Leicestershire County Council

Meeting: **Local Pension Board**

Date/Time: **Monday, 3 December 2018 at 9.30 am**

Location: **Gartree Committee Room, County Hall, Glenfield.**

Contact: **Miss C Tuohy (0116 305 5483).**

Email: **cat.tuohy@leics.gov.uk**

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 17 September 2018.		(Pages 3 - 6)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		
6.	Pension Fund Administration Report - July to September 2018 Quarter.	Director of Corporate Resources	(Pages 7 - 12)
7.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 13 - 22)
8.	Pension Fund Administration - Current Developments.	Director of Corporate Resources	(Pages 23 - 76)
9.	Record Keeping - Data Improvement Plan.	Director of Corporate Resources	(Pages 77 - 88)

10. Any other items which the Chairman has decided to take as urgent.

11. Date of next meeting.

    Monday 4 March 2019 at 9.30am

TO:

<u>Employer representatives</u>

Mr. D. Jennings CC
Mr. P. Bedford CC
Cllr. D. Alfonso

<u>Employee representatives</u>

Ms. D. Haller
Mrs. D. Stobbs
Mr. D. Adler

Leicestershire County Council

Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Monday, 17 September 2018.

PRESENT

Mr. D. Jennings CC (in the Chair)

Cllr. D. Alfonso	Mrs. R. Page CC
Ms. D. Haller	Ms. D. Roystonn

14. Minutes of the previous meeting.

The minutes of the meeting held on 28 June 2018 were taken as read, confirmed and signed.

15. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

16. Questions asked by members.

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

17. Urgent Items.

There were no items for consideration.

18. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting. No declarations were made.

19. Pension Fund Administration Report - April to June 2018 Quarter.

The Board considered a report of the Director of Corporate Resources regarding the performance of the Pension Section against its performance indicators. A copy of the report, marked '6', is filed with these minutes.

Members noted that due to the prioritisation of resources in order to meet the annual benefit statement deadline, there had been a fall in the Section's response rate to Death Benefit payments which had improved since the publication of the report.

Following the Pension Section notifying preserved members of the Local Government Pension Scheme (Amendment) Regulation 2018, which allowed preserved members aged between 55 and 60 access to early payment of their benefits, the Section had so far received over 600 inquiries which were being worked through.

RESOLVED

That the report be noted.

20. Administration and Communication Strategy Review.

The Board considered a report of the Director of Corporate Resources regarding the outcome of the consultation on the Pension Fund's Administration and Communication Strategy. A copy of the report, marked '7', is filed with these minutes.

It was noted that in March 2018 the Local Pension Board considered a revised Strategy that was subsequently subject to a four week consultation in which the Fund's employers feedback was considered and incorporated. Members were reassured that whilst there was only a minimal amount of formal response to the consultation, officers had been in contact with a significant number of the Funds employers who were content with the changes.

RESOLVED:

That the revised Administration and Communication Strategy be approved.

21. Record Keeping - Data Improvement Plan.

The Board considered a report of the Director of Corporate Resources which provided an update on the Pension Section's Data Improvement Plan. A copy of the report, marked '8', is filed with these minutes.

It was reported that all administering authorities of Local Government Pension Schemes were required to produce a data improvement plan which focused on how member data was managed.

RESOLVED:

That the Board note the report.

22. Year-End Statutory Deadlines.

The Board considered a report of the Director of Corporate Resources regarding the Year-End and Statutory Deadlines. A copy of the report, marked '9', is filed with these minutes.

The Board noted that as of 31st August 2018 there were only 69 outstanding cases spread over seven different employers, which was less than 0.2 percent of active members of the Fund. Each of the cases had been considered by the Pensions Manager and it was concluded none were a material breach.

RESOLVED:

That the Board note the report.

23. Pension Fund Breaches.

The Board received a report by the Director of Corporate Resources, the purpose of which was to update the Board of any Pension Fund Breaches. A copy of the report, marked ‘10’, is filed with these minutes.

The Board noted that since 2016 there had been five breaches, all of which had been categorised as non-material. Of the five, one breach, ongoing since September 2017 remained as issue. The case involved the transfer of undertakings protection of employment (TUPE Transfer) from Tudor Grange Academy to Computer Systems in Education Limited (CSE) who were subsequently unable to secure the required bond, meaning the admission agreement and bond documents remained unsigned. This resulted the one member of staff effected not being classed as an ‘active member’ of the Fund. The breach remained unresolved despite the Pension Sections manager working closely with both parties.

The Director added that new pension regulations recently introduced did little to improve the situation and continued to allow TUPE to take place without all the legal documentation in place.

RESOLVED

a) That letters expressing the Boards concern be sent to Computer Systems in Education Limited and Tudor Grange, in relation to the Admission Agreement and Bond.

b) That the Chairman of the Local Pension Board be requested to write to the Pensions Regulator to inform them of the breach in relation to the above which the Fund now classed as a material breach of the Local Government Pension Scheme Regulations.

24. Local Pension Board Members - Knowledge and Understanding (Training Update).

The Board received a report of the Director of Corporate Resources concerning the training provided to members of the Board. A copy of the report, marked ‘11’, is filed with these minutes.

RESOLVED:

That the report be noted.

25. Risk Management and Internal Controls.

The Board considered a report of the Director of Corporate Resources which detailed the requirement for the Board to consider identified risks/concerns associated with the Leicestershire Pension Fund at each of its meetings, a stipulation set out within the Pension Regulator’s Code of Practice. A copy of the report marked ‘12’ is filed with these minutes.

It was noted that a new risk relating to the transition of assets to LGPS Central had been added to the register. In addition a change had also been made to the criteria in which the impact and likelihood of risks were assessed.

RESOLVED:

That the report be noted.

26. <u>Bonds and Guarantors.</u>

The Board considered a report of the Director of Corporate Resources concerning the current arrangements in place for the County Council as the administering authority in securing bonds and guarantors when Academy and Multi Academy Trusts (MAT) outsourced work to new employers under the transfer of undertakings regulations (TUPE). A copy of the report, marked '13', is filed with these minutes.

It was reported that the rise in TUPE arrangements between a number of the Fund's employer bodies and external employers had resulted in a rise in the questioning of the Council's requirement of a "full bond", which incorporated the market related risk and the capital cost due, to be secured in case the new employer became bankrupt or defaulted. The Authority had received conflicting advice from the DCLG and the Department of Education as to whether a full bond was required or whether the Academy or Multi Agency Trust could act as guarantor on behalf of the new employer, something which normally could only be undertaken following the Secretary of State's approval. It was noted that the Local Government Association was aware of the issue and was in the early stages of working with the government towards an agreed approach.

RESOLVED:

That officers be requested to undertake further work in order to establish whether Academies and MATS could act as guarantor without the need for Secretary of State approval and that the Board be updated once more was known.

27. <u>Dates of Future Meetings.</u>

Future meetings of Local Pension Board will be held at 9.30am on the following dates:-

3 December 2018
4 March 2019
17 June 2019
16 September 2019
2 December 2019

Times Not Specified CHAIRMAN
17 September 2018

Leicestershire County Council

LOCAL PENSION BOARD

3 DECEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION REPORT – JULY TO SEPTEMBER 2018 QUARTER

Purpose of the Report

1. The purpose of this report is to inform the Board of relevant issues in the administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators.

Background

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 90,000 members.

Performance Indicators

3. Attached as an appendix to this report are the performance indicators for the Pensions Section, which form part of the Section's Service Plan and have been agreed by the Director of Corporate Resources. These indicators are split into two broad categories – how quickly processes are carried out and how customers feel they have been kept informed and treated by staff.

Performance of Pensions Section

4. The results for the July to September 2018 quarter are detailed within the Appendix A. Customer satisfaction remains good and overall performance figures remain positive in the quarter.

   There was a fall in the experience of dealing with the Pension Section – rated as good or excellent. This was due to resource being moved onto the statutory year-end work and the Local Government Pension Scheme (Amendment) Regulation 2018 change which enables pre 2014 preserved members early payment from age 55. This created 4,741 new cases where member options were required. This increase in work inevitably took significant time to work through.

Administration

5. General Workloads

The tables show the position in five key work areas, July to September.

July 2018

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	187	812	900
Aggregations	59	978	450
Interfunds in	42	485	200
Retirements	421	603	500
Deaths	98	87	100

August 2018

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	208	826	950
Aggregations	43	964	450
Interfunds in	35	175	200
Retirements	442	1,050	600
Deaths	103	97	100

September 2018

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	159	885	1,000
Aggregations	283	700	800
Interfunds in	33	178	200
Retirements	674	1,284	500
Deaths	73	88	100

6. The main point to note is;

7. The increase in retirements throughout the three months is a reflection on the pre 2014 preserved members aged between 55 and 60 who took the option to claim early payment of their pension. The member suffers an actuarial reduction to their benefit and there is no cost to the former employer.

GMP reconciliation

8. The work on the national GMP reconciliation exercise continues. The greatest change in the quarter is the completion of active cases.
The position as at November 2018 is detailed in the table below;

Membership Type (Phase 1)	Cases with Pensions	Cases completed	Cases with HMRC	Stalemate Cases**
Pensioner and Preserved	405	50,767*	0	27
The change since the last quarter	Down 125	Up 126	Down 1	Up 12

Membership Type (Phase 2)	Cases with Pensions	Cases completed	Cases with HMRC	Stalemate Cases**
New Pensioners	4,681	4,045	544	0
The change since the last quarter	Down 286	Up 3,180	Up 544	Nil
Active	10,087	20,680	775	0
The change since the last quarter	Down 17,441	Up 17,754	Down 313	Nil

*Includes non-contracted out records.
**After investigation by the Fund and HMRC the case cannot be resolved.

Governance Items

Internal Dispute Resolution Process (IDRP)

9. If a scheme member has a complaint that cannot be resolved informally, they can escalate it through the internal dispute resolution process. There are two stages to the IDRP, and if the complaint remains unresolved the scheme member can take it to the Pension Ombudsman who will ultimately determine the decision.

10. In the period July to September 2018 there were no IDRP stage 2 appeals.

Breaches

11. Material breaches are reported to The Pensions Regulator and recorded by the Pensions Manager on the Leicestershire Fund breaches log.

12. In the period July to September 2018 there was one breach reported. This case was considered by the Local Pension Board on the 17 September 2018 and relates to the continued failure of Computer Systems in Education Limited

(CSE) to complete the Leicestershire Fund's legal documents to allow them to join the Fund as a new scheme employer. In addition, the CSE have failed to provide the financial security in terms of a bond, following the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) of one member of staff from Tudor Grange Academy.

Outstanding TUPE transfers

13. The table below details the outstanding TUPE transfers as at 20 November 2018. It should be noted all pension issues should be resolved before the staff transfer and employers are regularly reminded of this, so these situations should not happen.

Outsourcing Employer	**Receiving Employer**	**Date of Transfer**	**Number of staff transferred**	**Current Position**
Tudor Grange	Computer Systems in Education Ltd (CSE)	1/9/17	1 Member	CSE unable to obtain a bond. Admission agreement and bond remain unsigned. Previously reported to TPR
Mercenfeld Academy	MCS Cleaning and Maintenance Ltd (MCS)	4/1/18	0 Members, 2 Non-members	Admission agreement not signed by all parties. MCS continually questioning the reason for the agreement. No bond required – no active members transferred
Rushy Mead	Caterlink	1/8/18	26 Members, 14 Non-members	In final stages of completion. All parties engaged and actively working on resolving the case
Tudor Grange	Bellrock (facilities management)	1/8/18	5 Members	Admission agreement and bond with Bellrock's legal team. Bellrock prefer a pass-through to negate the bond. Bellrock are working in partnership with Ridgecrest
Tudor Grange	Ridgecrest (cleaning)	1/8/18	12 Members, 11 Non-members	Ridgecrest questioning the level of bond and legal documents. They feel

				the bond value is unreasonable and are discussing this with their broker to seek alternative solutions
Melton BC	AXIS (third stage TUPE following the termination of GPurchase – construction)	1/10/18	2 Members	Base admission agreement and bond provided. All agreed by Melton. Data to Hymans for the calculation of the employer rate and bond value for AXIS. All parties appear committed to complete quickly

14. A separate report on the agenda includes details a proposed change to the Fund's Funding Strategy Statement which will change the Fund's approach for new TUPE transfer admission agreements.

Recommendation

15. It is recommended that the Board notes the report.

Equality and Human Rights Implications

None specific

Appendix

Appendix - Quarterly Results – July to September 2018

Officers to Contact

Ian Howe – Pensions Manager - telephone (0116) 305 6945

Declan Keegan – Assistant Director of Strategic Finance and Property - telephone (0116) 305 6199

APPENDIX

Quarter - July 2018 to Sept 2018

Business Process Perspective	Target	This Quarter		Previous quarter	Customer Perspective - Feedback	Target	This Quarter		Previous Quarter
Retirement Benefits notified to members within 10 working days of paperwork received	92%	99%	▲	99%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	100%	▲	98%
Pension payments made within 10 working days of receiving election	95%	98%	▲	94%	Experience of dealing with Section - rated at least good or excellent	95%	89%	▼	96%
Death benefits/payments sent to dependant within 10 working days of notification	90%	92%	▲	84%	Establish members thoughts on the amount of info provided - rated as about right	92%	94%	▲	97%
					Establish the way members are treated - rated as polite or extremely polite	97%	100%	▲	99%
Good or better than target	▲				Email response - understandable	95%	94%	▶	98%
Close to target	▶				Email response - content detail	92%	92%	▲	96%
Below target	▼				Email response - timeliness	92%	97%	▲	98%

Leicestershire County Council

LOCAL PENSION BOARD – 3 DECEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose

1. The purpose of this report is to inform the Board of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

Background

2. In April 2015 The Pension Regulator (TPR) published its code of practise on governance and administration of public service pension schemes. This introduced a number of areas pension administrators need to record and members be kept aware of.

3. One area within the code is risk, more specifically 'risk management and internal controls', which the code states should be a standing item on each Pension Board and Pension Committee agenda.

4. The Leicestershire Fund already manages risk and has a risk register in place that is regularly reviewed by officers. Internal and external audit also consider risks within Pensions and highlight any risk concerns. However, in order to comply with the code the Director of Finance has agreed to have this as a standard item on both agendas.

Risk Register

5. The updated Risk Register is attached as an appendix to this report. Progress updates have been made to risks 1-4 and 8, but no change to the rating is required at this time.

6. The rating of risk 5, that concerns implementation of the 2018 amendment regulations, has been reduced reflecting the progress made.

Identified Risks of Concern

7. There are currently no identified risks of concern.

Recommendation

8. The Local Pension Board is asked to note the revised risk register of the Pension Fund

Appendix

9. Risk Register

Equality and Human Rights Implications

10. None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Leicestershire Pension Fund Risk Register November 2018

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
1	Pens	**If we fail to reconcile HRMC GMP data with the Pension Section data there is a risk of overpayment of Pensions Increase**	Government changes to end contracting out legislation. Contracting out ended April 2016. Between 2015 and December 2018 Pensions need to reconcile GMP data. From 2018 we take responsibility for GMPs so we need to ensure we pay Pensions Increase. (e.g. no GMP means we pay full PI and if there is a GMP we pay less PI)	Overpaying pensions Reputation	Ian Howe	Checking of HMRC GMP data to identify any discrepancies Full time person recruited to work on the project	3	3	9	Treat	Working through cases Developed reporting tools to assist	3	2	6	Ian Howe
2	Pens	**If we fail to implement a pension administration system, pensioner payroll and immediate payments system the Pension Section will fail to deliver its statutory duties for both LGPS and the 3 Fire Authorities. It will also be unable to pay pensioners and other single payments (e.g. lump sums)**	The current pensions administration system contract ends in April 2019	Failure of the Pension Section Unable to pay pensioners Unable to pay single payments Unable to meet statutory requirements Manual calculations Huge increase in administration time causing delays Increased appeals	Ian Howe	Currently use a successful pension administration system Currently use a separate member self-service facility, pensioner payroll and immediate payments system. Working in partnership with another Fund Project Manager and governance arrangements in place First phase of the project completed	5	2	10	Treat	Detailed project planning System training scheduled for Payroll and Pension colleagues in November 2018 Guidance notes provided by the system provider	5	1	5	Ian Howe

						successfully. This entailed transferring the system to the provider's hosted service.									
3	**Pens**	**If we fail to meet the service requirements of the three Fire Authorities we may lose their business**	Changes in legislation on the Firefighters pension scheme has significantly increased the scheme's complexity. Only limited knowledge in the Section in this area.	Reputation Potential loss of business	Ian Howe	Quarterly meetings take place with the Fire Authorities to resolve issues Membership of the Midlands Fire Officer Group enables us to identify and resolve issues early Resource on the team increased SLA and contracts produced	**3**	**2**	**6**	**Treat**	Continue to monitor and develop improvements to work processes, guiding all three Fire Authorities to similar processes and decisions (where possible). Set up a joint pension board for the 3 Fire Authorities Refresh of contracts in progress	**2**	**2**	**4**	Ian Howe
4	**Pens**	**If we fail to receive accurate and timely data from employers scheme members pension benefits could be incorrect or late**	A continuing increase in Fund employers is causing administrative pressure in the Pension Section. This is in terms of receiving accurate and timely data from these new employers who have little or no pension knowledge	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations	Ian Howe	Training provided for new employers Guidance notes provided for employers Amended SLA and communication and administration guide distributed to employers making IConnect a statutory requirement by 31/3/2020)	**3**	**3**	**9**	**Treat**	Implement IConnect with employers so they provide monthly data in a secure and timely manner	**3**	**2**	**6**	Ian Howe
5	**Pens**	**If we fail to implement the 2018 amendment regulations benefits could be paid incorrectly or not paid at the correct times**	Changes to the Pension Regulations	Incorrect pensions or late benefits to scheme members Increased complaints or appeals	Ian Howe	LGA to provide guidance to Funds System changes implemented All members notified	**3**	**1**	**3**	**Tolerate**		**3**	**1**	**3**	Ian Howe

				Reputation		All scenarios tested									
6	Invs	**If employer and employee contributions are not paid accurately and on time**	Error on the part of the scheme employer	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act	Declan Keegan	Receipt of contributions is monitored and late payments are chased quickly	2	4	8	**Treat**	Late payers will be reminded of their legal responsibilities.	2	3	6	Declan Keegan
7	Invs	**If assets held by the Fund are ultimately insufficient to pay benefits due to individual members**	Ineffective setting of employer contribution rates over many consecutive actuarial valuations	Significant financial impact on scheme employers due to the need for large increases in employer contribution rates.	Chris Tambini	Input into actuarial valuation, including ensuring that actuarial assumptions are reasonable and the manner in which employer contribution rates are set does not bring imprudent future financial risk	5	2	10	**Treat**	Actuarial assumptions need to include an element of prudence, and Officers need to understand the long-term impact and risks involved with taking short-term views to artificially manage employer contribution rates	4	2	8	Chris Tambini
8	Pens/Invs	**Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer**	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer contribution rates. Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.	Ian Howe/ Declan Keegan	Ensuring, as far as possible, that the financial position of each employer is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.	5	2	10	**Treat**	Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates. Include employer risk profiling as part of the Funding Strategy Statement update. To allow better targeting of default risks Investigate arrangements to de-risk funding arrangements for individual employers.	3	2	6	Ian Howe/ Declan Keegan

											Consult with all Fund employers Amend the Funding Strategy Statement				
9	Invs	**If market investment returns are consistently poor and this causes significant upward pressure onto employer contribution rates**	Poor market returns, most probably caused by poor economic conditions	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	Chris Tambini	Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration	**5**	**2**	**10**	**Treat**	Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise, but is still based on a reasonable medium-term assessment of future returns	**4**	**2**	**8**	Chris Tambini
10	Invs	**If market returns are acceptable but the performance achieved by the Fund is below reasonable expectations**	Poor performance of individual managers, or poor asset allocation policy	Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate	**3**	**3**	**9**	**Treat**	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poor performance will happen on occasions.	**2**	**2**	**4**	Chris Tambini
11	Invs	**Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers**	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all risks inherent within the investment.	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to higher employer contribution rates than would otherwise have been necessary.	Chris Tambini	Ensuring that all factors that may impact onto investment returns are taken into account when setting asset allocation policy. Only appointing investment managers that integrate responsible investment into their processes, and ensuring that managers take a holistic view on the risks associated with the investments they make on behalf of the	**3**	**3**	**9**	**Treat**	Responsible investment aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns	**2**	**2**	**4**	Chris Tambini

						Fund.									
12	Invs	**Investment pooling within the LGPS fails to deliver a higher long term net investment return**	LGPS Central fails to deliver better net investment returns than the Fund would have expected to achieve it investment pooling did not occur	Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case	Chris Tambini	Shareholders' Forum, Joint Committee and Practitioners' Advisory Forum will give significant influence in the event of issues arising.	**3**	**3**	**9**	**Treat**	The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor closely how the company evolves Programme of LGPS Central internal activity activity, which has been designed in collaboration with the audit functions of the partner funds.	**2**	**2**	**4**	Chris Tambini
13	Invs	**Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns**	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high	Poor decisions likely to lead to low returns and higher employer contribution rates	Chris Tambini	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions	**3**	**3**	**9**	**Treat**	On-going process of updating and improving the knowledge of everybody involved in the decision-making process	**2**	**2**	**4**	Chris Tambini
14	Invs	**The transition of investment assets to LGPS Central is not successful**	Pooling does not reduce the on-going management costs of assets Transition costs are significantly higher, for example the cost of selling the existing investments and buying new ones.	Savings available do not justify the transition costs and on-going cost of running LGPS Central	Chris Tambini	Central maintains the flexibility to run funds internally. Specialist transition manager being appointed. Implementation being phased, allowing capacity to be managed and lessons learned	**2**	**3**	**6**	**Treat**	Advisors engaged to assess the impact upon Leicestershire's assets. Views from 8 partners sought throughout the transition process. Central increasing the level of engagement with Funds LGPS Central's Internal Audit plan includes an assessment of the governance surrounding the transition	**2**	**2**	**4**	Chris Tambini

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	Pension Section <£50k Investments Losses expected to be recovered in the short term
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	Pension Section £50k-£250k Minimal effect on budget/cost Investments Some underperformance, but within the bounds of normal market volatility
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	Pension Section £250k - £500k Small increase on budget/cost: Handled within the team/service Investment Underperformance by a manager requiring review by the Investment Sub-committee
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	Pension Section £500-£750k. Significant increase in budget/cost. Service budgets exceeded Investment Underperformance of significant proportion of assets leading to a review of the Investment or Funding strategy

5	Very High/Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council/Fund, members or officers	Pension Section >£750k Large increase on budget/cost. Investment Employer contributions expect to increase significantly above Funding Strategy requirement

Risk Likelihood Measurement Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event. This will probably never happen/recur.	<20%
2	Unlikely	Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so.	20-40%
3	Possible	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue.	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently.	>80%

Risk Scoring Matrix

Impact	1 Very Rare/Unlikely	**2** Unlikely	3 Possible/Likely	4 Probable/ Likely	5 Almost certain
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Negligible	1	2	3	4	5

Likelihood*

*(Likelihood of risk occurring
over lifetime of objective (i.e. 12 mths)

Agenda Item 8

Leicestershire County Council

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LOCAL PENSION BOARD

3 DECEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION – CURRENT DEVELOPMENTS

Purpose of the Report

1. The purpose of this report is to inform the Board of relevant issues relating to administration of the Fund.

Background

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 90,000 members.

Current Developments

National 'cost cap' – Unfunded Schemes

3. Every four years a valuation is made of the various public sector pensions schemes. This is to assess the overall operation and viability of the schemes and is separate from the Leicestershire Fund's local triannual valuation.

4. For unfunded schemes (e.g. Teachers, Police, Fire, NHS etc.), initial results from the HM Treasury Employer Cost Cap (ECC) process show the cap has breached below the expected cost level. In essence this means that employee related factors are expected to have a reduced financial cost, for example a reduction in future life expectancy. Under the scheme rules this is likely to result in members receiving improved pension benefits over the period April 2019 to March 2023.

5. The setting of employer contribution rates for un-funded schemes is based upon the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate. The SCAPE rate reflects long term economic projections. A reduction in the SCAPE rate from CPI + 2.8% to CPI + 2.4% was confirmed at the Budget delivered to Parliament on 29 October 2018. The reduction in the rate will result in an increase in the amount employers pay into the unfunded schemes.

6. There have been indications that additional funding will be made available, but there are no details on the extent or longevity of this funding.

National 'cost cap' – LGPS

7. In the case of the funded LGPS schemes in England, the Scheme Advisory Board (SAB) operates an additional cost cap process. The process needs to be completed before the ECC is tested. It is not possible at this stage to give any indication of what the outcome might be.

8. Any change to the SCAPE rate, refereed to above, has significant implications on the administration of the LGPS as actuarial factors used in various calculations have to change, e.g. early or late retirements, scheme pays for annual allowance, transfers and divorce calculations will need to change. The Local Government Association is looking at providing a pragmatic solution for LG Funds to use to avoid delays, backlogs and potentially complaints building in these areas.

Four Year Valuations

9. There is a proposal that the LGPS scheme valuation under ECC process should be moved from the current triennial to a quadrennial cycle in line with other public service scheme valuations. This could also influence the timing of local fund valuations. Discussions with MHCLG and actuarial advisers will take place shortly to consider the implications of this change.

Leicestershire Valuation

10. It is proposed to adopt a more scientific approach to employer risk profiling for the next valuation. The Actuary will assess the risk of each employer, produce a risk score and categorise them. This will influence future employer rates, dealing more specifically with higher risk employers.

11. Consideration will be needed on the funding and investment strategies if this approach is adopted. For example individual employer's deficit reduction periods will be influenced by the risk of them defaulting.

12. Officers and the Actuary have agreed a high level valuation timetable that is subject to change. This is attached as appendix B.

National Section 13 valuation

13. The Government Actuary Department (GAD) has reviewed the actuarial valuation of the 91 LG Pension Funds, as at 31 March 2016.

14. The aim of the review was to provide an assessment for each Fund in terms of its compliance, consistency, solvency and long term cost efficiency. GAD has reported that in aggregate the LGPS is in a strong financial position and

funds have made significant progress since the 2013 valuation. The report highlights;

- Total assets for the LGPS have grown from £180 billion to £217 billion

- Total employer contributions received were £6.9 billion per annum on average of which circa £2 billion per annum were deficit recovery payments.

15. Note the report also quotes funding levels on a standard basis, these are for comparison purposes and are not suitable for funding calculations.

16. The report included five recommendations. One of these is unique to the West Midlands Integrated Transport Authority so excluded from the list below.

    - The Scheme Advisory Board (SAB) should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports [there are four main scheme Actuaries across the 91 LG Funds] to better facilitate comparison, with a view to making recommendation to MHCLG in advance of the next valuation.

    - SAB should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to MHCLG in advance of the next valuation.

    - SAB seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to MHCLG in advance of the next valuation.

    - All funds review their funding strategy to ensure that the handling of surplus and deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

17. Officers are working with the Fund Actuary to ensure the proposed change to surplus and deficits is consistent with CIPFA guidance. The Fund is already confident the current deficit recovery plan is a continuation of previous plans. The other changes are more difficult to prepare for until more is known on the final recommendation. However, the proposal covered in the Academy Approach section above is expected to put the Fund in a better position.

18. From a range of metrics, to identify potential issues in respect of solvency and long term cost efficiency, GAD provide a rating for each fund. In total, 70 out of 89 funds tested (including Leicestershire) had green flags on all metrics.

19. A link to the report is provided below:
https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016

Scheme Advisory Board (SAB) Separation Project

20. In 2015, SAB commissioned KPMG to undertake a project to examine the issues and challenges of separating the pension's functions of LGPS administering authorities from their host authorities. SAB's concern was to ensure there is no conflict of interest between the administering authority and the interest of the pension fund.

21. Part of SAB's 2018/19 work program established a further project to see how the recommendations that emerged from the exercise undertaken in 2015 could be made to work in practice.

22. In August 2018, SAB invited interested parties to assist in developing options for change.

23. Four separation options have been proposed ranging from improvements in guidance through to the establishment of new non-local authority entities to manage funds.

24. Officers feel there is already a clear distinction of roles and responsibilities between the Council and Administering Authority in Leicestershire and this is widely understood and appreciated. It is unclear when Funds will receive the outcome of the proposals.

25. The Scheme Actuary, Hymans Robertson has provided a "hot topics" document that expands on a number of the areas in the report. This is included as Appendix C.

Funding Strategy Statement Consultation

26. In advance of the next valuation exercise for the Fund, two areas would benefit from changes. These are set-out below.

Exit Credits

27. In May 2018 regulations changed so as to require any surplus in an employer sub fund to be refunded back to that employer, when their last active member leaves the scheme, which was not the case previously.

28. Officers and the Fund Actuary have concerns about the financial impact to the Fund of this regulation change because there will be cases where a refund is required. However, Officers are working with the Actuary on two changes to try to minimise the circumstances where refunds of surpluses will be required in the future.

29. A new strategy is being developed for new admission bodies. Following a transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), the admission body and the outsourcing employer agree a fixed rate (the outsourcing employer's contribution rate, or similar as calculated by the Fund Actuary) under a "pass through arrangement" as defined in the revised Funding Strategy Statement. This ensures any remaining surplus or deficit when the admission body contract ends goes back to the outsourcing employer. This also has additional benefits as the outsourcing employer is able to predict the cost of the contract more clearly (as the employer rate is known). This should assist the outsourcing employer in bringing down the overall cost of the contract.

30. It also negates the need for a market related bond for the admission body as the deficit or surplus moves back to the outsourcing employer. The risk to the Fund is covered by the guarantor which is automatically in place (the outsourcing employer) and any surpluses are retained in the Fund.

31. On the 17 September 2018 the Pension Board received a report regarding bonds and guarantors when Academy and Multi Academy Trusts outsource work to new employers under TUPE.

32. Officers believe the new pass through arrangement complies with Regulation 64(3) of the Local Government Pension Scheme Regulations 2013. Work with external Lawyers has commenced to develop new admission agreements to reflect the proposed new arrangement for all employers, including Academy and Multi Academy Trusts.

33. Officers believe the issue raised by the Department for Education (DfE) in correspondence with the Council that an Academy or Multi Academy Trust cannot act as guarantor without the approval of the Secretary of State remains with the pass through approach. However, we understand that this issue is currently being addressed at a national level by the Local Government Association who are expecting MHCLG to issue further consultation on Fair Deal in the LGPS by the end of 2018. Effectively the outsourcing employer retains the same level of exposure they would have had if they continued to employ the staff, or have a pass through arrangement in place via the admission agreement with the admission body.

Regulation 64(3) states;

64.(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing-

(a) in the case where a body is an admission body falling within paragraph 1(d) of Part 3 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the **related employer** [i.e. the outsourcing employer] in relation to that admission body; and

(b) in any other case, the revised contributions due from each Scheme employer which contributes to the fund,

with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

As part of the review current employers that are likely to be in surplus or close to surplus, will have their employer rate reduced to avoid a potential surplus at cessation.

b. Academy Approach

The Fund Actuary currently uses 2010 data when assessing Academy employer rates. This will roll forward to use the latest available data for future assessments.

This is a technical change requested by the Actuary and the Funding Strategy Statement has been amended to reflect the change.

Consultation

34. The Funding Strategy Statement has been amended to reflect the proposed changes. The amended version is attached as Appendix A, with changes highlighted in yellow (pages 13 and 14 of Appendix A).

35. A consultation has commenced with the employers. Employer views will be considered and a final version will be brought to the next Pension Committee meeting for approval prior to implementation. The Local Pension Board will be provided an update on the matter at its meeting on 4 March 2019.

Recommendation

36. It is recommended that the Pension Board notes the report.

Equality and Human Rights Implications

None specific

Appendix

Appendix A - Revised Funding Strategy Statement

Appendix B - Valuation Timetable

Appendix C - Hymans Hot Topics

Background Paper

Report to the Local Pension Board – 17 September 2018
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=5380&Ver=4

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Leicestershire County Council Pension Fund

Funding Strategy Statement

October 2018

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Leicestershire County Council Pension Fund ("the Fund"), which is administered by Leicestershire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from TBC. This FSS supersedes the FSS in place from 1 January 2017.

1.2 What is the Leicestershire County Council Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Leicestershire County Council Pension Fund, in effect the LGPS for the Leicestershire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Ian Howe in the first instance at e-mail address ian.howe@leics.gov.uk or on telephone number 0116 305 6945.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required employer contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D6, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.3 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

Leicestershire County Council Pension Fund will only allow pooled contribution rates (other than pass-through arrangements) in extreme circumstances, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.4 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, and a significant number of the newer employing bodies are academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.5 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;and
- Other employers will provide various services to the local community, perhaps through charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefiting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer to include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers (including Parish/Town Councils)**		**Transferee Admission Bodies**
Sub-type	**Local Authorities (except Parish/Town Councils)**	**Police, Fire, Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary Contribution rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Attained Age approach, unless open to new membership (see Appendix D – D.2)
Stabilised contribution rate?	Yes - see Note (b)	Yes - see Note (b)	Yes- see Note (b)	No, excect Parish/Town Councils	No, excect Parish/Town Councils	No
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	17 years	15 years	Outstanding contract term
Deficit recovery payments – Note (d)	% of payroll / monetary amount	% of payroll / monetary amount	% of payroll	% of payroll	% of payroll/monetary amount	% of payroll/monetary amount depending on circumstances
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary contribution rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Linked to previous education authority rate	3 years - Note (e)	3 years - Note (e)	None, unless increases are particularly large
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation surplus or debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation surplus or debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation surplus or debt calculated on ongoing basis, unless cessation is caused by deliberate action taken by the employer. Awarding Authority will be liable for future deficits that arise.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria based on tax raising status, financial security and time horizon in the Fund set by the Administering Authority and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

Type of employer	"Standard" Council	Parish Council	Academy*	Other
Max cont increase	+2% of pay	+3% of pay	+2% of pay	N/A
Max cont decrease	-1% of pay	-1% of pay	-1% of pay	-1% of pay

*please note that for the period 1/4/17 – 31/3/20 academy rates are linked to those rates in payment of the respective education authority the academy used to belong to, subject to their being no reduction from the rate payable at 31/3/17. For the majority of academies their rate will be exactly in line with their former education authority, although for a handful there was no increase required from the rate they were paying at 31/3/17. For a small number an increase of 1% p.a. (which would have tied in with the increase of their former education authority) was insufficient to get them within an acceptable level of their full required rate, so their increases were set at 2% p.a.

For the avoidance of doubt, academies will fit into one of the following 'brackets' for the three years commencing 1st April 2017. The rates are quoted RELATIVE to their former education authority:

Period	Academies requiring no increase	Academies following the contribution rate of former LEA	Academies requiring higher increases
1/4/17 – 31/3/18	-1%	0%	+1%
1/4/18 – 31/3/19	-2%	0%	+1%
1/4/19 – 31/3/20	-3%	0%	+1%

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations (for open employers), but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed the expected future working lifetime of active members.

Note (d) (Deficit Recovery Payments)

The preferred method of the actuary is to collect contributions on the basis of a percentage of payroll to cover the cost of future service, with an additional cash sum to cover deficit recovery payments. There are a number of employing bodies for whom this method is impractical, so in reality only the following types of employer will be required to make any contribution that will be included in the actuarial certificate as a monetary amount:

Tax-raising bodies (except those that are education authorities or Parish/Town Councils. Ashby Town Council will, however, be required to make a contribution as a monetary amount);

Universities;

Community Admission Bodies that are closed to new entrants (except Voluntary Action Leicester, who will instead be subject to a minimum cash sum in employers' contributions);

Transferee admission bodies whose sub-fund was in deficit at 31/3/16.

For the majority of employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: an employer approaching exit from the Fund, significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion. For academy conversions effective from 1 December 2018 or later, the initial asset allocation, from the ceding council's assets, will be based on the 2016 formal valuation;

d) The academy will pay contributions initially in line with the rate payable by their former education authority, unless they become part of a Multi Academy Trust that crosses education authority boundaries. In these cases the rate will be determined in the most appropriate manner to the circumstances, but it will be in line with the rate of one of the relevant education authorities and all establishments within the City, County or Rutland that are part of the same MAT will have the same contribution rate. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (d) above will be reconsidered at each valuation.

In the future it is likely that the linking of the contribution rates payable by academies to their former local education authority will become inconsistent with the setting of contribution rates that are relevant to the circumstances of individual academies. It is, however, considered likely that there will be groups of academies that will pay the same rate as this is administratively simpler than having (potentially) hundreds of slightly different contribution rates. Paying the same contribution rates in NOT the same as pooling, and there will be no cross-subsidy caused by this policy.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Historically, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset value equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

From a suitable date in future, the Fund’s policy is that new outsourcings are set up under a “pass through” arrangement (although exceptions will be considered on a case-by-case basis at the Fund’s discretion). Pass through arrangements allow for the pension risks to be shared between the letting employer and new contractor. Typically the majority of the pension risk is borne by the letting employer and thus the liability is retained on their balance sheet – as such the contractor would not be required to pay any deficit or receive any surplus at the end of the contract (subject to any agreed exceptions). However, there is some flexibility within a pass through arrangement. In particular there are three different routes that the letting employer may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same or similar rate as the letting employer.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit, or be paid any surplus at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term and actions wholly attributable to the new employer for example excessive pay awards.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn’t pay any cessation deficit or receive any surplus at the end of the contract term.

Although each matter will be dealt with on a case by case basis the Administering Authority default position is pooling with any surplus or deficit passing back to the letting employer. The Admission Agreement as well as the transfer agreement reflects this. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Employers which outsource should be aware that all actuarial costs relating to the outsourcing (which will include any work that is required at the end of a contract) will be charged to either the outsourcing employer or the contractor, and will NOT be met by the Fund. The exception will be the setting of employer contribution rates as part of a normal actuarial valuation, where the Fund pays actuarial fees as the work covers all employing bodies.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.
- The failure by the Admission Body to sign the admission agreement and/or bond documents and secure the required guarantee as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the the Admission Body).

For Transferee Admission Bodies any cessation valuation would normally be carried out on an on-going basis, as this will be the basis on which their opening position was calculated. Where a Transferee Admission Body has taken, in the view of the Administering Authority, action that has been deliberately designed to bring about a cessation event (stopping future accrual of LGPS benefits, for example) then the cessation valuation will be carried out on a gilts basis.

Any cessation valuation, whether carried out on an on-going or a gilts basis, will calculate the surplus or deficit at the point of the cessation and full payment of any deficit amount will release the Transferee Admission Body from any further liability to the Fund. In the event that the sub-fund of the Transferee Admission Body subsequently falls into a deficit position, the outsourcing organisation will become responsible for the deficit even if they did not act as a guarantor for the admission agreement. At no stage will the Fund, and hence all ongoing employing bodies within it, bear any financial risk in respect of any Transferee Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit (or surplus) will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required and makes it unlikely that any surplus would be paid to the employer.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, where the ceasing Admission Body (whether a Transferee Admission Body or a Community Admission Body) is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

The Administering Authority will only allow employer pools to be set up if it legally required (perhaps as a result of LGPS Regulations) or where a request is received from a group of employers that they wish to become a pool.

Even if such a request is received, the Administering Authority will only agree to an employer pool if it is satisfied that the relevant employers have adequately considered the consequences of the pool and that there is a legal agreement in place which makes it impossible for the pool to be dissolved without the agreement of all parties, which will include an agreement on how the assets and liabilities will be split upon dissolution. Allowing pooling is entirely at the discretion of the Administering Authority.

Maintained schools do not have a separate legal identity so are not pooled with the relevant local authority; they are part-and-parcel of it. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain' or 'capitalised costs') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

For any early retirements that occur after 31/3/17, and where the Administering Authority had not previously agreed to payment in instalments, all costs must be met by way of a single payment in the year of retirement.

3.7 Ill health early retirement costs

Each employer has an 'ill health allowance' built into the full contribution rate that is set at each actuarial valuation. If an employer decides to insure against the risk of ill-health retirements there will be a reduction to the employer's contribution rate that is the equivalent of the insurance premium rate.

The Administering Authority receives a cash figure from the actuary for the cost of ill-health retirements that is built into each employer's contribution rate for the three years covered by the actuarial valuation (i.e. for the period 1/4/17 – 31/3/20 for the 2016 valuation). Where an employer does not take out ill-health insurance, they will be invoiced for any cumulative ill-health retirement costs over the three year period that are above their allowance.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. If this employer was a former Transferee Admission Body, the outsourcing employer will become responsible for any deficit (even if they did not act as a guarantor within the admission agreement). If the employer was not a Transferee Admission Body the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations, but it should be noted that all surpluses in respect of non-Transferee Admission Bodies will be netted off any deficits so that it is only the net deficit position that will be apportioned;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. If this employer was a former Transferee Admission Body, the outsourcing employer will receive the benefit of the surplus (even if they did not act as a guarantor within the admission agreement). If the employer was not a Transferee Admission Body, any surplus will be netted off the deficit of similar types of employers as described in 3.9 a). In the event that the net position is a surplus the net surplus will be apportioned;

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation debt to continue contributing to the Fund, as opposed to paying a cessation deficit amount. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Local Pension Committee of Leicestershire County Council, after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement (ISS), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed annually. The Fund's liability profile is one of the considerations taken into account when setting investment strategy.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g.

equities. However, equities are also very volatile (i.e. go up and down frequently, and often in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Local Pension Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement (ISS).

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS is as follows:

a) A draft version of the FSS was presented to the Local Pension Committee on the 9 November 2018 for initial comment;

b) The draft version of the FSS was issued to all participating employers in November 2018 for comment;

c) Comments from employers were requested before 1 January 2019, so that they could be reflected in a report to the Local Pension Committee on 15 February 2019 prior to their final approval of the FSS;

d) Following the approval of the FSS by Local Pension Committee, it was published in February 2019 and became effective immediately upon publication.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at http://www.leics.gov.uk/pensions;
- A copy sent by email to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, meaningful changes to the FSS would need agreement by the Local Pension Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://www.leics.gov.uk/pensions.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);prepare and maintain a FSS and a ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is

Risk	Summary of Control Mechanisms
	permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2016 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in	The Administering Authority maintains close contact with its specialist advisers.

Risk	Summary of Control Mechanisms
some way	Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor that is a tax-raising body. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the “Primary rate”; plus

an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the Secondary Contribution rate (see D3 below). The contribution rate for each employer is measured as above, appropriate for each employer’s funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary Rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years’ accrual of benefits*, excluding any accrued assets, and

2. within a suitable deficit recovery period (see note 3.3 Note (c) for further details),

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer’s funding target, within the appropriate deficit recovery period.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined deficit recovery period (see 3.3 Note (c) for further details)

D4 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D6 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D5 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D6 How is each employer's asset share calculated?

The Fund uses the Hymans Robertson Employer Asset Tracking model ("HEAT"), which apportions assets at individual employer level allowing for monthly cashflows per employer (e.g. contributions received, benefits paid out, investment returns, transfers in and out, etc). This revised approach gives a greater degree of accuracy, for employers' benefit.]

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government for the immediate future. Although this pay restriction does not officially apply to local government and associated employers, it is strongly expected that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2016 valuation has been set at the expected future level of increase in the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed long term pay growth of RPI + 1% p.a. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession projections (assuming the current rate of improvements has reached a peak) and a long term minimum rate of 1.25% per annum. This is a similar allowance for future improvements that was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.4 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits

e) General

The same financial assumptions are adopted for all employers, in deriving the funding target and the Primary and Secondary rates; as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
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.
Deficit	The shortfall between the assets value and the **liabilities** value. 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 repair/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 Secondary Contribution rate (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is used in the calculation of the **Primary rate** and **Secondary contribution rate.**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **Primary contribution rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

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Gilt
A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

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.

Letting employer
An employer which outsources or transfers a part of its services and 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. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

Liabilities
The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

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. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

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.

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).

Pooling
Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate 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. For further details of the Fund's current pooling policy (see 3.4).

Primary rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie 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. A membership (or liability) profile might be measured for its **maturity** also.
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.
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, academies, 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	The difference between the employer's actual and **Primary Rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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Leicestershire County Council Pension Fund
2019 valuation timetable and route map

		Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Preparation and communications	**Meetings with officers**		Training day and valuation planning meeting - 5 September				Assumption setting, decision on AOA and salary growth assumption. Discussion on employer profiling						
	HEAT	Finalise 2016/17 CETV calculations			2017/18 HEAT data provision		Start to move to monthly posting for 2018/19 HEAT data provision? Provide 2018/19 HEAT cashflows backlog				Monthly posting of HEAT data for 2019/20 onwards		
	Employer risk management			Employer risk profiling work		Discuss risk buckets and RAG ratings for funding strategy. Consider where further covenant analysis may be required			Consider if investment strategy remains appropriate for all employers	Finalise employer covenant work and RAG ratings including cessation planning for appropriate employers			
	Funding Strategy Statement			Review and update FSS, incl exit credits and academy approach			Review risk buckets used for 2016 valuation as set out in the FSS to agree valuation parameters					FSS - first draft	
	Meetings with employers									Meeting with Districts (LTA) to discuss comPASS results			
	Pre-valuation reports & correspondence (including Hymans' Briefing Notes)				Assumptions papers - AOA, salary growth etc.				Briefing Note on valuation methodology	Briefing Note on assumptions			
Valuation process	**Data**		Data cleanse using Data Portal?			Provision of 31 March 2018 year end data for comPASS modelling							Receive data, validations and clean data letter
	Valuation results												
	comPASS modelling					Agree scope and scenarios		Calculations	comPASS results				
Reporting	**Committee / LPB meetings (dependent on meeting dates)**							Committee meeting (including agreement of key valuation assumptions)					
	Employer consultation							Fund to mention forthcoming actuarial valuation in Employer newsletter					
	Valuation reports (inc R&A)												

		Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Preparation and communications	**Meetings with officers**		Initial whole fund results	Initial employer results					
	HEAT								Move to monthly 19/20 HEAT data provision?
	Employer risk management			Provide employer results using risk-based methodology					
	Funding Strategy Statement				Finalise FSS ahead of employer consultation	Employer consultation period			Sign off
	Meetings with employers								
	Pre-valuation reports & correspondence (including Hymans' Briefing Notes)								
Valuation process	**Data**								
	Valuation results	Valuation calculations	Draft whole fund results and issue 'like-for-like' results to SAB	Agree employer results					Sign-off final report and R&A
	comPASS modelling								
Reporting	**Committee / LPB meetings (dependent on meeting dates)**				Present whole Fund results				
	Employer consultation				Employer results forum and surgeries	Employer consultation period			
	Valuation reports (inc R&A)		Discussion document with whole Fund results				Draft final report	R&A discussions	Sign-off final report and R&A

‘Hot topics’ in the LGPS

Overview

This paper is deliberately brief. Its intention is to provide the Pensions Committee with a high level summary of four ‘hot topics’ that are currently affecting the LGPS.

A. National ‘cost cap’

Background

Part of the package of measures following Lord Hutton’s review of public sector pensions in 2011 included a national check on the ongoing cost of providing benefits. Its stated aim is ‘to ensure affordable and sustainable public sector pensions’ and it is enshrined in legislation via the Public Service Pensions Act 2013. The ‘cost cap’ calculations are carried out by the Government Actuary’s Department (GAD) – the Leicestershire Fund, like all other LGPS funds, has provided data to GAD but has no control over the subsequent calculations or results.

The first check on national LGPS costs in England and Wales is now close to completion. The purpose of the check is to assess how the cost of benefits being earned in the LGPS are changing. The period covered by this initial check is 1 April 2014 to 31 March 2016. Future checks will cover a 4 year period.

What impact does it have on Leicestershire’s funding strategies?

The cost cap process has no direct impact on funding strategies and employer contribution rates in the Leicestershire Fund. These will continue to be controlled by the Fund based on local decision making. However, any changes to the overall benefit structure of the LGPS that arise from cost management (see final section on page 2) will need to be reflected in liability calculations at the Fund’s next actuarial valuation.

What items of experience does the cost cap cover?

Importantly (and by design, as the Government’s intention was to capture changes in cost due to changes in the demographic profile of members over time), the cost cap only considers items which affect <u>the value of benefits to members</u>. It excludes any changes which impact the employer’s cost of providing the benefits, such as expected or actual investment returns. The following table summarises what is and isn’t included.

‘Member costs’ – will influence cap	‘Employer costs’ – won’t influence cap
Longevity changes	Financial assumptions
Promotional pay increases	Actuarial methodology
Rates of ill health retirement and withdrawal	Investment returns

The excluded ‘big ticket’ employer costs shown in the table are of course included when calculating employer contribution rates for the Leicester Fund.

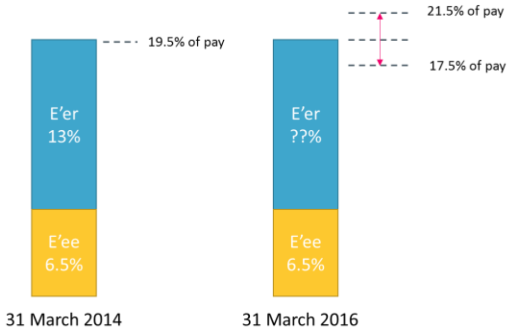
How do the cost cap calculations work?

In short, they are complex and would require more space than this briefing paper allows to explain them!

At a high level, there are two separate cost caps that work in similar ways but are not identical to each other, and are run by:

- Scheme Advisory Board (SAB) – this is non-statutory and is intended to give an ‘early warning’ of any changes to costs
- Her Majesty’s Treasury (HMT) – this is the statutory cost cap, and ‘trumps’ the SAB version

Both caps have a ‘target cost’. The following diagram shows the SAB version which targets a total cost of 19.5% of pay (determined using central Government assumptions):



The underlying legislation requires action to be taken if the target under the HMT cost cap is breached by 2% of pay e.g. if the target was 19.5%, a breach would occur if the cost fell to less than 17.5% or rose above 21.5%. The action involves changes to the benefit or employee contribution structure to bring the cost back to the target cost.

What results have been announced so far on the cost cap?

Our understanding is that initial results suggest that the HMT cost cap has been breached on the downside i.e. the cost has **reduced** from the target by more than 2% of pay. In addition, results from the SAB cost cap show that its total cost has reduced from 19.5% to 19.0% of pay.

The SAB intend to agree a package of benefit/contribution rate improvements to return the cost back to its target of 19.5%. The resultant package will then be implemented in the LGPS with an effective date of 1 April 2019.

Finally, we also understand that that the package of improvements agreed by SAB will be reflected in the HMT cost cap before it publishes its own final results. This may prevent the 2% breach mentioned above being triggered.

B. National Section 13 valuation

Background

This is another piece of legislation that appears in the Public Service Pensions Act 2013. It is designed to be a ‘health check’ on all LGPS funds in England and Wales, by giving comfort to Government that funds are being financially well managed and remain sustainable going forward.

GAD carry out the calculations based on data provided by the funds. They are required to report on whether the following aims are being achieved:

- **Compliance** (are funds complying with LGPS regulations?)
- **Consistency** (is a fund’s valuation being carried out in a way which is ‘not inconsistent’ with the other fund valuations within the LGPS?)
- **Solvency** (are employer contributions being set at appropriate levels to ensure a fund’s solvency?)
- **Long term cost efficiency** (are employer contributions being set at appropriate levels to ensure the long-term cost-efficiency of the scheme, as measured on a fund-by-fund basis?)

Highlights from the first section 13 report

This was published towards the end of September and is based on the results of the 2016 valuations. The report measures individual funds using a variety of metrics, and uses colour flags to highlight where funds have fallen outside predetermined acceptable ranges.

The headlines from the report were:

- Funding levels have improved over the 3 year period from 2013 to 2016 due mainly to positive asset performance. The average funding level, based on standardised assumptions used by GAD, increased from 87% to 95%.

- Actuaries are more cautious about the economic outlook. Average employer contribution rates for many funds have increased.

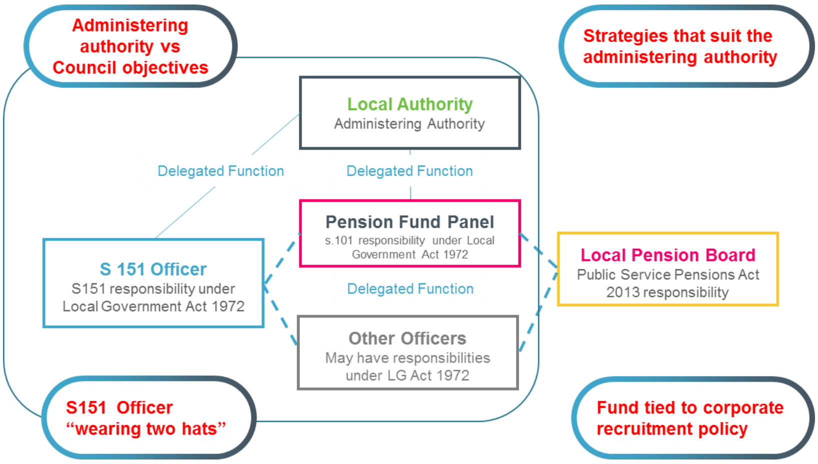
How did the Leicestershire Fund fare?

The good news is that the Fund has been flagged as 'green' across all measures considered by GAD. The funding level, based on the standardised assumptions used by GAD, was calculated to be 92%, which is slightly lower than the average across all funds.

C. The SAB 'separation project'

The SAB has issued a tender to interested parties to help it to develop options for change with regard to the separation of LGPS pension funds and their host authorities. The information will ultimately be used to potentially make recommendations to the Secretary of State.

There is a concern that current governance structures can lead to the sort of issues that are highlighted in red in the following diagram of a typical fund structure.



Four possible 'separation' options that are being considered are:

1. Status quo plus - existing governance structure but with beefed-up SAB guidance around managing conflicts, fund resourcing etc

2. Ring fence LGPS functions – fund has separate accounts, audit and annual governance statement, with a separate dedicated pensions officer who reports to a chief executive and has control over fund resourcing

3. Joint Committees - all LGPS functions delegated to a Joint Committee covering several funds, with a host authority (or perhaps a formal Combined Authority) used to gain efficiencies

4. Total separation - new non-local authority entities set up to manage LGPS funds with separate trustees (employer and member) appointed

No doubt we will hear more about this in the coming months as the project progresses.

D. Unfunded schemes – employer contribution increases

The Local Government Association (LGA) recently issued a note advising that the current Teachers' Pension Scheme employer contribution rate of 16.48% of pay will be increasing to an estimated 23.6% of pay, for the period 1 September 2019 until 31 March 2023. The increase is mainly due to a change in discount rate used by GAD, although it also allows for the improved benefits required as a result of the cost cap mechanism (see Note A in this paper).

The increase means that the cost to employers - councils, academies, colleges and universities - of Teachers' pensions will rise by around 40%. There will be funding from the DfE for the financial year 2019/20 to help maintained schools and academies (but possibly not colleges or universities) meet the additional costs, and a consultation process will take place to determine final funding arrangements. Funding for 2020/21 onwards will be discussed as part of the next Spending Review round.

Similar situations have arisen regarding the Police and NHS Schemes, albeit these will have much less impact on employers participating in the Leicestershire Fund. However, the overall picture is the same:

- Fund employers will need to spend much more on their (non-LGPS) pension obligations;
- The increases are principally due to a change in assumption by GAD, and benefit increases arising from the cost cap mechanism;
- HMT broadly speaking does not want to see benefit payments materially exceeding contribution income, as these unfunded schemes work on a "pay as you go" basis: the crucial difference for the LGPS is that the Fund has accumulated assets to help pay benefits, thus avoiding the need for such short term sharp changes.

Prepared by:-

Richard Warden

Fund Actuary

For and on behalf of Hymans Robertson LLP

26 October 2018

LOCAL PENSION BOARD

3 DECEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RECORD KEEPING - DATA IMPROVEMENT PLAN

Purpose of the Report

1. The purpose of this report is to update the Board on the progress of the Pension Section's Data Improvement Plan.

Background

2. The Pensions Regulator has highlighted nationally that data quality in the Local Government Pension Scheme needs to be improved. The Leicestershire Fund's Data Improvement Plan, which has four key areas highlighted, was implemented in September 2017 and is attached as Appendix A.

Implementation Plan

3. Implementing monthly postings

The Pension Section has grouped all the Funds employers into phases for implementation purposes. Much of the implementation relies on larger employers being able to extract the data from their payroll systems in a required format. The Pension Section accepts that where employer changes take place e.g. where two Fund employers merge together to form a single new employer or employers change payroll provider, these may impact on their implementation phase.

Progress on monthly posting is tracked and the implementation position as at 20 November 2018 is shown in Appendix B.

The position on the Funds largest two employers are;

- Leicestershire County Council 7,418 active members. Currently implementation is at the final checking stage. Go live is expected to be completed by the end of the calendar year.
- Leicester City Council 8,624 active members. The City has unfortunately not been able to extract all required fields from their

payroll system. The Pensions Manager and City Council officers remain committed to resolving this and meetings between them have continued positively. City Council officers are now working on implementing monthly posting from April 2019.

Any new admission bodies that join the Fund implement monthly postings as standard.

The deadline for all existing employers to move to a monthly posting schedule is the 31 March 2020.

4. Tracing for preserved members

This is now business as usual. As preserved members reach age 55 and become entitled to payment of their preserved benefit, the Pension Section traces their last known address. All preserved cases between age 55 and 60 have had their latest address traced.

5. Guaranteed Minimum Pension (GMP) reconciliation

The Administration Quarterly Report – July to September 2018 details the position on GMP reconciliation.

6. The Pensions Regulator – Data Scoring

The Pensions Regulator (TPR) has concerns about the quality of pension data at a national level and has instructed administrators they need to have an improvement plan in place.

The Leicestershire Fund has included data improvement as business as usual for many years including data checks as part of the annual year-end process. However, the Fund has an improvement plan and has been working through the four areas.

The Pensions Regulator (TPR) has requested administrators score their data in two sections;

Common data – Ni Number, Name, Sex and data of birth, data commenced in the scheme and normal retirement date, status (e.g. active, preserved, pensioner) and address.

Conditional data – This is scheme specific data so broadly covers; transfer in details, additional voluntary contributions (AVCs), tranches of benefits (80ths, 60ths, 49ths), total pension, date of leaving, employer details, salary, contributions, service, career average revalued earnings (CARE) benefits, taxation and guaranteed minimum pensions (GMPs).

The Leicestershire data scores are;

Common data – 94.3%

Conditional date – 87.9%

Where improvements have been highlighted the Pension Manager is working through these areas.

The results from all administrators are being collated by TPR to see if national improvement guidance is needed or if specific Funds require greater assistance.

Accurate data is critical to the overall success of pension administration as it is used in the calculation of member's benefits and in the valuation that sets employer contribution rates.

Recommendation

7. It is recommended that the Board notes the report.

Appendix

Appendix A – Data improvement plan.
Appendix B – Monthly posting position 20 November 2018

Equality and Human Rights Implications

None specific

Officers to Contact

Ian Howe – Pensions Manager – Tel. (0116) 305 6945

Declan Keegan – Assistant Director of Strategic Finance and Property
Tel. (0116) 305 6199

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Leicestershire Pension Fund – Improvement Plan

Number	Improvement	Benefit	Impact	Deadline
1	Implement Monthly Postings	• The Pension Section receives more timely data • Data queries are identified more quickly and resolved more easily • Significant data errors will not be received by the Pension Section as the system will not allow employers to submit certain flawed data • Data accuracy is improved and maintained more easily on the pension system • Scheme members running their own on-line calculations will be able to access more timely and accurate data • Data available for benefit calculations e.g. retirements, deaths, leavers will be more timely and accurate • Employers will receive data queries throughout the year in a much more timely manner, reducing the significant volume of work at year-end • The Pension Section is able to manage the year-end process more easily, by spreading the data queries over 12 months • The Pension Section is meeting The Pension Regulators requirement for data improvement.	• Phased implementation (employers grouped) • All new employers automatically implement monthly postings • Work closely with employers and their payroll providers in developing the payroll extracts • Changes in working practices internally and at employers	31 March 2020

Number	Improvement	Benefit	Impact	Deadline
2	Tracing for preserved members	• Fund is able to write to members more easily • Most recent address and postcode is held on the admin system which assists with valuation exercises based on longevity within regions	• Pensions work on missing members in manageable groups rather than one large exercise • Letters to include remind members to inform us of their change of address	On-going
3	GMP reconciliation	• To ensure the correct pensions increase is being paid by the Fund • To ensure our records reconcile with HMRCs data	• Project Team working on the exercise • Errors reported back to HMRC for investigation	31 December 2018
4	TPR Data Scoring	• To measure our data on an annual basis, highlighting areas in data that investigation/improvement • To ensure our records reconcile with HMRCs data	• Enhances the current year-end and valuation data checking exercises already provided • Use the Heywood data measuring/scoring reporting process • Provides consistency with other LG Funds nationally • To be reported to the Local Pension Board annually after year-end	Mid-September 2018, 2019, 2020

IH – Aug 2018

APPENDIX _ - Position as at 20 November 2018

EMPLOYER	Category of Employer	Live on iConnect?	Priority	Live Date S	Work Underway ?	Current Status	Oracle Payroll Number	Provider	ACTIVES @ 09/04	Comments
Manor High School	Dataplan	**Yes**	1	**Apr-18**	**Yes**	**Live**	102	Dataplan	48	
Avanti School Trust	Dataplan	**Yes**	1	**Apr-18**	**Yes**	**Live**		Dataplan	35	
MOWBRAY EDUCATIONAL TRUST	Dataplan	**Yes**	1	**Apr-18**	**Yes**	**Live**		Dataplan	198	
David Ross Education Trust	Dataplan	**Yes**	1	**Apr-18**	**Yes**	**Live**		Dataplan	63	
ESPO	EMSS	Yes	1	Apr-18	Yes	Live	31	EMSS	250	Passed over to employer
Leics Firefighters	Fire	No	1		**Yes**	**Live data produced**		EMSS	492	**Currently at the final checking stage before going LIVE, this is expected to be completed by the end of the calendar year.**
Blaby DC	Large	Yes	1	Apr-18	Yes	Live		District	313	Passed over to employer
Charnwood BC	Large	Yes	1	Apr-18	Yes	Live		District	484	Passed over to employer
Lough University	Large	Yes	1	Apr-18	Yes	Live		District	1380	Passed over to employer
Loughborough College	Large	Yes	1	Apr-18	Yes	Live		District	334	Passed over to employer
Leicestershire CC	County	No	2		**Yes**	**Live data produced**	10/023/02!	EMSS	7418	**Currently at the final checking stage before going LIVE, this is expected to be completed by the end of the calendar year.**
Leicester City Council	City	No	2		**Yes**	**Dummy data produced**		City	8624	**The report is being worked on by the employer, they are having issues generating the report.**
Harborough DC	City	No	2					City	189	
Broughton Astley PC	City	No	2					City	4	
Derbys Firefighters	Fire	No	2		Yes	Dummy data produced		Derbys	585	
Notts Firefighters	Fire	No	2		Yes	Dummy data produced		Notts	650	
North West Leics D C	Large	**Yes**	2	**Apr-18**	**Yes**	**Live**		District	542	
REGENT COLLEGE	EMSS	No	3					EMSS	48	
Welland Park CC	EMSS	No	3				104	EMSS	50	
Lutterworth High School	EMSS	No	3				113	EMSS	44	
The Kibworth School	EMSS	No	3				105	EMSS	35	
South Wigston High School	EMSS	No	3				111	EMSS	54	
Ash Field Academy	EMSS	No	3				600	EMSS	101	
Forest Way School	EMSS	No	3				109	EMSS	108	
The Market Bosworth School	EMSS	No	3				117	EMSS	52	
Stafford Leys Comm Primary	EMSS	No	3				120	EMSS	66	
Dorothy Goodman School	EMSS	No	3				119	EMSS	138	
Gartree High School	EMSS	No	3				118	EMSS	53	
Ivanhoe College	EMSS	No	3				134	EMSS	68	
Ivanhoe U5s	EMSS	No	3				179	EMSS	6	
Huncote Community Primary Sch	EMSS	No	3				124	EMSS	13	
Ibstock Community College	EMSS	No	3				150	EMSS	77	
East Midland Shared Services	EMSS	No	3		**Yes**	**Live data produced**	10	EMSS	138	**Currently at the final checking stage before going LIVE, this is expected to be completed by the end of the calendar year.**
King Edward VII S&S College	EMSS	No	3				149	EMSS	66	
Ashby School	EMSS	No	3				147	EMSS	103	
Ashby Hill Top Primary School	EMSS	No	3				153	EMSS	28	
Lady Jane Grey Primary School	EMSS	No	3				159	EMSS	26	
Castle Donington College	EMSS	No	3				160	EMSS	22	
Queniborough CofE Primary Sch	EMSS	No	3				163	EMSS	28	

Birkett House School	EMSS	No	3	167	EMSS	122
Church Hill CofE Junior School	EMSS	No	3	164	EMSS	21
St Michael & All Angels CofE	EMSS	No	3	166	EMSS	16
Rendell Primary School	EMSS	No	3	172	EMSS	25
Barwell CofE Academy	EMSS	No	3	170	EMSS	25
Bottesford CofE Primary School	EMSS	No	3	168	EMSS	17
Thrussington CofE Primary Sch	EMSS	No	3	161	EMSS	7
Holywell Primary School	EMSS	No	3	171	EMSS	29
Mountfields Lodge School	EMSS	No	3	174	EMSS	54
Measham CofE Primary School	EMSS	No	3	173	EMSS	23
St.Peters CofE Primary Academy	EMSS	No	3	176	EMSS	26
Outwoods Edge Primary School	EMSS	No	3	175	EMSS	53
Ratby Primary School	EMSS	No	3	181	EMSS	29
Stonebow Primary School	EMSS	No	3	182	EMSS	26
Cobden Primary School	EMSS	No	3	185	EMSS	53
Red Hill Field Primary School	EMSS	No	3	186	EMSS	21
Asfordby Hill Primary School	EMSS	No	3	188	EMSS	16
Mercenfeld Primary School	EMSS	No	3	193	EMSS	29
South Charnwood High School	EMSS	No	3	190	EMSS	34
The Pastures Primary School	EMSS	No	3	194	EMSS	30
Battling Brook Primary School	EMSS	No	3	196	EMSS	63
Frisby CE Primary School	EMSS	No	3	200	EMSS	10
Thringstone Primary School	EMSS	No	3	195	EMSS	28
Brocks Hill Primary School	EMSS	No	3	197	EMSS	23
Rothley CofE Primary School	EMSS	No	3	180	EMSS	33
Hastings High School	EMSS	No	3	207	EMSS	36
Old Dalby CofE Primary School	EMSS	No	3	199	EMSS	11
Stanton under Bardon Primary	EMSS	No	3	191	EMSS	9
Hall Orchard Primary School	EMSS	No	3	208	EMSS	52
Kirby Muxloe Primary School	EMSS	No	3	211	EMSS	37
Robert Bakewell Primary School	EMSS	No	3	212	EMSS	28
Falcon Primary School	EMSS	No	3	613	part City/ p	20
Loughborough CofE Primary	EMSS	No	3	220	EMSS	25
Townlands CofE Primary Academy	EMSS	No	3	228	EMSS	22
Bradgate Education Partnership	MAT	No	3		EMSS	232
Symphony Learning Trust	MAT	No	3		EMSS	256
Learn Academy Trust	MAT	No	3		EMSS	189
DISCOVERY SCHOOLS MAT	MAT	No	3		EMSS	395
DOMINICS CATHOLIC AT	MAT	No	3		EMSS	58
Success Academy Trust	MAT	No	3		EMSS	141
Wigston Academies Trust	MAT	No	3		EMSS	149
Apollo Partnership Trust	MAT	No	3		EMSS	135
LEAD ACADEMY MAT	MAT	No	3		EMSS	125
Diocese of Leicester AT / LEICS ACADE	MAT	No	3		EMSS	209
LAUNDE PRIMARY MAT	MAT	No	3		EMSS	91
Odyssey Education Trust	MAT	No	3		EMSS	62
OWLS MAT	MAT	No	3		EMSS	121
Inspiring Primaries Academy Trust	MAT	No	3		EMSS	119
Rushey Mead Educational Trust	MAT	No	3		EMSS	286
The Learning without Limits AT	MAT	No	3		EMSS	217

Oval Learning Partnership	MAT	No	3			EMSS	65	
Hinckley & Bosw'th BC	Large	No	4	Yes	Live	District	364	
Melton B C	Large	No	4			District	159	
Brooksby Melton College	Large	No	4	With Employer	Spec sent to employer	District	226	
Stephenson College	Large	No	4	With Employer	Spec sent to employer	District	140	
LEICESTER COLLEGE	Large	No	4	With Employer	Spec sent to employer	District	640	
The Chief Constable & The OPCC	Large	No	4	With Employer	Spec sent to employer	District	1473	Meeting arranged for 2019 to discuss i-Connect further
De Montfort University	Large	No	4	With Employer	Spec sent to employer	District	1446	
Groby Brookvale	Large	No	4			District	109	
Countesthorpe Leysland CC	Large	No	4			District	101	
Vol Action Leicester	Medium	No	5			District	24	
SOUTH LEICS COLLEGE	Medium	No	5			District	95	
Wyggeston Queen Elizabeth I	Medium	No	5			District	93	
UPPINGHAM COMMUNITY COLLEGE	Medium	No	5			EPM	72	
GATEWAY 6TH FORM COLLEGE	Medium	No	5			District	50	
CASTERTON B&EC AT	Medium	No	5			District	61	
EMH Homes	Medium	No	5			District	18	
Capita IT City Rushey Mead	Medium	No	5			District	1	
Capita Services ex Charnwood	Medium	No	5			District	28	
Limehurst Academy	Medium	No	5			District	54	
Woodbrook Vale School	Medium	No	5			District	43	
Rawlins Academy	Medium	No	5			District	93	
Humphrey Perkins School	Medium	No	5			District	43	
The Martin High School	Medium	No	5			District	49	
Redmoor Academy	Medium	No	5			District	57	
Wreake Valley Academy	Medium	No	5			District	49	
Lutterworth Academies Trust	Medium	No	5	With Employer	Spec sent to employer	District	83	
Long Field Academy	Medium	No	5			District	25	
Hinckley Academy	Medium	No	5			District	72	
Brockington College	Strictly Ed	No	5			District	90	
Queensmead Primary Academy	Medium	No	5			District	44	
Capita IT City of Leicester	Medium	No	5			District	1	
Capita IT Judgmeadow CC	Medium	No	5			District	1	
Quadron Services	Medium	No	5			District	17	
G4S (Constabulary)	Medium	No	5			G4S	17	
Turning Point (City Council)	Medium	No	5			District	24	
Turning Point (County Council)	Medium	No	5			District	17	
Rutland CC	Rutland	No	6			District	478	

EPM - Rutland CC	Rutland/EPM	No	6		With Employer	Spec sent to employer	EPM	inc in Rutland	
The Rutland & District Schools' Feder	MAT	No	7				District	99	
Brooke Hill Academy Trust	MAT	No	7				District	36	
The Blessed Cyprian MAT	MAT	No	7				District	146	
BEACON ACADEMY MAT	MAT	No	7				District	53	
St Gilberts of Sempringham	MAT	No	7				District	9	
The Midland Academies Trust	MAT	No	7				District	25	
Heighington Millfield Community Acad	MAT	No	7				District	17	
The Priory AT Belvoir Academy	MAT	No	7				District	42	
Nova Ed Trust (Melton Vale)	MAT	No	7				District	20	
Tudor Grange Academies Trust	MAT	No	7				Mixed	125	
LIFE Academy Trust	MAT	No	7				Mixed	165	
BEAUCHAMP LIONHEART MAT	MAT	No	7				Mixed	262	
The Rutland Learning Trust	MAT	No	7				Mixed	72	
CORPUS CHRISTI MAT	Strictly Ed	No	7				Strictly Ed	123	
Herrick Primary School	City	No	8				Judicium	inc in City	
G4S (City Council)	Medium	No	5				G4S	12	
Mountsorrel PC	Small	**Yes**	8	**Apr-18**	**Yes**	**Live**	District	1	
Kirby Muxloe PC	Small	No	8				District	1	
SLM (Blaby DC)	Small	No	8				District	1	
ASHBY WOULDS TOWN COUNCIL	Small	Yes	8	Apr-18	Yes	Live	District	1	Passed over to employer
MARKET BOSWORTH PARISH COUNCIL	Small	Yes	8	Apr-18	Yes	Live	District	1	Passed over to employer
BARROW UPON SOAR PC	Small	No	8				District	1	
Bagworth & Thornton PC	Small	No	8				District	1	
Oakthorpe, D & A PC	Small	No	8				District	1	
East Goscote Parish Council	Small	No	8				District	1	
Twycross Parish Council	Small	No	8				District	1	
CSE Ltd	Small	No	8				District	1	
Future Cleaning Services	Small	No	8				District	1	
SILEBY PARISH COUNCIL	Small	No	8				District	2	
Leics Forest East PC	Small	Yes	8	Apr-18	Yes	Live	District	2	Passed over to employer
Spire Homes Limited	Small	No	8				District	2	
East West Community Centre Ltd	Small	No	8				District	2	
G Purchase Construction LTD	Small	No	8				District	2	
Groby Parish Council	Small	No	8				District	2	
Pinnacle Group	Small	No	8				District	2	
MCS Cleaning	Small	No	8				District	2	
Bradgate Park Trust	Small	No	8				District	3	
GLEN PARVA PARISH COUNCIL	Small	Yes	8	Apr-18	Yes	Live	District	3	**Passed over to employer**
Melton Learning Hub	Small	Yes	8	Apr-18	Yes	Live	District	3	Passed over to employer
Barwell Parish Council	Small	Yes	8	Apr-18	Yes	Live	District	3	Passed over to employer
Thurcaston & Cropston PC	Small	No	8				District	3	
LUTTERWORTH T C	Small	Yes	8	**Apr-18**	**Yes**	**Live data produced**	District	5	**Due to hand over to employer 21/11/18**
Rushcliffe Care Ltd	Small	No	8				District	5	
Seven Locks Housing	Small	No	8				District	5	
Aspens (City Crown Hills)	Small	No	8				District	5	
Enderby Parish Council	Small	Yes	8	Apr-18	Yes	Live	District	5	Passed over to employer
SHEPSHED PARISH COUNCIL	Small	No	8				District	6	

Whetstone PC	Small	No	8					District	6	
Fusion Lifestyle	Small	No	8					District	6	
Caterlink (Mowbray Ed Trust)	Small	No	8					District	6	
ASHBY TOWN COUNCIL	Small	No	8					District	7	
ANSTEY PARISH COUNCIL	Small	No	8					District	7	
A B M Catering Ltd	Small	No	8					District	7	
Stephenson Studio School	Small	No	8					District	7	
Blaby Parish Council	Small	No	8					District	8	
Chartwells	Small	No	8					District	8	
SYSTON TOWN COUNCIL	Small	No	8					District	10	
Solo Service Group	Small	No	8					District	10	
Caterlink (Fulhurst CC)	Small	No	8					District	10	
Ryhall CE Academy	Strictly Ed	No	8					District	11	
Prospects Services	Small	**Yes**	8	**Apr-18**	**Yes**	**Live**		District	11	**Passed over to employer**
Oadby and Wigston BC iConnect		Yes		Apr-18	Yes	Live		EMSS	148	Passed over to employer
BRAUNSTONE TOWN COUNCIL iConnect		Yes		Apr-18	Yes	Live			15	
THURMASTON PARISH COUNCIL iConnect		Yes		Apr-18	Yes	Live			12	
COUNTESTHORPE PC iConnect		Yes		Apr-18	Yes	Live			10	Passed over to employer
FIRE SERVICE CIVILIANS iConnect		Yes		Apr-18	Yes	Live	33	EMSS	152	Passed over to employer

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