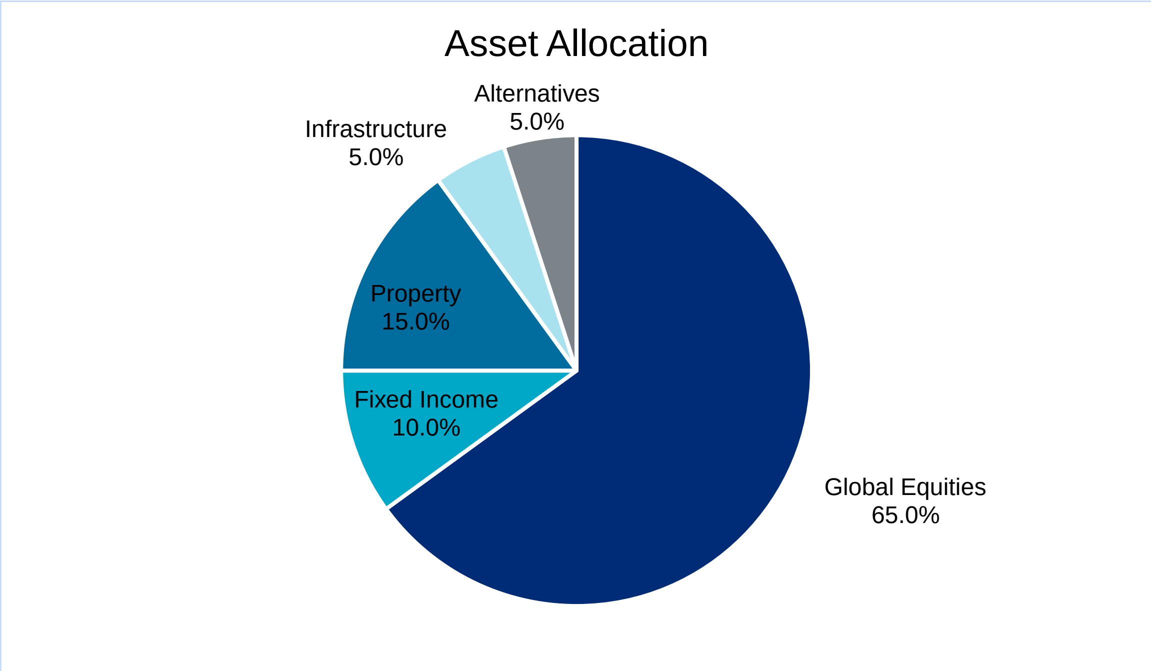
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

Link to Investment Policy and the Investment Strategy Statement (ISS)

The results of the 2022 valuation show the liabilities to be 113% covered by the assets, with the funding surplus of £372m used in part to offset Primary Contributions, with the remainder being retained as a buffer against future adverse experience (see Appendix B).

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

The overall strategic asset allocation is set out in the ISS. The current long term strategy set out in the ISS is included below.



The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation as at 31 March 2022 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in **Appendix A**).

Risk Management Strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate). Further details will be set out in the ISS.

Climate Change

An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgement made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels.

Results will be considered over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.

Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary’s formal valuation report includes quantification of some of the major risk factors.

<table>
<tr><th>Financial</th><th>Demographic</th></tr>
<tr><td>The financial risks are as follows:-
Investment markets fail to perform in line with expectations
Market outlook moves at variance with assumptions
Investment Fund Managers fail to achieve performance targets over the longer term
Asset re-allocations in volatile markets may lock in past losses
Pay and price inflation significantly more than anticipated
Future underperformance arising as a result of participating in the All Wales pooling vehicle
An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund’s asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.</td><td>The demographic risks are as follows:-
Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.
Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers. For some employers the Fund has implemented an internal “captive” approach to spreading the cost of ill-health retirements across a wider employer base. Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements.
Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy
Early retirements for reasons of redundancy and efficiency do not affect the solvency of the</td></tr>
</table>

Financial	Demographic
	Fund because they are the subject of a direct charge.

Governance	Regulatory
The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their trade unions) to make their views known to the Fund and to participate in the decision-making process. Governance risks are as follows:- • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or adequacy of a bond. • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. • Changes to Senior Fund Officers or in the Pension Committee membership. For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Fund, Typically these would be via the Cost Management Process although in light of the McCloud discrimination case, there can be exceptional circumstances which give rise to unexpected changes in Regulations. • Changes to national pension requirements and/or HMRC Rules Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- if there have been material changes in the ISS

Appendix A – Actuarial method and assumptions

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The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

Financial Assumptions		
	2022 valuation assumption	Description
Investment return / discount rate	4.55% p.a. (past) and 5.10% p.a. (future)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.45% p.a. above CPI inflation (past) and 2.0% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
Market implied Inflation (Retail Prices Index)	3.90% p.a.	The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).
Inflation (Consumer Prices Index)	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). This varies for the ongoing and low risk termination basis, reflecting the degree of inflation hedging inherent in the notional termination basis and will also reflect the duration of an employer's liabilities in the case of a low risk termination calculation. The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
Salary increases	4.60% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance

(long-term)		of 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).	

Demographic Assumptions

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		**Female Life Expectancy at 65**	
	2019	2022	2019	2022
Pensioners	23.2	22.0	25.1	24.2
Actives aged 45 now	24.8	23.7	27.3	26.4
Deferreds aged 45 now	23.1	23.3	25.9	25.9

For example, a male pensioner, currently aged 65, would be expected to live to age 87.0. Whereas a male active member aged 45 would be expected to live until age 88.7. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience.

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	107% S3PMA_CMI_2021 [1.75%] 101% S3PFA_M_CMI_2021 [1.75%]
	Dependant	129% S3PMA_CMI_2021 [1.75%] 115% S3DFA_CMI_2021 [1.75%]
	Ill Health	141% S3IMA_CMI_2021 [1.75%] 188% S3IFA_CMI_2021 [1.75%]
	Future Dependant	129% S3PMA_CMI_2021 [1.75%] 115% S3DFA_CMI_2021 [1.75%]
Active	Normal Health	110% S3PMA_CMI_2021 [1.75%] 100% S3PFA_M_CMI_2021 [1.75%]
	Ill Health	242% S3IMA_CMI_2021 [1.75%] 324% S3IFA_CMI_2021 [1.75%]
Deferred	All	116% S3PMA_CMI_2021 [1.75%] 106% S3PFA_M_CMI_2021 [1.75%]
Active / Deferred	Future Dependant	125% S3PMA_CMI_2021 [1.75%] 114% S3DFA_CMI_2021 [1.75%]

Other Demographic Assumptions	
Commutation	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Other Demographics	Alongside commutation, as part of the 31 March 2022 valuation, the Actuary has carried out analysis to review the assumptions relating to: the incidence of ill health retirements, withdrawal rates, the

	proportions married/civil partnership assumption, and also the probability of member's dying prior to retirement. Following the outcomes of this analysis, the assumptions for proportions married/civil partnerships and the pre-retirement mortality have been updated in line with the recommendations from the Actuary. All other assumptions remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

Method and assumptions used in calculating the cost of future accrual (or primary rate)

The future service liabilities are calculated using the same assumptions as the solvency funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

Employer asset shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Other factors affecting employer contribution outcomes

Notwithstanding the policies below, the Administering Authority, in consultation with the actuary where necessary, reserves the right to consider whether any exceptional arrangements should apply in particular cases.

Covenant: An employer’s financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund may continue to monitor employer's covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

Stability: To aid with future contribution stability, where an employer is in surplus, only that element of surplus above 105% of the liabilities can be used as a surplus offset. Employers under 105% funded at the valuation date will not have any surplus buffer applied to their funding target.

Contribution Increases: It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Phasing: Where there is a material increase in total (i.e. both primary and secondary rate combined) contributions required at this valuation, in certain circumstances, the employer may be able to "phase in" contributions over a maximum period of 3 years in a pattern agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer. In order to allow employers time to adjust their budgets, contributions for 2023/24 will normally be maintained at their existing levels, other than for the major scheduled bodies, before moving to the new rates in 2024/25. Employers should be aware that any stepping or deferral of increases may affect the contribution requirements arising at future valuations.

Insurance: The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Prepayments: Employers may also wish to make prepayments of deficit contributions which could result in a cash saving over the valuation certificate period. Further details of the potential savings will be set out in the Rates and Adjustments Certificate produced by the Actuary. At the discretion of the administering authority, an employer may be able to prepay Primary Rate contributions. Any employers who prepay Primary Rate contributions will also be required to make “top-up” payments should actual payroll be higher than that assumed when making the prepayment to ensure no underpayment emerges.

Early Retirement Strain Costs: Any “strain” costs generated as a result of redundancy, efficiency or flexible retirements will be recovered by additional capital payments to the Fund by the employer. These will be paid in full at the point of retirement. In certain situations, depending on the covenant of the employer and at the discretion of the Administrative Authority, an alternative payment structure may be agreed.

Deaths: The extent to which any funding strain/profit emerges on the death of a member will depend on the profile of the member (status / age / whether any dependant’s benefits become payable) and impacts can be material**.** Any funding strain/profit will typically emerge at the next actuarial valuation through increased/reduced deficit contributions, except where the employer is terminating, when it will be taken into account when the Actuary determines the termination position.

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Appendix B – Deficit recovery and surplus offset plans

Employer Recovery Plans – key principles

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

The aggregate recovery period for the Fund as a whole is 14 years at this valuation which is from the same as the previous valuation. As the fund is in surplus, a longer surplus spread period is more prudent than reducing it by 3 years and so the 14 year period was still felt appropriate. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Secondary Rate contributions for each employer will be expressed as percentages of pensionable pay and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum, for example on an annual basis or as a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

Category	Default Deficit Recovery Period	Derivation
Unitary Authorities, Mid and West Wales Fire Authority and Police & Crime Commissioner	14 years	The same as the 2022 valuation, reflecting the surplus position
Open Employers in deficit	Normally 8 years	3 years less than at the 2019 valuation
Open Employers in surplus	Normally 11 years	The same as the 2022 valuation, reflecting the surplus position
Closed Employers	Variable	Here will we will have regard to the funding position and the average

		future working lifetime of the membership.
Employers with a limited participation in the Fund	Determined on a case by case basis	Normally the length of expected period of participation in the Fund.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain broadly the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period), taking into account any changes in the future service contribution requirements.

Other factors affecting the employer deficit recovery plans

As part of the process of agreeing funding plans with individual employers and managing risk in the inter-valuation period, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

Surplus offset plans

For those employers assessed to be in surplus at the valuation date, surplus offsets won't be available to those with a funding level of less than 105%. For those with funding levels greater than 105%, surplus offsets will be based on the surplus above 105% only.

Over and above this, the Fund is giving more recognition to the potential liabilities in the event that an employer will exit the Fund at some point. With this in mind, any employer in surplus on the ongoing actuarial valuation assumptions will not normally be allowed to use that surplus to offset its future contribution requirements to the Fund if the body is not also in surplus on its termination basis at the valuation date.

For any employers assessed to be in surplus at the valuation date, where surplus offsets will be payable, and who are expected to exit the Fund in the period to 31 March 2026 the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the

Secondary rate will based on the maximum recovery period, unless otherwise agreed by the Administering Authority.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases when determining deficit recovery/surplus offset plans.

Appendix C – Employer types and admission policy

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Entry to the Fund

Mandatory Scheme Employers

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (colleges) and universities (reliant on non-government income).

Designating Bodies

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax raising powers and include Community and Town Councils.

Admission Bodies

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations (formerly known as Community Admission Bodies).

Admitted bodies may only join the Fund if they are guaranteed by a scheme employer. When the agreement or service provision ceases, the Fund's policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

Connected Entities

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are "Designating Bodies" under the Regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

However, to limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

Second Generation outsourcings for staff not employed by the Scheme Employer contracting the services to an admitted body

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another. In this instance the contracting body is termed a ‘Related Employer’ for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor. These liabilities relate both to any staff whom it may be outsourcing for the first time and to any staff who may be transferring from one contractor to another having previously been employed by a scheme employer prior to the initial outsourcing

“Related employer” is defined as “any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)”.

Risk Assessments

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the low risk termination methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a low risk methodology are:

- Uncertainty over the security of the organisation’s funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

Admitted Bodies providing a service

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the low risk methodology and assumptions.

Contribution Rate Assessments

Unless agreed otherwise with the Administering Authority, the Actuary will undertake an assessment of the required contribution rate payable by the new admitted body.

Appendix D –
Termination policy, flexibility for exit payments and Deferred Debt Agreements

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Introduction

This document details the Fund's policy on the methodology for assessment of termination payments in the event of the cessation of an employer's participation in the Fund, repayment plans and Deferred Debt Agreements (DDA). It supplements the general policy of the Fund as set out in the FSS.

This methodology will be reviewed on a regular basis, in light of changes in market conditions and any review of fiscal or monetary policy by the Government or Bank of England.

Termination Assessment of an Employer's Residual Pension Obligation and Method to Calculate Bond / Financial Guarantees

Assumptions to Adopt for the Termination Assessment

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination this assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer.

Where it may be appropriate to use a more cautious basis, the discount rate assumption used will be derived to be consistent with a lower risk investment strategy based on gilt yields of an appropriate duration, including the removal of any inflation risk premium representing the market price of locking in to inflation protection. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary. The Administering Authority retains the discretion to adopt a different approach (e.g. one based on a corporate bonds approach approach) for any particular employer related to the size of the risk and the employer will be notified of this accordingly.

In addition to using a more cautious discount rate, the Actuary will also use a more prudent mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption, the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term. The assumption, therefore, will build in a level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a long term improvement trend of 2% per annum for males and females.

The appropriate method adopted depends on the characteristics of the exiting body (and in particular whether there is another employer in the Fund who is prepared to act as sponsor for any residual liabilities) and the risk in the context of the potential impact on other employers' contributions. This is because where liabilities are "orphaned" all employers have to cover any deficits (or surpluses) that arise in relation to these liabilities via their contribution rates at each valuation.

In summary, depending on the employer type, participation basis and covenant there are two alternative approaches to value liabilities on termination and to assess bond requirements:-

1. Assessing the final termination liabilities using assumptions consistent with the most recent valuation basis adjusted as necessary to reflect the expected return outlook in relation to the investment strategy which supports the exiting employer's liabilities. These assumptions will be reviewed on an ongoing basis to allow for changed in market conditions along with any structural or legislative changes.

2. Assessing the final liabilities using a discount rate which is linked to a lower risk investment strategy, so that the calculation of the liabilities will be based on gilt yields of appropriate duration to the liabilities. In addition, the Actuary will apply the more prudent mortality assumption as described above. The assumptions adopted will also be reviewed on an ongoing basis and updated for any market developments, including any structural or legislative changes such as the reform of RPI.

As noted above, outside of the two main default policies, the Administering Authority retains the discretion to adopt a different approach (e.g. one based on a corporate bonds approach approach) for any particular employer related to the size of the risk and the employer will be notified of this accordingly.

Approach to adopt for each employer type

The approach to be adopted would be varied dependent on whether there is a guarantor who participates in the Fund who would be prepared to assume responsibility for the liabilities and the type of participation as follows:-

(I) Admission Bodies Participating by Virtue of a Contractual Arrangement

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's default policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the final cessation by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority’s determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

Where the guarantor will absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis (adjusted as necessary as described above) should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would normally be fully funded based on liabilities assessed on the valuation basis.

If a guarantor deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, for future termination events the Fund will not normally allow the guarantor to subsume any residual deficits. In such cases they would normally require the exiting employer to pay off the deficit as a single lump sum.

If the guarantor refuses to take responsibility for the liabilities then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

(II) Other Employers with a guarantor in the fund

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities.

(iii) Employers with no guarantor in the fund

These are cases where the residual liabilities would be “orphaned” within the Fund, although it is possible that a bond would be in place. The termination calculation would be on the more cautious basis as noted in 2. above although alternative approaches could apply at the discretion of the Administering Authority.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing employer must be produced by the Actuary at the time when the employer exits the Fund; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation by the Actuary or such longer period as may be agreed in the individual case).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The above funding principles will also impact on the bond requirements for bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

Policy in relation to the flexibility for Exit Debt Payments and Deferred Debt Agreements (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.

2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement (DDA) will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a DDA with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be invoiced to the employer by the Fund or included in the contribution plan or exit debt payment (depending on the circumstances).

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated 2 March 2021.

Policy for spreading Exit Payments

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
    a. The spreading period that will be adopted (this will usually be subject to a maximum of 5 years).
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
    f. The views of the Actuary, covenant, legal and any other specialists necessary
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
    h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

Employers participating with no contributing members

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the “Deferred Debt Agreements” (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority

2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be

required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

    - What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
    - Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
    - What the updated secondary rate of contributions would be required up to the next valuation.
    - The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
    - The advice of the Actuary, covenant, legal and any other specialists necessary.
    - The responsibilities that would apply to the employer while they remain in the Fund.
    - What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
    - The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months. Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
    - Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

    The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.

6. The costs associated with the advice sought and drafting of the DDA will be borne by the employer and will be invoiced to the employer by the Fund or included in the contribution plan (depending on the circumstances).

Appendix E – Covenant Assessment and Monitoring Policy

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An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.
An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

Risk Criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality

Assessing Employer Covenant

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

Frequency of Monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) by officers based upon advice provided by the Fund Actuary.

Covenant Risk Management

The focus of the Fund's risk management approach is the identification and treatment of the risks. It will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

Appendix F – Review of employer contributions between valuations

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In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of one request between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (or changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to next actuarial valuation date, unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will

be considered on a case by case basis to determine if a contribution review should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case. Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of an employer
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
   iii. A bulk transfer into or out of the employer
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, material ill health retirements (for employers not using the ill-health captive arrangement) or, large numbers of withdrawals

b) Two or more employers merging including insourcing and transferring of services

c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will normally only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.

b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Employers will be required to agree to notify the Administering Authority of any material changes in relation to a) or b) above.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position both on an ongoing and termination basis and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- the contributions changing or staying the same depending on the conclusion and/or;
- security to improve the covenant to the Fund and/or;
- if appropriate, a change in the investment strategy via the employer investment pot.

Process and potential outcomes of a Contribution Review

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intention to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and/or administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in membership data is expected to have a material impact on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the Primary contribution rate should be adjusted to allow for any profile change
- Whether the Secondary contribution rate should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the last valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

Appendix G –
Ill-health captive arrangements

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Overview of arrangement

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions.

For certain employers in the Fund (specifically, all those excluding the five major employers) a captive arrangement has been established by the Administering Authority to cover ill-health retirement costs. This will apply to all ill-health retirements from 1 April 2020. It applies only to ill-health retirements involving the early payment of pension and to the associated benefit costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2023/26 is 1.5% of pay per annum

- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.

- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.

- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the five major employers. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

Employers not covered by the arrangement

For the five major employers who are outside the captive arrangement, the current treatment of ill-health retirements will still apply, whereby any excess costs associated with ill-health retirements will emerge as part of the subsequent actuarial valuation assessment, and in any subsequent secondary rate contributions payable into the Fund.

Employer responsibilities

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to ensure robust processes are in place to determine eligibility for ill health retirements.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

Appendix H – Glossary of terms

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Actuarial Valuation
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority
The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies
A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark
A measure against which fund performance is to be judged.

Benefits
The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Best Estimate Assumption
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds
Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE)
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI
Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH
An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Contingent Assets
Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer

Covenant
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deferred Debt Agreement (DDA)
A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Deferred Employer
An employer that has entered into a DDA with the Fund.

Deficit
The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Derivatives
Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

Discount Rate
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Early Retirement Strain
The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

Employer's Future Service Contribution Rate ("Primary Rate")
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

Employing bodies
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities
Shares in a company which are bought and sold on a stock exchange.

Equity Protection
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit
The amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme Employers
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. For example, these include councils, colleges and universities.

Funding or solvency Level
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement
This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD)
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

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

Guarantee of Last Resort
For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

Ill-Health Captive
This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

Investment Strategy
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Liabilities
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Long-term cost efficiency
This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Low risk basis
An approach where the discount rate used to assess the liabilities is determined based on a portfolio of investments (actual or notional) designed to provide an expected rate of return over the duration of the Fund's liabilities above market yields of Government bond investments, with a very high likelihood of being achieved [(c90%)]. This is usually adopted when an employer is exiting the Fund.

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

McCloud Judgment
This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

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

Orphan liabilities
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles
Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions
When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment
The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value
The value of projected benefit payments, discounted back to the valuation date.

Primary Contribution Rate
The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

Profile
The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

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

Real Return or Real Discount Rate
A rate of return or discount rate net of (CPI) inflation.

Recovery Plan
A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SAB Funding Basis or SAB Basis
A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculated the Fund's solvency funding position and contribution outcomes for employers

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

Secondary Rate of the Employer's Contribution
An adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Section 13 Valuation
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Strain Costs
The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

Valuation funding basis
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments, expressed as an expected out-performance over CPI in the long term by the Fund's assets i.e. the "real rate".

50/50 Scheme
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.