Report to Pension Fund Committee

Date: 21st March 2023

Reference number: N/A

Title: Funding Strategy Statement

Relevant councillor(s): None specific

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Ward(s) affected: None specific

Recommendations: The Committee is asked to approve the revised Funding Strategy Statement (FSS).

Reason for decision: The Local Government Pension Scheme (LGPS) Regulations require all LGPS Administering Authorities to prepare a FSS. The current FSS needs to be updated to reflect the 31st March 2023 actuarial triennial valuation.

Executive summary

1.1 The FSS seeks to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis. It is reviewed every three years following the triennial valuation. In addition to reflecting the outcome and assumptions of the 31st March 2022 triennial actuarial valuation the FSS has been updated with a new approach for full cessations adopting an ongoing funding approach with effect from 1st April 2023 instead of using gilt yields.

Content of report

1.2 Following the 31st March 2022 Actuarial Valuation , the FSS attached as Appendix 1 has been updated to reflect the outcome and assumptions of the triennial valuation. The FSS has also been updated with a new approach for full cessations adopting an ongoing funding approach instead of using gilt yields. An employer in the Fund becomes an exiting employer when it ceases to be a Scheme employer as defined in

Regulation 64 of the Regulations. This includes ceasing to be an admission body participating in the Fund and/or no longer having an active member contributing to the Fund.

1.3 When an employer becomes an exiting employer, the administering authority must obtain an actuarial valuation as at the date of exit of the liabilities in the Fund in respect of the exiting employer's current and former employees (commonly known as a cessation valuation) and a revised rates and adjustments certificate showing the exit payment due from the exiting employer (or the exit credit payable) in respect of those liabilities.

1.4 In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

1.5 For example, if the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

1.6 However, in cases where there is no other employer in the Fund to take over the responsibility of the liabilities, the risk of any deficit arising in future in respect of those liabilities will fall to all the employers in the Fund. Therefore, in these cases, it is appropriate to consider an approach which reduces the risk of any future deficits falling to all the other Fund employers. This is referred to as a "full cessation" approach and the Fund's current policy is to adopt a valuation basis that is linked to gilt yields. The use of gilt yields, having been at very low levels for so long, has historically led to significantly larger exit payments being requested than if an ongoing methodology was applied. This has the effect of protecting the Pension Fund as it reduces the risk that the exit payment is insufficient and that the Pension Fund will need to call upon their remaining employers to meet any future deficit that could arise. One difficulty in using gilt yields within the full cessation approach is that they are volatile and so stability of exit positions can be harder to achieve. 2022 was a particularly volatile year for gilt yields and future volatility remains a possibility. An alternative is to assess the liabilities on a basis more prudent than the ongoing funding basis. The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties.

1.7 The appropriate level of prudence on this basis was reviewed as part of the Fund's 2022 valuation, when a stochastic analysis was used to assess the "success probabilities" of certain levels of prudence. From 1st April 2023 the Fund's approach is to target a 90% success probability that an exiting employer's assets plus the calculated exit payment/exit credit will be sufficient to meet the residual liabilities. This corresponds to a 3.4% prudence adjustment in the discount rate assumption. This adjustment will be reviewed on a regular basis, and as a minimum as part of each actuarial valuation of the Fund.

Legal and financial implications

1.8 The Local Government Pension Scheme (LGPS) Regulations 2013 require all Pension Administering Authorities to prepare a FSS.

Next steps and review

The FSS is reviewed every three years following the triennial actuarial valuation.

Background papers

None.