

London Borough of Barnet Pension Fund  
Funding Strategy Statement  
Covering the period  
1 April 2023 to 31 March 2026

DRAFT



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# 1 Introduction

This document sets out the funding strategy statement (FSS) for London Borough of Barnet Pension Fund. It is supplemented by a preface document which provides more specific commentary on our Strategy and experience since the last FSS was set as part of the 31 March 2019 valuation.

## 1.1 Context

The London Borough of Barnet Pension Fund is administered by Barnet Council, known as the administering authority. Barnet council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective over the period 1 April 2023 to 31 March 2026.

There's a regulatory requirement for Barnet Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact [david.spreckley@barnet.gov.uk](mailto:david.spreckley@barnet.gov.uk)

## 1.2 What is the London Borough of Barnet Pension Fund?

The London Borough of Barnet Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.3 What are the funding strategy objectives?

In addition to the overall aims highlighted in the preface document, the more general funding strategy objectives are to:

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

## 1.4 Who is the FSS for?

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

Different types of employers participate in the fund:

### Scheduled bodies

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

Barnet Council has a number of wholly owned subsidiary companies who participate in the Fund and these have been treated as Schedule Bodies.

Middlesex University and Barnet & Southgate College are substantial Schedule Bodies within the Fund.

## Admission bodies

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

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

### 1.5 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy [here](#).

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

### 1.6 Does the funding strategy reflect the investment strategy?

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

## 2 How does the fund calculate employer contributions?

### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

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

The primary rate also includes an allowance for the fund's expenses.

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

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

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

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

### 2.2 The contribution rate calculation

**Table 2: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies			TABs	
Sub-type	Local authorities	Universities	Colleges	Academies	(all)
<b>Funding target*</b>	Ongoing	Least Risk	Ongoing	Ongoing	Contractor exit basis, assuming fixed-term contract in the fund
<b>Minimum likelihood of success</b>	70%	60%	70%	70%	70%
<b>Maximum time horizon</b>	17 years	15 years	15 years	15 years	Same as the letting employer
<b>Secondary rate</b>	Monetary amount	Monetary amount		% of payroll	% of payroll

Type of employer Sub-type	Scheduled bodies			TABs	
	Local authorities	Universities	Colleges	Academies	(all)
Treatment of surplus	N/A at 31 March 2022	N/A at 31 March 2022	N/A at 31 March 2022	N/A at 31 March 2022	N/A at 31 March 2022
Phasing of contribution changes	None	None	None	None	None

\*See [Appendix D](#) for further information on funding targets.

### 2.3 Reviewing contributions between valuations

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

### 2.4 What is pooling?

The administering authority does not operate funding pools for similar types of employers, apart from LEA Schools which are pooled with the Council. This means that each employer of the Fund receives a specific contribution rate reflecting their underlying membership and asset share.

Note that Academies contribution rates were pooled at the 2019 valuation. However, this pooling was purely for administrative purpose and there was no actual cross subsidy of contributions or experience across different Academies. This meant that some Academies may have been substantially over or under paying contributions relative to their share of obligations.

For the 2022 valuation each Academies contribution will be assessed based on their actual share of obligations. Where the change in rate from 2019 to 2022 due to moving to individual rates is significant smoothing may be employed subject to agreement with the Fund.

### 2.5 Administering authority discretion

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

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided.

Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, asset backed funding or security over an asset.

### 3 What additional contributions may be payable?

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

An employer may decide to award an additional pension to an employee if this is allowed in their discretions policy. If an employer awards an additional pension, the employer must pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

Under its discretions policy, an employer may also decide to waive actuarial reductions when an employee retires before their normal retirement age. This may mean that there is an additional cost to the employer, who will be asked to pay this additional contribution, which is called a "strain payment".

This is payable when the employee retires, and employers must also make strain payments as a single lump sum immediately.

#### 3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, there will be a funding strain cost to the employer, which may be a large sum.

The administering authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

The ill health funding strain cost is not paid at the time of retirement. It is included in the actuarial calculation of the employers contribution rate at the triennial valuation following the employees retirement.

## 4 How does the fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

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

From 2023 the fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

### 4.2 How are employer liabilities calculated?

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

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

### 4.3 What is a funding level?

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

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



## 5 What happens when an employer joins the fund?

### 5.1 When can an employer join the fund

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

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

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

### 5.2 New academies

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

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

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

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

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

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

### 5.3 New admission bodies as a results of outsourcing services

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

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

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

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

#### **5.4 Other new employers**

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

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

#### **5.5 Risk assessment for new admission bodies**

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

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

This must cover some or all of the:

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

## 6 What happens when an employer leaves the fund?

### 6.1 What is a cessation event?

Triggers for considering cessation from the fund are:

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

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

### 6.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

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

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

The cessation policy can be viewed [here](#).

### 6.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

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

The exit credit policy can be viewed [here](#).

#### **6.4 How do employers repay cessation debts?**

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

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

The employer flexibility on exit policy can be viewed [here](#).

#### **6.5 What if an employer has no active members?**

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

#### **6.6 Are bulk transfers allowed?**

Cases will be looked at individually, but generally:

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

## 7 What are the statutory reporting requirements?

### 7.1 Reporting regulations

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

### 7.2 Solvency

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

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level
- or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 7.3 Long-term cost efficiency

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

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

Relative factors include:

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

Absolute factors include:

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

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

# Appendices

## Appendix A – The regulatory framework

### A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

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

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

### A2 Consultation

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

For the 31 March 2022 we will run a two-month consultation period running from 1 November 2022 to 31 December 2022. Each employer will be provided with a copy of this document (in draft form) and the opportunity to speak to the Head of Pensions and Treasury and the Scheme Actuary as required. Each employer will be invited to provide written feedback on the FSS.

The Council will also host employer forums, which will be attended with the Scheme Actuary and Council Officers, to explain the document. During the consultation period employers will receive their individual results.

### A3 How is the FSS published?

The FSS will be published [here](#).

### A4 How often is the FSS reviewed?

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

### A5 How does the FSS fit into the overall fund documentation?

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

The documents will be accessible [here](#).



## Appendix B – Roles and responsibilities

### B1 The administering authority:

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

### B2 Individual employers:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

### B3 The fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security



- 4 prepares advice and calculations around bulk transfers and individual benefits
- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

**B4 Other parties:**

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

## Appendix C – Risks and controls

### C1 Managing risks

Some of the key risks facing the Fund together with controls employed to manage those risks are summarised in the tables below

### C2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	<p>Anticipate long-term returns on a prudent basis to reduce risk of under-performing.</p> <p>Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three-year valuations for all employers.</p> <p>Roll forward whole fund liabilities between valuations.</p>
Inappropriate long-term investment strategy.	<p>Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance.</p> <p>Operate various strategies to meet the needs of a diverse employer group.</p>
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	<p>Focus valuation on real returns on assets, net of price and pay increases.</p> <p>Use inter-valuation monitoring to give early warning.</p> <p>Invest in bonds.</p> <p>Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.
Orphaned employers create added fund costs.	<p>Seek a cessation debt (or security/guarantor).</p> <p>Spread added costs among employers.</p>

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**C3 Demographic risks****Risk****Control**

Pensioners live longer, increasing fund costs.

Set mortality assumptions with allowances for future increases in life expectancy.

Use the fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.

As the fund matures, the proportion of actively contributing employees declines relative to retired employees.

Monitor at each valuation, consider seeking monetary amounts rather than % of pay.

Consider alternative investment strategies.

Deteriorating patterns of early retirements

Charge employers the extra cost of non ill-health retirements following each individual decision.

Monitor employer ill-health retirement experience, with optional insurance.

Reductions in payroll cause insufficient deficit recovery payments.

Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

**C4 Regulatory risks**

<b>Risk</b>	<b>Control</b>
Changes to national pension requirements or HMRC rules.	<p>Consider all Government consultation papers and comment where appropriate.</p> <p>Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known.</p> <p>Build preferred solutions into valuations as required.</p>
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.
Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.	<p>Consider all Government consultation papers and comment where appropriate.</p> <p>Take advice from the fund actuary and amend strategy.</p>

**C5 Governance risks**

<b>Risk</b>	<b>Control</b>
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	<p>The administering authority develops a close relationship with employing bodies and communicates required standards.</p> <p>The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	<p>The administering authority maintains close contact with its advisers.</p> <p>Advice is delivered through formal meetings and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements like peer review.</p>
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the fund.	<p>The administering authority requires employers with Best Value contractors to inform it of changes.</p> <p>CABs' memberships are monitored and steps are taken if active membership decreases.</p>

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**Risk****Control**

An employer ceases to exist with insufficient funding or bonds.

It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by:

Seeking a funding guarantee from another scheme employer, or external body.

Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

Vetting prospective employers before admission.

Requiring a bond to protect the fund, where permitted.

Requiring a guarantor for new CABs.

Regularly reviewing bond or guarantor arrangements.

Reviewing contributions well ahead of cessation.

An employer ceases to exist, so an exit credit is payable.

The administering authority regularly monitors admission bodies coming up to cessation.

The administering authority invests in liquid assets so that exit credits can be paid.

### C6 Employer covenant assessment and monitoring

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

Type of employer	Assessment	Monitoring
Local Authorities	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	No formal assessment currently undertaken. However, this is likely to be reviewed over period to 31 March 2025	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (TABs & CABs)	Bonds or Council guarantee required as a condition of participating in the Fund	Bonds are monitored at PFC meetings

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### **C7 Climate risk and TCFD reporting**

The Fund is reviewing its Responsible Investment policy and its reporting requirements.

## Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

### D1 What are assumptions?

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

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

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

### D2 What assumptions are used to set the contribution rate?

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

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

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

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

		Annualised total returns															
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Multi Asset Credit (sub inv grade)	Asset Backed Securities (AA rated) GBP	Asset Backed Securities (BBB rated) GBP	Direct Lending (private debt) GBP Hedged	Corp Short A	Corp Medium A	Corp Short BBB	Corp Medium BBB
10 years	16th %ile	0.8%	-1.9%	-0.3%	-0.7%	-1.2%	-0.6%	-2.5%	0.7%	1.7%	1.1%	1.3%	2.7%	1.4%	-0.1%	1.3%	0.0%
	50th %ile	1.8%	0.2%	1.1%	5.6%	9.4%	4.4%	5.8%	5.9%	3.5%	2.3%	2.9%	6.0%	2.4%	1.6%	2.7%	1.9%
	84th %ile	2.9%	2.4%	2.4%	11.7%	20.1%	9.5%	14.4%	11.2%	5.2%	3.6%	4.5%	9.2%	3.4%	3.2%	3.9%	3.6%
20 years	16th %ile	1.0%	-1.5%	0.7%	1.5%	2.4%	1.4%	0.1%	2.6%	2.8%	1.5%	1.9%	4.3%	2.0%	1.1%	2.2%	1.3%
	50th %ile	2.4%	0.1%	1.5%	6.1%	10.0%	5.0%	6.3%	6.5%	4.4%	3.0%	3.5%	6.8%	3.2%	2.1%	3.5%	2.5%
	84th %ile	4.0%	1.9%	2.2%	10.8%	17.6%	8.9%	12.8%	10.6%	6.0%	4.7%	5.4%	9.2%	4.6%	3.2%	5.0%	3.6%
40 years	16th %ile	1.2%	-0.3%	1.5%	3.1%	4.7%	2.6%	2.1%	3.9%	3.6%	1.8%	2.3%	5.5%	2.4%	2.0%	2.6%	2.3%
	50th %ile	2.9%	1.2%	2.3%	6.5%	10.3%	5.5%	6.8%	7.0%	5.3%	3.5%	4.0%	7.7%	3.9%	3.1%	4.2%	3.4%
	84th %ile	4.9%	3.1%	3.5%	10.2%	16.1%	8.8%	11.7%	10.3%	7.1%	5.6%	6.3%	10.0%	5.8%	4.4%	6.2%	4.9%
Volatility (Disp) (5 yr)		2%	7%	6%	19%	30%	15%	26%	15%	6%	3%	4%	10%	3%	7%	4%	7%

		Inflation (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %ile	2.4%	1.6%	-1.7%	1.1%
	50th %ile	4.1%	3.3%	-0.5%	2.5%
	84th %ile	5.7%	4.9%	0.7%	4.3%
20 years	16th %ile	1.6%	1.2%	-0.7%	1.3%
	50th %ile	3.1%	2.7%	1.1%	3.2%
	84th %ile	4.7%	4.3%	2.7%	5.7%
40 years	16th %ile	1.1%	0.9%	-0.8%	1.1%
	50th %ile	2.4%	2.2%	1.3%	3.3%
	84th %ile	3.9%	3.7%	3.2%	6.1%
Volatility (Disp) (5 yr)		3%	3%		

### D3 What financial assumptions were used?

#### Future investment returns and discount rate

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

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

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
<b>Ongoing basis</b>	All employers except closed community admission bodies	2.0%

#### Discount rate (for funding level calculation only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.6% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 75% likelihood that the fund's assets will future investment returns of 4.6% over the 20 years following the 2022 valuation date.

#### Pension increases and CARE revaluation

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

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

#### Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

### D4 What demographic assumptions were used?

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

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

#### Life expectancy

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

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by

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+0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

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

### Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	1.0% of members will choose the 50:50 option.

### Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

**Females**

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

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

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

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

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
- The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
- Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

**Contractor exit basis**

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

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates, with the discount rate adjusted based on the margin over the risk free rate set to allocate assets to the employer on joining the fund.