Meeting: **Local Pension Board**

Date/Time: **Monday, 4 March 2019 at 9.30 am**

Location: **Guthlaxton 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 3 December 2019.		(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 - October to December 2019 Quarter.	Director of Corporate Resources	(Pages 7 - 60)
7.	Additional Voluntary Contributions.	Director of Corporate Resources	(Pages 61 - 96)
8.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 97 - 106)
9.	Any other items which the Chairman has decided to take as urgent.		

TO:

Employer representatives

Mr. D. Jennings CC
Mrs. R. Page CC
Cllr. D. Alfonso

Employee representatives

Ms. D. Haller
Mrs. C. Fairchild
Mrs. D. Stobbs

Leicestershire County Council

Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Monday, 3 December 2018.

PRESENT

Mr D. Jennings CC (in the Chair)

Cllr. D. Alfonso	Mrs. R. Page CC
Mr. D. Adler	Ms. D. Stobbs

28. Minutes of the previous meeting.

The minutes of the meeting held on 17 September 2018 were taken as read, confirmed and signed.

29. Question Time.

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

30. Questions asked by members.

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

31. Urgent items.

There were no urgent items for consideration.

32. 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.

33. Pension Fund Administration Report - July to September 2018 Quarter.

The Board considered a report of the Director of Corporate Resources which detailed relevant issues concerning the administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators. The Report is filed with these minutes and marked ‘Agenda Item 6’.

The Board noted that six transfer of undertakings protection of employment (TUPE) arrangements remained outstanding as of 20 November 2018. Of particular concern was the transfer of Tudor Grange Academy to Computer Systems in Education Limited (CSE). Whilst the CSE had now secured the required bond, the admission agreement and bond documents remained unsigned.

In response to questions from members, the Director confirmed that the agreement affected one member of the Fund who was not classed as an 'active member' of the Fund until the agreement was in place, their benefits would be backdated once the transfer was complete. He added that the new pension regulations recently introduced did little to improve the situation and continued to allow TUPE to happen without all the legal documentation in place although a new consultation was taking place on New Fair Deal which could improve this in future.

Members also expressed their continued concern in the matter of Tudor Grange to Ridgecrest (cleaning) and Melton Borough Council to AXIS and requested that the Director write to the staff affected.

In reference to the table within the report which detailed the outstanding TUPE transfers, an additional column would be added to future reports to include how the Administering Authority intended to manage each case.

RESOLVED:

a) That a letter expressing the Boards concern be sent to Tudor Grange in relation to the outstanding transfer of undertakings protection of employment (TUPE) Admission Agreement;

b) That a letter be sent to the staff at Ridgecrest (cleaning) and AXIS who are affected by the delay informing them of the issue.

34. Risk Management and Internal Controls.

The Director of Corporate Resources presented a report the purpose of which was to detail any concerns relating to the risk management and internal controls of the Fund.

The Director reported that since the Board's last meeting no additional risks had been identified.

RESOLVED

That the Board note the revised risk register.

35. Pension Fund Administration - Current Developments.

The Board considered a report of the Director of Corporate Resources concerning pension administration current developments. A copy of the report 'Agenda Item 8', is filed with these minutes.

In reference to the national 'cost cap' of Local Government Pension Funds, it was noted that the Scheme Advisory Board (SAB) operated its own process to assess the overall operation and viability of the schemes which would be undertaken before the HM Treasury Employer Cost Cap (ECC) process was started. It was not possible at this stage to give any indication of what the outcome might be.

RESOLVED:

That the report be noted.

36. Record Keeping - Data Improvement Plan.

The Board received 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 'Agenda Item 9' is filed with these minutes.

It was reported that whilst Leicestershire County Council had moved all of its 7418 active members to monthly posting, Leicester City Council had experienced technical difficulties which had delayed their implementation. The City was working well with the Fund and it was hoped they would be able to move to monthly postings from April 2019. Members noted that the deadline for all employers to provide monthly posting was 31 March 2020.

The Board were informed that all preserved members had been traced in regards to Guaranteed Minimum Pension (GMP) reconciliation and work was still ongoing.

RESOLVED:

That the Board note the report,

37. Date of next meeting.

It was noted that the next meeting of the Board would be held on 4th March 2019 at 9.30am.

CHAIRMAN

03 December 2018

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Leicestershire County Council

LOCAL PENSION BOARD

4 MARCH 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION REPORT – OCTOBER TO DECEMBER 2019 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 October to December 2018 quarter are detailed within the Appendix A. Customer satisfaction remains good and overall performance figures remain positive in the quarter with all Key Performance Indicator (KPI) results near or above target.

Administration

5. General Workloads

The tables show the position in five key work areas, October to December.

October 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	54	992	900
Aggregations	321	451	1000
Interfunds in	33	171	200
Retirements	788	1095	500
Deaths	64	84	100

November 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	7	1195	800
Aggregations	100	518	650
Interfunds in	20	184	200
Retirements	744	794	500
Deaths	64	99	100

December 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	8	1351	750
Aggregations	118	621	450
Interfunds in	52	160	200
Retirements	892	827	600
Deaths	51	86	100

The main points to note are;

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.

Preserved benefits have increased while resource is directed on retirements. Resource has been redirected back to preserved benefits since January 2019.

GMP reconciliation

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 31 January 2019 is detailed in the table below;

Membership Type (Phase 1)	Cases with Pensions	Cases completed	Cases with HMRC	Stalemate Cases**
Pensioner and Preserved	0	51,158*	14	58
The change since the last quarter	Down 405	Up 391	Up 14	Up 31

Membership Type (Phase 2)	Cases with Pensions	Cases completed	Cases with HMRC	Stalemate Cases**
New Pensioners	3,875	4,580	815	0
The change since the last quarter	Down 806	Up 535	Up 271	0
Active	7,590	24,007	409	57
The change since the last quarter	Down 2,961	Up 3,327	Down 366	Up 57

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

Governance Items

Internal Dispute Resolution Procedure (IDRP)

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

In the period October to December 2018 there were two IDRP stage 2 appeals.

- In one case, the Ombudsman has found in favour of the Pension Fund and rejected the member’s appeal.
- In the second case, the Specified Person is considering the employers decision made at Stage 1.

This is a standard report item.

Breaches

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

Discretions

Fund employers have been written to reminding them of the need to complete their Fund discretions. The Pension Section has requested the information on various occasions. The Pension Section will not remind employers again and therefore the risk lies with these employers. The Funds larger employers that have not returned any discretions are as follows;

Leicestershire Fire Authority
Harborough District Council
Life Academy Trust
Oadby and Wigston Borough Council
Rawlins College
South Leicestershire College
Success Academy Trust
Tudor Grange Academy Trust

Breaches is a standard report item.

Outstanding TUPE transfers

The table below details the outstanding TUPE transfers as at 31 January 2019. 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**	**Staff written to**
Tudor Grange	Computer Systems in Education Ltd (CSE)	1/9/17	1 Member	All legal documents out for signing. All parties actively resolving the case.	Yes
Mercenfeld Academy	MCS Cleaning and Maintenance Ltd (MCS)	4/1/18	0 Members, 2 Non-members	All legal documents out for signing. All parties actively resolving the case. No active members transferred	No
Rushey	Caterlink	1/8/18	26	All legal	No

Mead			Members, 14 Non-members	documents signed by Caterlink and the bank. Rushey Mead failed to inform Pensions of revised contractual changes resulting in all legal documents needing to be reissued. All parties actively resolving the case.	
Tudor Grange	Bellrock (facilities management)	1/8/18	5 Members	All legal documents out for signing. All parties actively resolving the case.	No
Tudor Grange	Ridgecrest (cleaning)	1/8/18	12 Members, 11 Non-members	Legal documents are not out for signature. Bond outstanding and being challenged by Ridgecrest. Contractual issues remain between Ridgecrest and Tudor Grange delaying resolution of the case.	Yes
Melton BC	AXIS (third stage TUPE following the termination of GPurchase – construction)	1/10/18	2 Members	AXIS has requested a number of changes to the admission agreement and bond which the Fund has rejected. AXIS has sent the bond to their bank for their approval.	Yes

The employees affected in the cases where legal documents are still not agreed have all been written to, making them aware of the outstanding pension issues. A copy of an example letter is attached as Appendix B

Funding Strategy Statement – Consultation

The consultation closed on the 31 January 2019. No comments were received from any of the Fund employers.

The final version of the Funding Strategy Statement was approved by the Pensions Committee on the 15 February 2019 with an implementation date of the 1 April 2019. The final version is attached.

Implementation of monthly posting

The Pension Section continues a phased implementation of monthly postings as part of the Leicestershire Fund's data improvement plan.

The position as at the 12 February 2019 is attached in Appendix D, 29 Fund employers are providing monthly postings every month, covering 12,500 active scheme contributors.

Recommendation

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

Equality and Human Rights Implications

None specific

Appendix

Appendix A - Quarterly Results – October to December 2018
Appendix B – Example letter to affected staff (outstanding admission agreements)
Appendix C – Final Funding Strategy Statement – February 2019
Appendix D – Monthly posting position as at 12 February 2019.

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 A

Quarter - October 2018 to December 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%	97%	▲	100%
Pension payments made within 10 working days of receiving election	95%	93%	►	98%	Experience of dealing with Section - rated at least good or excellent	95%	94%	►	89%
Death benefits/payments sent to dependant within 10 working days of notification	90%	87%	►	92%	Establish members thoughts on the amount of info provided - rated as about right	92%	96%	▲	94%
					Establish the way members are treated - rated as polite or extremely polite	97%	100%	▲	100%
Good or better than target	▲				Email response - understandable	95%	94%	►	94%
Close to target	►				Email response - content detail	92%	93%	▲	92%
Below target	▼				Email response - timeliness	92%	95%	▲	97%

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APPENDIX B.

Leicestershire County Council

Date:	30 January 2019
My Ref:	PEN/IH
Your Ref:	
Contact:	Ian Howe
Phone:	0116 305 6945
Email:	ian.howe@leics.gov.uk

Dear

Leicestershire County Council – Tudor Grange to Ridge Crest Admission Agreement

I am writing to inform you about an outstanding pension issue that affects you following the cleaning service transferring from Tudor Grange Academy to Ridge Crest Cleaning on the 1 August 2018.

When staff move over to a new employer as part of a Transfer of Undertakings (Protection of Employment) TUPE transfer, their employer has to maintain the pension arrangements. This is usually via an "admission agreement and bond". The process that should be followed is;

- The new employer (Ridge Crest) requests admission to the Leicestershire Local Government Pension Scheme (LGPS)
- The transferring employer (Tudor Grange Academy) provides us with details of the staff transferring
- The Pension Scheme's Actuary calculates the new employer contribution rate and bond value
- The new employer sets up a bond to cover the value
- All parties sign the legal documents - admission agreement and bond
- The staff then transfer over to the new employer

Unfortunately in this case the admission agreement and bond remain outstanding.

Given that this significant issue remains, it was reported to the Local Pensions Board for the Leicestershire Fund and they have instructed me to make you aware of this issue.

I wish to assure you, the Pension Section at Leicestershire County Council has been doing everything we can to resolve this for you and we will continue to do so.

However, we feel a six month delay is totally unacceptable and shows a lack of regard for the moral duty of care that you deserve.

Leicestershire County Council Pensions Section
County Hall, Glenfield, Leicestershire LE3 8RB
Email: pensions@leics.gov.uk
Web: www.leics.gov.uk/pensions

Brian Roberts, CPFA, Director of Corporate Resources
Roderick O'Connor, Assistant Director Customer Services and Operations

PENSION FUND

Leicestershire County Council

The intention of the admission agreement is that it is backdated to 1 August 2018, the date of the transfer, so that you will retain continuous service within the LGPS.

It is extremely unusual that the Fund has felt it necessary to express concern over the completion of an admission agreement and bond, as they are normally implemented smoothly.

I'm really sorry to have to inform you about this issue and I stress again, we are continuing to try and resolve this for you but if you require further information please contact me directly.

As soon as the position is rectified I will write to you again to confirm this.

Yours sincerely

Ian Howe
Pensions Manager

Leicestershire County Council Pensions Section
County Hall, Glenfield, Leicestershire LE3 8RB
Email: [illegible]
Web: www.leics.gov.uk/pensions

Brian Roberts, CPFA, Director of Corporate Resources
Roderick O'Connor, Assistant Director Customer Services and Operations

Leicestershire County Council PENSION FUND

Appendix C

Leicestershire County Council Pension Fund

Funding Strategy Statement

February 2019

Contents

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 1st April 2019. 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 govern

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ment 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 February 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 the Local Pension Committee it became effective from 1st April 2019.,

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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APPENDIX D - Position as at 12th February 2019

EMPLOYER	Category of Employer	Live on iConnect?	Priority	Live Date Scheduled?	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**	**Expect to hand over in March 19**
Avanti School Trust	**Dataplan**	**Yes**	**1**	**Apr-18**	**Yes**	**Live**		**Dataplan**	**35**	**Expect to hand over in March 19**
MOWBRAY EDUCATIONAL TRUST	**Dataplan**	**Yes**	**1**	**Apr-18**	**Yes**	**Live**		**Dataplan**	**198**	**Expect to hand over in March 19**
David Ross Education Trust	**Dataplan**	**Yes**	**1**	**Apr-18**	**Yes**	**Live**		**Dataplan**	**63**	**Expect to hand over in March 19**
ESPO	EMSS	Yes	1	Apr-18	Yes	Live	31	EMSS	250	Passed over to employer
Leics Firefighters	**Fire**	**Yes**	**1**	**Apr-18**	**Yes**	**Live**		**EMSS**	**492**	**LIVE and passed over to employer**
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**	**Yes**	**2**	**Apr-18**	**Yes**	**Live**	**10/023/029**	**EMSS**	**7418**	**Live and posted data up to December 18**
Leicester City Council	**City**	**No**	**2**		**Yes**	**Employer working on the data**		**City**	**8624**	**Expected to go live from April 19**
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**	**Passed over to employer**
REGENT COLLEGE	**EMSS**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**48**	**Expected to go live from April 19**
Welland Park CC	**EMSS**	**No**	**3**		**Yes**	**With employer**	**104**	**EMSS**	**50**	**Expected to go live from April 19**
Lutterworth High School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**113**	**EMSS**	**44**	**Expected to go live from April 19**
The Kibworth School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**105**	**EMSS**	**35**	**Expected to go live from April 19**
South Wigston High School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**111**	**EMSS**	**54**	**Expected to go live from April 19**
Ash Field Academy	**EMSS**	**No**	**3**		**Yes**	**With employer**	**600**	**EMSS**	**101**	**Expected to go live from April 19**
Forest Way School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**109**	**EMSS**	**108**	**Expected to go live from April 19**
The Market Bosworth School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**117**	**EMSS**	**52**	**Expected to go live from April 19**
Stafford Leys Comm Primary	**EMSS**	**No**	**3**		**Yes**	**With employer**	**120**	**EMSS**	**66**	**Expected to go live from April 19**
Dorothy Goodman School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**119**	**EMSS**	**138**	**Expected to go live from April 19**
Gartree High School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**118**	**EMSS**	**53**	**Expected to go live from April 19**
Ivanhoe College	**EMSS**	**No**	**3**		**Yes**	**With employer**	**134**	**EMSS**	**68**	**Expected to go live from April 19**
Ivanhoe U5s	**EMSS**	**No**	**3**		**Yes**	**With employer**	**179**	**EMSS**	**6**	**Expected to go live from April 19**
Huncote Community Primary Sch	**EMSS**	**No**	**3**		**Yes**	**With employer**	**124**	**EMSS**	**13**	**Expected to go live from April 19**
Ibstock Community College	**EMSS**	**No**	**3**		**Yes**	**With employer**	**150**	**EMSS**	**77**	**Expected to go live from April 19**
East Midland Shared Services	**EMSS**	**Yes**	**3**	**Apr-18**	**Yes**	**Live**	**10**	**EMSS**	**138**	**Live and posted data up to December 18**
King Edward VII S&S College	**EMSS**	**No**	**3**		**Yes**	**With employer**	**149**	**EMSS**	**66**	**Expected to go live from April 19**
Ashby School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**147**	**EMSS**	**103**	**Expected to go live from April 19**
Ashby Hill Top Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**153**	**EMSS**	**28**	**Expected to go live from April 19**
Lady Jane Grey Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**159**	**EMSS**	**26**	**Expected to go live from April 19**
Castle Donington College	**EMSS**	**No**	**3**		**Yes**	**With employer**	**160**	**EMSS**	**22**	**Expected to go live from April 19**
Queniborough CofE Primary Sch	**EMSS**	**No**	**3**		**Yes**	**With employer**	**163**	**EMSS**	**28**	**Expected to go live from April 19**
Birkett House School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**167**	**EMSS**	**122**	**Expected to go live from April 19**
Church Hill CofE Junior School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**164**	**EMSS**	**21**	**Expected to go live from April 19**
St Michael & All Angels CofE	**EMSS**	**No**	**3**		**Yes**	**With employer**	**166**	**EMSS**	**16**	**Expected to go live from April 19**
Rendell Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**172**	**EMSS**	**25**	**Expected to go live from April 19**
Barwell CofE Academy	**EMSS**	**No**	**3**		**Yes**	**With employer**	**170**	**EMSS**	**25**	**Expected to go live from April 19**
Bottesford CofE Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**168**	**EMSS**	**17**	**Expected to go live from April 19**
Thrussington CofE Primary Sch	**EMSS**	**No**	**3**		**Yes**	**With employer**	**161**	**EMSS**	**7**	**Expected to go live from April 19**
Holywell Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**171**	**EMSS**	**29**	**Expected to go live from April 19**
Mountfields Lodge School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**174**	**EMSS**	**54**	**Expected to go live from April 19**
Measham CofE Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**173**	**EMSS**	**23**	**Expected to go live from April 19**
St.Peters CofE Primary Academy	**EMSS**	**No**	**3**		**Yes**	**With employer**	**176**	**EMSS**	**26**	**Expected to go live from April 19**
Outwoods Edge Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**175**	**EMSS**	**53**	**Expected to go live from April 19**
Ratby Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**181**	**EMSS**	**29**	**Expected to go live from April 19**
Stonebow Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**182**	**EMSS**	**26**	**Expected to go live from April 19**
Cobden Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**185**	**EMSS**	**53**	**Expected to go live from April 19**

EMPLOYER	Category of Employer	Live on iConnect?	Priority	Live Date Scheduled?	Work Underway?	Current Status	Oracle Payroll Number	Provider	ACTIVES @ 09/04	Comments
Red Hill Field Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**186**	**EMSS**	**21**	**Expected to go live from April 19**
Asfordby Hill Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**188**	**EMSS**	**16**	**Expected to go live from April 19**
Mercenfeld Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**193**	**EMSS**	**29**	**Expected to go live from April 19**
South Charnwood High School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**190**	**EMSS**	**34**	**Expected to go live from April 19**
The Pastures Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**194**	**EMSS**	**30**	**Expected to go live from April 19**
Battling Brook Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**196**	**EMSS**	**63**	**Expected to go live from April 19**
Frisby CE Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**200**	**EMSS**	**10**	**Expected to go live from April 19**
Thringstone Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**195**	**EMSS**	**28**	**Expected to go live from April 19**
Brocks Hill Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**197**	**EMSS**	**23**	**Expected to go live from April 19**
Rothley CofE Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**180**	**EMSS**	**33**	**Expected to go live from April 19**
Hastings High School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**207**	**EMSS**	**36**	**Expected to go live from April 19**
Old Dalby CofE Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**199**	**EMSS**	**11**	**Expected to go live from April 19**
Stanton under Bardon Primary	**EMSS**	**No**	**3**		**Yes**	**With employer**	**191**	**EMSS**	**9**	**Expected to go live from April 19**
Hall Orchard Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**208**	**EMSS**	**52**	**Expected to go live from April 19**
Kirby Muxloe Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**211**	**EMSS**	**37**	**Expected to go live from April 19**
Robert Bakewell Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**212**	**EMSS**	**28**	**Expected to go live from April 19**
Falcon Primary School	**EMSS**	**No**	**3**		**Yes**	**With employer**	**613**	**part City/ part I**	**20**	**Expected to go live from April 19**
Loughborough CofE Primary	**EMSS**	**No**	**3**		**Yes**	**With employer**	**220**	**EMSS**	**25**	**Expected to go live from April 19**
Townlands CofE Primary Academy	**EMSS**	**No**	**3**		**Yes**	**With employer**	**228**	**EMSS**	**22**	**Expected to go live from April 19**
Bradgate Education Partnership	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**232**	**Expected to go live from April 19**
Symphony Learning Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**256**	**Expected to go live from April 19**
Learn Academy Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**189**	**Expected to go live from April 19**
DISCOVERY SCHOOLS MAT	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**395**	**Expected to go live from April 19**
DOMINICS CATHOLIC AT	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**58**	**Expected to go live from April 19**
Success Academy Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**141**	**Expected to go live from April 19**
Wigston Academies Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**149**	**Expected to go live from April 19**
Apollo Partnership Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**135**	**Expected to go live from April 19**
LEAD ACADEMY MAT	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**125**	**Expected to go live from April 19**
Diocese of Leicester AT / LEICS ACADEMIES CI	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**209**	**Expected to go live from April 19**
LAUNDE PRIMARY MAT	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**91**	**Expected to go live from April 19**
Odyssey Education Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**62**	**Expected to go live from April 19**
OWLS MAT	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**121**	**Expected to go live from April 19**
Inspiring Primaries Academy Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**119**	**Expected to go live from April 19**
Rushey Mead Educational Trust	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**286**	**Expected to go live from April 19**
The Learning without Limits AT	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**217**	**Expected to go live from April 19**
Oval Learning Partnership	**MAT**	**No**	**3**		**Yes**	**With employer**		**EMSS**	**65**	**Expected to go live from April 19**
Hinckley & Bosw'th BC	**Large**	**Yes**	**4**	**Apr-18**	**Yes**	**Live**		**District**	**364**	**Expect to hand over in March 19**
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**		**Yes**	**Spec sent to employer**		**District**	**1473**	**Expected to go live from April 19**
De Montfort University	Large	No	4		With Employer	Spec sent to employer		District	1446	
Groby Brookvale	**Large**	**No**	**4**		**Yes**	**Employer working on the data**		**District**	**109**	**Expected to go live from April 19**
Countesthorpe Leysland CC	**Large**	**No**	**4**		**Yes**	**Employer working on the data**		**District**	**101**	**Expected to go live from April 19**
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	

EMPLOYER	Category of Employer	Live on iConnect?	Priority	Live Date Scheduled?	Work Underway?	Current Status	Oracle Payroll Number	Provider	ACTIVES @ 09/04	Comments
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' Federation	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 Academy Tru	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**	**Passed over to employer**
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

EMPLOYER	Category of Employer	Live on iConnect?	Priority	Live Date Scheduled?	Work Underway?	Current Status	Oracle Payroll Number	Provider	ACTIVES @ 09/04	Comments
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**		**District**	**5**	**Passed over to employer**
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

Leicestershire County Council

LOCAL PENSION BOARD

4 MARCH 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Purpose of the Report

1. To inform the Board about changes to the Additional Voluntary Contribution (AVC) fund choices.

Background

2. The Leicestershire Local Government Pension Scheme is required to provide an Additional Voluntary Contribution (AVC) scheme. Active contributors may opt to pay extra pension contributions, known as AVCs, to Prudential who provide the Leicestershire Fund's AVCs.

3. AVCs are invested by Prudential into the scheme member's fund choices. When a scheme member retires the AVC is used to increase their pension benefits.

4. There are currently 1,045 active contributors paying Prudential AVCs and 1,822 pensioners who have additional LGPS benefits as a result of previous Prudential AVCs.

5. There are 20 different fund choices. 18 are Non-Lifestyle Fund choices that vary from higher risk to minimal risk investments. There are two Lifestyle Fund choices. In the Lifestyle Funds, investments are moved into lower risk funds automatically, as a scheme member approaches their chosen retirement age. This is known as “de-risking”.

6. The Pension Section last reviewed the AVC fund choices in June 2016.

7. Administration charges are applied to member's individual AVC fund pots and vary slightly between the 20 funds, depending on whether the fund is actively or passively manged. Actively managed funds tend to have a higher charge because they require extra investment management resources to generate enhanced investment returns.

8. The 1% exit charge for members accessing their AVC within three years of the first contribution being received ended on the 3 December 2018.

Details of the 18 Non-Lifestyle Fund choices are listed in the table below

	Fund Name (Non-lifestyle)	**Investment Risk**	**Asset Class**	**Active or Passive**	**Charge each year %**
1	UK Equity Fund	Higher	Equities	Active	0.65
2	UK Equity Passive Fund	Higher	Equities	Passive	0.55
3	Socially Responsible Fund (ethical fund)	Higher	Equities	Active	0.65
4	International Equity Fund	Medium/Higher	Equities	Active	0.65
5	Global Equity Fund	Medium/Higher	Equities	Active	0.65
6	Fixed Interest Fund	Medium	Bond	Active	0.65
7	Index Linked Fund	Medium	Bond	Active	0.65
8	Discretionary Fund	Medium	Multi Asset	Active	0.70*
9	Property Fund	Medium	Property	Active	1.21**
10	Retirement Protection Fund	Medium	Bond	Passive	0.55
11	With Profits Fund	Lower/Medium	Multi Asset	Active	***
12	Prudential Cash Fund	Minimal	Deposits	Active	0.55
13	Deposit Fund *(closed to new members)*	Minimal	N/A	Active	N/A****
14	Prudential Dynamic Growth I	Lower/Medium	Multi-asset	Active/Passive	0.62
15	Prudential Dynamic Growth II	Lower/Medium	Multi-asset	Active/Passive	0.62
16	Prudential Dynamic Growth III	Lower/Medium	Multi-asset	Active/Passive	0.62
17	Prudential Dynamic Growth IV	Medium	Multi-asset	Active/Passive	0.62
18	Prudential Dynamic Growth V	Medium	Multi-asset	Active/Passive	0.62

* 0.65 plus 0.05 property expenses = 0.70

** 0.65 plus 0.56 property expenses = 1.21

*** The With-Profits Fund management charge depends on the performance of the Fund, in particular the investment return and expenses. Based on a current assumption that future investment returns from the With-Profits Fund will be 5% per year, the charge is expected to be 0.8% per annum.

**** The Deposit Fund closed to new members on the 31 May 2017. Interest rate is set on the first of each month in line with the Bank of England base rate. There are no explicit charges.

Detail of the two Lifestyle Fund choices are listed in the table below

	Fund Name (Lifestyle)	**Investment Risk**	**Asset Class**	**Active or Passive**	**Charge each year %**
19	Lifestyle* Option (optimiser fund) – *closed to new members*	Higher/ Medium	Equities/ Bonds	Passive	0.55
20	Prudential Dynamic Growth IV **(targeting cash)****	Lower /Medium (moving to Low)	Multi asset moving to cash	Active	***

* Lifestyle option (optimiser fund) closed to new members on the 16 June 2016.

** Made up of three funds
- Prudential Dynamic Growth II
- Prudential Dynamic Growth IV
- Prudential Cash Fund

*** 0.62 for the Prudential Dynamic Growth Funds and 0.55 for the Cash Fund

9. On the 22 July 2019 the Prudential are ending the Lifestyle option (optimiser fund) that closed to new members on the 16 June 2016. There are 61 scheme members with AVCs in this fund. Unless members decide otherwise, the Prudential will move these members AVCs to the Dynamic Growth IV Fund (targeting 100% cash).

10. To provide more opportunity for scheme members the Director of Finance and Pension Manager at Prudential have agreed the following Fund changes;

- Introduce a new fund designed for members who still desire a Lifestyle option but may not wish to target 100% cash.

- **The new Lifestyle option** is the Dynamic Growth IV Fund **(targeting retirement options)**. The fund management charge each year is 0.62% to align with the other Dynamic Growth Funds. This reduces to 0.55% when the fund switches to Cash.

- Offer the 61 people already in the Lifestyle option (optimiser fund) opportunity to move their funds to any of the existing Funds, including either the new Lifestyle option – Dynamic Growth IV Fund (targeting retirement options), or the Dynamic Growth IV Fund (targeting 100% cash). If they make no option, be default, they will move to the Dynamic Growth IV Fund (targeting 100% cash).

11. All new AVC contributors will be informed of the new Lifestyle Fund choice. Members of the Board are reminded that the choice fund is down to the individual pension fund member, who may seek suitable external financial advice if they feel it necessary. The Pension Fund cannot provide any financial advice to members.

Recommendation

12. Members of the Board note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix A – Prudential Fund Guide

Officers to Contact

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

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

PRUDENTIAL

Fund Guide

Leicestershire County Council Pension Fund
Local Government AVC Scheme

This document may also be referred to as 'A guide to fund options' or 'Key Features Appendix'

Fund Guide

Leicestershire County Council Pension Fund
Local Government AVC Scheme

The pension fund that you build up to provide for your retirement will depend on factors including the amount of contributions put in and what funds they are invested in.

This booklet provides useful and important information to help you decide which funds you would like to invest in.

The initial areas to consider are:

- How do I understand investment risk?
- What type of investments do I favour?

Followed by:

- What funds are available?
- How does Lifestyling work?
- Fund descriptions

Finally we provide:

- Other important information
- Further information
- A glossary of some investment terms

Prudential is committed to providing a broad range of investment funds. We have funds managed by M&G, our UK and European fund management business, and other leading fund managers. These funds have been selected for your scheme by your trustee or employer and should offer a varied choice for you. If you are unsure as to the suitability of a fund, you may wish to seek financial advice.

Your Key Features Document contains all the main features, benefits and risks of the Plan. It is important that you read this document before making a decision. As this is an investment-based product the value of your investment can go down as well as up and you may not get back the amount invested.

The information included in this guide is correct at the time of production, October 2018.

Where to find some more information

You can find details of how we manage our unit-linked funds at **pru.co.uk/ppfm/ul** You will also find there a shortened version, our "Customer Guide", which explains briefly how the Prudential unit-linked funds work, our current approach to managing them, and the standards and practices we use to manage the funds. Principally, this Customer Guide will explain:

- the nature and extent of the decisions we take to manage the funds, and
- how we treat customers and shareholders fairly

We reserve the right to make changes at any time to the funds we make available, subject to certain restrictions. We will write to you if this affects you. We may also introduce new funds from time to time.

To get up-to-date information on the funds we make available, including changes to funds, please visit **pru.co.uk/funds/prudential-corporate-pension-factsheets/**

For more detailed information and help on choosing your pension funds, please visit **pru.co.uk/interactiveguide/**

How do I understand investment risk?

Trying to understand and decide on the level of risk you are willing to take with your investment can be a difficult task. Understanding some of the risks that an investment could be exposed to can help you assess how much risk you are willing to take.

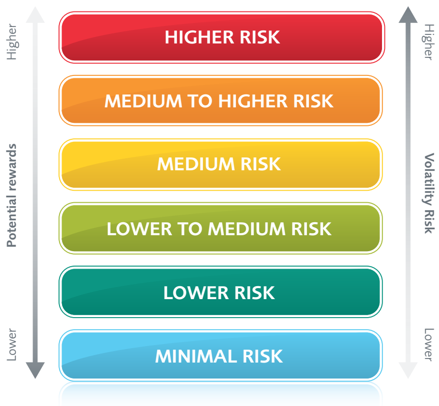
Growth from your investment can't be achieved without exposure to some risk. Being too cautious can also put your investment at risk, for example it may not grow enough to keep up with inflation, so getting the balance right is key to meeting your own objectives.

Some funds are more risky than others so how do you decide which fund or funds are most suitable for you? One rule of thumb is that the more risk you take, the greater the potential return over the long-term – but also the greater the potential loss.

To help you choose the right fund for you we have given each fund a risk rating

Important points to understand about Prudential's risk ratings.

- Our risk ratings are based on our expectation of future volatility (the chance of short-term fluctuations up and down in the value of a fund). They do not take into account other types of investment risks you may face such as the effects of inflation.
- Risk ratings are reviewed by Prudential and may change in the future.



Volatility Risk – the chance of short-term fluctuations up and down in the value of funds, as events in financial markets cause the value of investments to rise and fall. While this can happen at any time, we believe it is likely to be most important when you're planning changes to your funds or close to taking your benefits.

These risk ratings have been developed by Prudential. Our explanations of each of these risk categories can be found in the 'What funds are available?' section.

Other companies may use different descriptions and as such these risk rating categories should not be considered as generic to the fund management industry. We recommend that before making any fund choice you ensure you understand the risk rating and relate that to your personal circumstances before making a decision.

It is important to understand the risks involved. You need to consider the amount of risk you are taking against the potential performance of the fund. The value of investments can go down as well as up. You could get back less than you invest.

In addition to Volatility Risk, other risks you may face (shown alphabetically) include:

Conversion Risk – when you retire, there is a risk that the amount of income you can buy with your pension savings will fall.

Default Risk – the risk that a company or government may not honour payments due to an investor.

Exchange Rate Risk – changes in exchange rates may cause the sterling values of overseas investments to rise or fall.

Inflation Risk – the risk that the value of investments doesn't grow enough to keep up with inflation and so the buying power of your pension savings is eroded. We believe this risk is likely to be important to you most of the time.

Liquidity Risk – some assets can be more difficult to value and can take longer to buy or sell.

Manager Risk – the risk that an investment manager may fail to meet the objectives set for a fund.

You need to balance the importance of each of these risks to you. While inflation is likely to be important throughout, volatility and conversion risks may become even more important as you approach retirement.

What type of investments do I favour?

You can choose to spread your investment across assets to reflect your own attitude to risk.

What does the fund invest in?

Risk Rating

Typically invests more in:
Equities

HIGHER RISK

MEDIUM TO HIGHER RISK

Typically invests more in:
Corporate Bonds, Government Bonds (Gilts), Multi-Asset, Property

MEDIUM RISK

LOWER TO MEDIUM RISK

Typically invests more in:
Deposits, Money Market Instruments

LOWER RISK

MINIMAL RISK

What is diversification?

If you invest entirely in one type of asset or region of the world, then the value of all your pension savings will be subject to the changes in the performance of that type of asset or region. To help manage this risk, you could consider choosing funds that spread the risk by investing:

- in several assets, e.g. Equities, Bonds and Property, either through a number of funds or with a Multi-Asset fund
- by geography, e.g. different countries and regions

This approach, known as diversification, may help protect your investment from feeling the full effects from a fall in value of one asset area. However, there may be occasions when most types of investments fall in value. It should be noted too that diversification means your investment may not feel the full effects of a rise in value of any one asset.

What funds are available?

In this section you will find details of the funds you can invest in. Where available, you can choose a combination of up to a maximum of 10 funds from the funds listed.

The funds are separated by risk rating as explained in the earlier 'How do I understand investment risk?' section. We set these risk ratings for all our funds to help you choose the most appropriate funds for your needs and circumstances.

Further detail covering the objectives of the funds and where they invest can be found later in this booklet in the 'Fund descriptions' section.

Charges and property expenses, where applicable, are shown next to each fund in this section.

- Our charges may vary in the future and may be higher than they are now. We will write to you if this affects you.
- For funds that invest directly or indirectly in property, there are additional expenses incurred for the development, maintenance, operation and renovation of the properties held. These are known as property expenses, are shown separately in this section and are paid for out of the overall performance of the fund.
- In addition to the charges and property expenses shown, there are costs which impact the overall performance of the fund. These costs are known as trading or dealing costs (including transaction related custody costs). When a fund manager trades the investments in your fund (for example, makes a decision to sell one holding and buy another) there are associated costs, for example taxes, which the fund pays. These costs are paid for out of the overall performance of the fund.
- There are other additional costs, such as those incurred to hold the underlying assets, which are paid from the fund but which are rebated back by Prudential to the fund and therefore will not impact the performance of the fund.

Default Investment Option

If you do not actively choose investment funds your payments will be invested in your plan's Default Investment Option. The Default Investment Option for your plan is the Prudential With-Profits Fund. It is the responsibility of your trustee or employer to select the Default Investment Option with guidance from their adviser. You can change your mind and switch out of the Default Investment Option.

This doesn't represent a recommendation on behalf of Prudential and you should consider and choose funds or lifestyle options to suit your needs.

What funds are available?

Fund Name	% each year		
	Charges	Property Expenses	Total of Charges & Property Expenses
Higher Risk – These are specialist equity funds that focus on set geographical regions or a particular type of share e.g. shares of smaller companies or those that conform to certain criteria.			
Prudential Ethical Fund	0.65	0.00	0.65
Prudential UK Equity Fund	0.65	0.00	0.65
Prudential UK Equity Passive Fund	0.55	0.00	0.55
Medium to Higher Risk – These funds offer a diverse geographical spread of equity investment or have multi-asset strategies with a specialist focus (e.g ethical). The equity funds within this category will have greater overseas exposure and underlying volatility than the 'medium risk' sector.			
Prudential Global Equity Fund	0.65	0.00	0.65
Prudential International Equity Fund	0.65	0.00	0.65
Medium Risk – These funds may invest in multi-asset strategies with a higher weighting in equities (or with significant derivative use), while funds investing mainly in property, high yield or government bonds (such as UK Gilts) are also in this category.			
Prudential Discretionary Fund	0.65	0.05	0.70
Prudential Dynamic Growth IV	0.62	0.00	0.62
Prudential Dynamic Growth V	0.62	0.00	0.62
Prudential Index-Linked Fund	0.65	0.00	0.65
Prudential Long-Term Gilt Passive Fund	0.55	0.00	0.55
Prudential UK Property Fund	0.65	0.56	1.21
Lower to Medium Risk – These funds may invest in corporate bonds or multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies).			
Prudential Dynamic Growth I	0.62	0.00	0.62
Prudential Dynamic Growth II	0.62	0.00	0.62
Prudential Dynamic Growth III	0.62	0.00	0.62

What funds are available?

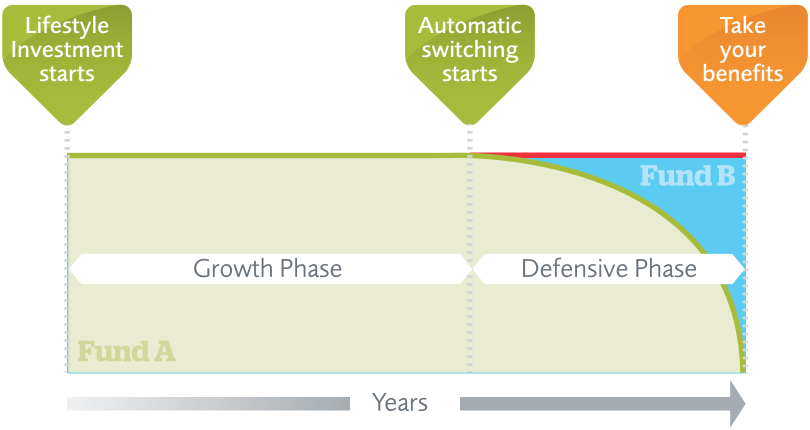
Fund Name	% each year		
	Charges	Property Expenses	Total of Charges & Property Expenses
Prudential Fixed Interest Fund	0.65	0.00	0.65
Prudential With-Profits Fund	†	–	–
Minimal Risk – These funds may invest in a combination of deposits, money market instruments and other types of interest bearing securities.			
Prudential Cash Fund	0.55	0.00	0.55

† For further information on the Prudential With-Profits Fund please see 'Other important information'.

How does Lifestyling work?

Lifestyling

Lifestyling aims to provide long term growth with automatic switching of your money into different funds as you get closer to taking your benefits. Lifestyling is an investment option that is basically made up of two phases. The first "growth" phase is where the aim is to grow the size of your pension savings, typically by investing in funds which aim to grow faster than inflation. In the second "defensive" phase your investments are switched automatically, into funds that could help reduce the risk of short-term falls in the value of the pension savings you've built up.



How/when are Lifestyle switches made?

The switches between funds, shown by funds A and B in the example above, are designed so that the investment in each fund within the lifestyle option is maintained at the fixed proportions set out in the 'Lifestyle option' section. The funds being used, their risk ratings and the point where your fund value will start automatic switching, will be dependent on the lifestyle option you choose. If you choose a lifestyle option, all your payments will be made into that option and you will not be able to select any other investment funds or lifestyle option. You can switch all your pension savings out of this option at any time.

The switches between the funds are automatically done and are normally free of charge. However, there may be a cost to you if the switch is from a fund where the, generally lower, selling price applies that day to a fund where the, generally higher, buying price applies on the day the switch is completed. Prudential reserves the right to change the terms of the lifestyle option.

What happens if I change my retirement plans?

If you change the date that you intend to take your benefits it's important that you let us know so that we can amend your lifestyle option accordingly.

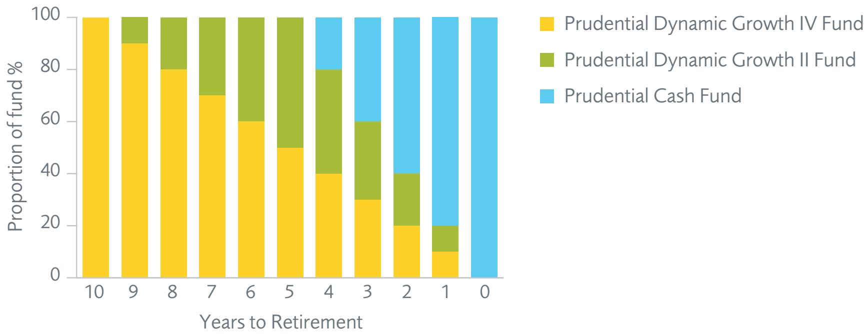
More information on Lifestyling

Details of the funds used for investment in your lifestyle option are detailed within the 'Fund description' section later in this guide.

For further details of the advantages and disadvantages of lifestyling please visit **pru.co.uk/lifestyling/**

Lifestyle option

Prudential Dynamic Growth IV Lifestyle targeting 100% cash



Please note that the funds change automatically and monthly throughout the year to achieve the pre-set proportions.

The graph above shows you what funds are included in the lifestyle option, where you are initially invested and how the proportions invested in each fund move year on year to retirement. You will find more information on Lifestyling in the 'How does Lifestyling work?' section.

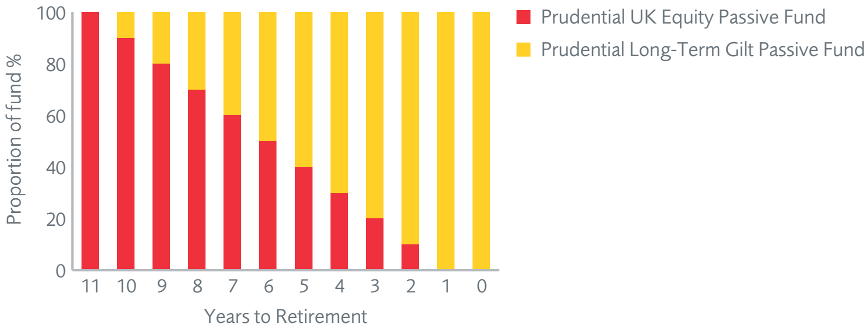
Risk rating	Charges per year
Prudential Dynamic Growth IV Fund – **Medium** Prudential Dynamic Growth II Fund – **Lower to Medium** Prudential Cash Fund – **Minimal**	Charges will depend on which funds your money is invested in and when the charge is calculated.

The 'targeting 100% cash' lifestyle has been designed for those intending to take their pension as a single or series of cash lump sums. At retirement, you'll need to consider whether by taking cash you will have sufficient income to meet your needs.

Lifestyle option names may be descriptive in nature. Some, for example, are similar to Prudential Risk Rating names. However, it is important to note, that lifestyle options are not risk rated by Prudential.

Lifestyle option (continued)

Lifestyle option 10 – closed to new members from 1 September 2016



Please note that the funds change automatically and monthly throughout the year to achieve the pre-set proportions.

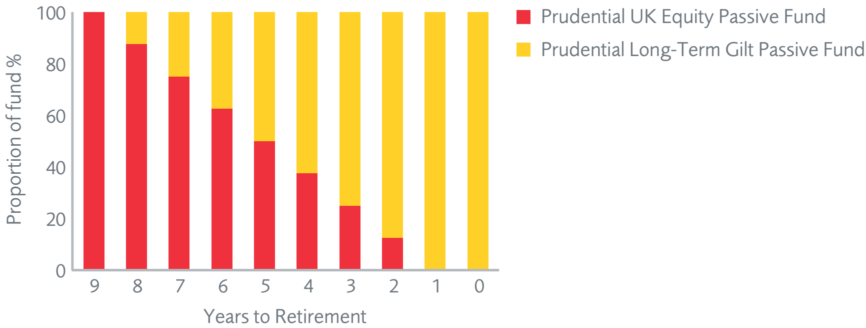
The graph above shows you what funds are included in the lifestyle option, where you are initially invested and how the proportions invested in each fund move year on year to retirement. You will find more information on Lifestyling in the 'How does Lifestyling work?' section.

Risk rating	Charges per year
Prudential UK Equity Passive Fund – **Higher** Prudential Long-Term Gilt Passive Fund – **Medium**	Charges will depend on which funds your money is invested in and when the charge is calculated.

This lifestyle option could be for those intending to buy an annuity. An annuity will provide you with an income for the rest of your life, regardless of how long you live.
The level of income is generally determined by; the size of your pension savings, your health and prevailing interest rates when you come to retirement.

Lifestyle option names may be descriptive in nature. Some, for example, are similar to Prudential Risk Rating names. However, it is important to note, that lifestyle options are not risk rated by Prudential.

Lifestyle option 8 – closed to new members from 1 September 2016



Please note that the funds change automatically and monthly throughout the year to achieve the pre-set proportions.

The graph above shows you what funds are included in the lifestyle option, where you are initially invested and how the proportions invested in each fund move year on year to retirement. You will find more information on Lifestyling in the 'How does Lifestyling work?' section.

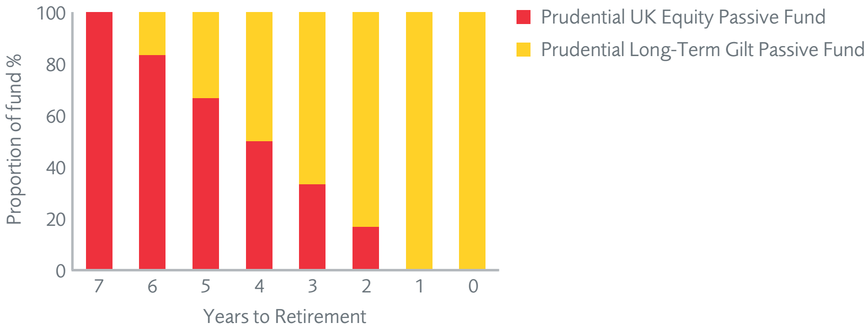
Risk rating	Charges per year
Prudential UK Equity Passive Fund – **Higher** Prudential Long-Term Gilt Passive Fund – **Medium**	Charges will depend on which funds your money is invested in and when the charge is calculated.

This lifestyle option could be for those intending to buy an annuity. An annuity will provide you with an income for the rest of your life, regardless of how long you live.
The level of income is generally determined by; the size of your pension savings, your health and prevailing interest rates when you come to retirement.

Lifestyle option names may be descriptive in nature. Some, for example, are similar to Prudential Risk Rating names. However, it is important to note, that lifestyle options are not risk rated by Prudential.

Lifestyle option (continued)

Lifestyle option 6 – closed to new members from 1 September 2016



Please note that the funds change automatically and monthly throughout the year to achieve the pre-set proportions.

The graph above shows you what funds are included in the lifestyle option, where you are initially invested and how the proportions invested in each fund move year on year to retirement. You will find more information on Lifestyling in the 'How does Lifestyling work?' section.

Risk rating	Charges per year
Prudential UK Equity Passive Fund – **Higher** Prudential Long-Term Gilt Passive Fund – **Medium**	Charges will depend on which funds your money is invested in and when the charge is calculated.

This lifestyle option could be for those intending to buy an annuity. An annuity will provide you with an income for the rest of your life, regardless of how long you live.
The level of income is generally determined by; the size of your pension savings, your health and prevailing interest rates when you come to retirement.

Lifestyle option names may be descriptive in nature. Some, for example, are similar to Prudential Risk Rating names. However, it is important to note, that lifestyle options are not risk rated by Prudential.

Closed funds

The following list shows funds that are now closed to new members. Members who are already invested in these funds can continue to invest and make additional payments.

Fund Name	% each year			Date Closed
	Charges	Property Expenses	Total of Charges & Property Expenses	
Prudential Deposit Fund	N/A*	0.00	N/A	31/05/2017

* For further information on the Prudential Deposit Fund please see the 'Fund descriptions' section.

Fund descriptions

All of the available funds are Prudential funds managed on our behalf by the fund manager stated. These funds should not be confused with the same or similarly named fund offered independently by this fund manager.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Higher Risk		
Prudential Ethical Fund Prudential	Equities, Active	The investment strategy of the fund is to purchase units in the M&G PP Ethical Fund. That fund invests in the shares of UK companies which demonstrate good environmental, social and governance policies. The fund is actively managed against its benchmark, the FTSE4Good UK Index, which is limited to those companies in the FTSE All-Share Index which meet set ethical criteria. Performance Objective: To outperform the benchmark by 1.0% a year (before charges) on a rolling three year basis.
Prudential UK Equity Fund Prudential	Equities, Active	The investment strategy of the fund is to purchase units in the M&G PP UK Equity Fund. That fund invests, via other M&G PP funds, in the shares of UK companies. The fund is actively managed against its benchmark, the FTSE All-Share Index. It is a "fund of funds" holding units in several more specialised UK equity funds giving access to a variety of methods for generating investment returns in differing market conditions. Performance Objective: To outperform the benchmark by 0.75%-1.0% a year (before charges) on a rolling three year basis.
Prudential UK Equity Passive Fund Prudential	Equities, Passive	The investment strategy of the fund is to purchase units in the M&G PP UK Equity Passive Fund. That fund invests in the shares of UK companies. The fund is passively managed against its benchmark, the FTSE All-Share Index. The fund tracks the index by holding all of the companies which make up the FTSE 100 Index (excluding Prudential plc), together with a representative sample of the remainder of the companies in the All-Share Index. Performance Objective: To match the performance of the benchmark as closely as possible.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Medium to Higher Risk		
Prudential Global Equity Fund Prudential	Equities, Active	Investment objective to 31 December 2018: The investment strategy of the fund is to purchase units in the M&G PP Global Equity Fund. That fund provides an all equity approach to investment, holding a 70% UK equity and 30% mix of overseas company shares, via other M&G PP funds. For the overseas shares it is actively managed against an internal composite benchmark asset allocation set by the Prudential Portfolio Management Group. It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Investment objective from 1 January 2019: The investment strategy of the fund is to purchase units in the M&G PP Global Equity Fund. That fund provides an all-equity approach to investment, holding a 60% UK equity and 40% mix of overseas company shares. For the overseas shares the fund is actively managed against an internal composite benchmark asset allocation set by the Prudential Portfolio Management Group. It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Performance Objective: To outperform the internal composite benchmark by 1.0% a year (before charges) on a rolling three year basis.
Prudential International Equity Fund Prudential	Equities, Active	The investment strategy of the fund is to purchase units in the M&G PP International Equity Fund. That fund invests, via other M&G PP funds, in the shares of overseas companies. It is actively managed against an internal composite benchmark asset allocation set by the Prudential Portfolio Management Group. It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Performance Objective: To outperform the internal composite benchmark by 1.0% a year (before charges) on a rolling three year basis.

Fund descriptions (continued)

Fund Name and Manager	Asset Class, Active or Passive	Objective
Medium Risk		
Prudential Discretionary Fund Prudential	Multi-Asset, Active	The investment strategy of the fund is to purchase units in the M&G PP Discretionary Fund. That fund provides a multi-asset approach to investment, holding a mix of UK and overseas company shares, bonds, property, cash plus listed alternative assets through other M&G PP funds or direct holdings. It is actively managed against an internal benchmark asset allocation set by the Prudential Portfolio Management Group. It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Performance Objective: To outperform the internal composite benchmark by 1.15% - 1.40% a year (before charges) on a rolling three year basis.
Prudential Dynamic Growth IV Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 40% of its assets in equities but not more than 80%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth V Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 60% of its assets in equities but may invest up to 100%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Index-Linked Fund Prudential	Government Bond, Active	The investment strategy of the fund is to purchase units in the M&G PP Index-Linked Fund. That fund invests mainly in UK Government index-linked gilts, typically with over five years to maturity. The fund is actively managed against its benchmark, the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index. The fund can also invest in corporate bonds, overseas government bonds and fixed interest gilts. Exposure to short-term exchange rate movements from any overseas holdings is mitigated by hedging. Performance Objective: To outperform the benchmark by 0.75% a year (before charges) on a rolling three year basis.
Prudential Long-Term Gilt Passive Fund Prudential	Government Bond, Passive	The investment strategy of the fund is to purchase units in the M&G PP Long-Term Gilt Passive Fund. That fund invests in UK Government gilts with over 15 years to maturity. The fund is passively managed against its benchmark, the FTSE Actuaries UK Conventional Gilts Over 15 Years Index. Tracking this index is achieved by fully replicating the stocks in the index. Performance Objective: To match the performance of the benchmark as closely as possible.
Prudential UK Property Fund Prudential	Property, Active	The investment strategy of the fund is to buy units in the M&G PP UK Property Fund. That fund invests in the M&G UK Property Fund ("UKPF"), an open-ended Luxembourg FCP investing solely in UK property assets, including the retail, office, industrial and alternative sectors. The UKPF is actively managed against its IPD benchmark, seeking to deliver returns through a combination of rental income and capital growth. At times the fund may have significant levels of short term cash deposits in advance of purchasing units in the UKPF. This may lead to lower than expected returns. Performance Objective: To outperform the benchmark by 1.05% per year (gross of annual management charges) over rolling 3-year periods.

Fund descriptions (continued)

Fund Name and Manager	Asset Class, Active or Passive	Objective
Lower to Medium Risk		
Prudential Dynamic Growth I Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest a maximum of 30% of its assets in equities. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth II Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 10% of its assets in equities but not more than 40%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth III Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 20% of its assets in equities but not more than 55%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Fixed Interest Fund Prudential	Government Bond, Active	The investment strategy of the fund is to purchase units in the M&G PP Fixed Interest Fund. That fund invests mainly in UK government gilts. The fund is actively managed against its benchmark, the FTSE Actuaries UK Conventional Gilts All Stocks Index. The fund can also invest in overseas government bonds and corporate bonds issued by UK and overseas companies and institutions. Exposure to short-term exchange rate movements from any overseas holdings is mitigated by hedging. Performance Objective: To outperform the benchmark by 0.75% a year (before charges) on a rolling three year basis.
Prudential With-Profits Fund Prudential	Multi-Asset, Active	The fund offers the prospect of competitive long-term real returns whilst smoothing the peaks and troughs of day-to-day market movements. Investment returns are passed to policyholders through bonuses. The fund is invested in a diversified portfolio of UK and overseas shares, bonds, property and cash. A significant proportion of the fund is invested in shares and property which can be expected to produce attractive long term returns, but the return on these assets can be volatile and so the fund is actively managed to optimise the returns while controlling risk.
Minimal Risk		
Prudential Cash Fund Prudential	Deposits, Active	The investment strategy of the fund is to purchase units in the M&G PP Cash Fund. That fund invests in both secured (reverse repurchase agreements) and unsecured interest bearing deposits, as well as short-term UK Government bonds and Certificates of Deposit. It is actively managed against its benchmark, the London Interbank LIBID 7 Day Deposit rate. Performance Objective: To outperform the benchmark before charges on a rolling three year basis.
Prudential Deposit Fund Prudential	N/A, Active	The current practice, which we can review at any time, is to set and declare the interest rate on the first of each month, in line with the Bank of England base rate. Any interest is declared monthly and there are no explicit charges. The assets of this fund are part of the With-Profits Fund which is a multi-asset fund. The capital you hold in the Prudential Deposit Fund will not decrease.

Other important information

With-Profits

For With-Profits investment, the rate of future bonuses cannot be guaranteed. Final bonus may vary and is not guaranteed.

For investments in the With-Profits Fund, the value of the Policy depends on how much profit the Fund makes and how we decide to distribute that profit. Policyholders usually receive their shares of any profits as bonuses but we may use other methods to distribute profits.

Charges for With-Profits investment will vary, and latest charges can be found on your Annual Benefits Statement.

If you move money out of the With-Profits Fund a Market Value Reduction may be applied, which would cause the value of your pension savings to fall.

For further information on With-Profits please refer to your Key Features Document or visit **pru.co.uk/funds/ppfm/**

Switching between funds

- When switching between different unit-linked investment funds, the sale of existing units and the purchase of new units will not normally take place on the same date. There will be a lead-time involved in making unit prices available and where external companies are involved this lead-time may be longer than for funds managed by Prudential. The prices of units can go up or down during that time: this is a risk to you. The exact time lapse between sale and purchase will depend on the investment funds involved in the switch. No interest is due for the period between the sale and purchase of units.
- For any fund, there may be a delay in buying, selling or switching of units. These delays will only apply in exceptional circumstances and we will let you know if they apply to you. There may, for example, be circumstances outside our control which prevent us, from acting upon an instruction to buy, sell or switch units. For example, where, due to restrictions imposed by an external fund manager, we are unable to sell units in an externally-managed fund. Equally we may need to delay acting upon an instruction where we believe that will protect remaining investors in the fund from suffering an unfair reduction in the value of their investment in the fund or some other form of unfair treatment.
  - Other than in very exceptional circumstances we would not expect delays to be longer than six months for investments in property and land and one month in the case of units in other funds.
  - While we will not delay buying, selling or switching units for longer than reasonably required, we cannot guarantee that we will never delay acting upon your instructions beyond the timescales set out above.

– If we do delay, we will use the unit prices that apply on the day we actually sell, buy or switch units after the delay has ended, unless, again, we believe that in the particular circumstances that would not be fair to investors in general.

- When switching an existing investment from a unit-linked fund to a lifestyle option, the total value of your fund will be switched automatically to that lifestyle option.
- If you choose a lifestyle option, all of your payments will be made into that option and you will not be able to select any other investment funds or lifestyle option. You can switch all of your savings out of this option at any time.

Changes to our funds

We reserve the right to make changes at any time to the funds we make available, subject to certain restrictions. We may also introduce new funds. To find out about changes to our range of funds, please go to **pru.co.uk/factsheets/corporate_pension_fund_updates/**

Can I change my mind?

You can switch your money between funds at any time. We won't charge you for this though, as noted earlier, there is a risk to you as the prices of units can go up or down during the lead-time involved in making those prices available. If this changes in the future we will let you know. For further information please see the earlier 'Switching between funds' section.

Further information

Some background information on how our funds work

- Investment funds are legal arrangements which pool together the contributions of numerous individuals (such as members of schemes like you) to collectively buy assets like shares and bonds. These funds are then divided into units of equal value. In return for their contributions, each individual receives ownership of their share of the fund in the form of these units.
- These funds – known as 'unit-linked' investment funds – have a single price, based on the valuation of the assets held by the fund. Each unit will have this price.
- The unit-linked investment funds are "forward priced". This means that the unit price you receive is the next available price after you have invested money in or taken money out of a fund.
- When calculating the unit price of a fund it is important to consider how much money is either going into or being taken out of the fund.

  If more money is being paid into the fund than is being taken out, then the fund will need to purchase assets. If this is the case then the purchase price (or "offer" price as it is sometimes known) will be relevant in determining the unit price of the fund.

  If more money is being taken out of the fund than is being paid in then the fund will need to sell assets. If this is the case, the sale price of the underlying assets will be more relevant when calculating the unit price.
- Sales prices are generally lower than purchase prices so a switch from a purchase price to a sales price will result in a lower unit price. Conversely, a switch from a sales price to a purchase price will result in a higher unit price.

  In both cases the movement in unit price can be significant and will occur immediately.

  This is known as a "single swinging price". It is done to protect the interests of those customers who remain in the fund and means that the costs of buying and selling assets are borne by those customers who are trading in and out of the fund. The difference between the purchase and sales price reflects these costs which tend to be largest for funds investing in property, smaller companies and developing markets. The costs can include stockbroker commission and withholding taxes (such as stamp duty in the UK) and are outside Prudential's control.

  It also means that, whenever you switch funds, there may be an investment cost to you if you switch from a fund where the sales price applies that day to a fund where the purchase price applies on the day the switch is completed.

- Some of the Prudential funds listed in this guide may gain all or part of their investment exposure by investing in collective investment schemes (e.g. Unit Trusts, Open Ended Investment Companies (OEICs)), derivatives or other investment vehicles. These Prudential funds may hold an element of cash due to the short delay between new investments being received by the Prudential fund and being placed in the underlying investment(s). This is known as a fund's dealing cycle and varies between fund managers. The dealing cycle can be several days and may have an impact on the performance of the Prudential fund when compared to the underlying investment(s).

You can find more details of how we manage our unit-linked funds at **pru.co.uk/ppfm/ul**

You will also find there a shortened version, our "Customer Guide", which explains briefly how the Prudential unit-linked funds work, our current approach to managing them, and the standards and practices we use to manage the funds.

Financial Services Compensation Scheme

The Prudential Assurance Company Limited (PACL) and other UK authorised and regulated firms in the Prudential Group are subject to the Financial Services Compensation Scheme. You may be able to make a claim if Prudential is unable to meet its financial obligations.

However, it is important to know that any compensation will depend on your eligibility, the type of financial product or service involved, the investment funds selected and the circumstances of the claim.

Find out more about Prudential and the FSCS at: **www.pru.co.uk/about_us/fscs** or you can call us.

A glossary of some investment terms

This glossary is not intended to be a definitive reference document and you should consider contacting a financial adviser for further assistance where necessary.

Alternative Assets – These are alternatives to more traditional assets such as Equities, Bonds and Property. These can range from hedge funds and venture capital to fine wines, rare stamps and other collectibles. Due to their nature some of these assets can be difficult to value and to trade.

Bonds – These are loans or IOUs issued by companies or by governments in order to raise money. Bonds issued by companies are called corporate bonds while those issued by governments are generally known as government bonds. Bonds issued by the UK Government are known as Gilts.

Bonds can provide fixed or index-linked amounts of income based on their initial price, in addition to repaying that initial sum on a specified later date. The market value and the interest rate on a bond can both go down and up. On the whole, over the longer-term, investing in bonds is considered to be lower-risk than investing in equities.

Certificates of Deposit – These are a money market investments that are generally issued by banks. A certificate of deposit usually pays interest (which can vary) and entitles the bearer to receive a set interest rate up until a set maturity date and can be issued in any currency or denomination.

Collective Investment Schemes – A way of pooling investment with others as part of a single investment fund, such as those offered here by Prudential. This allows investors to participate in a wider range of investments than would normally be feasible if investing individually and to share the costs and benefits of doing so.

Commodities – These are raw materials and foodstuffs that can be divided into categories such as: Agriculturals (e.g. wheat and potatoes), Softs (e.g. coffee and cocoa), Precious Metals (e.g. gold and silver), Non-Ferrous Metals (e.g. copper and lead) and Energies (e.g. oil and gas).

Deposits – Money that is placed with banks, building societies and other organisations to earn interest.

Deposits can be considered to be minimal risk, but there are exceptional circumstances where they can fall in value.

Derivatives – These cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today.

Equities – Also known as shares or stocks, these represent a share of the ownership of a company. Shares can provide regular payments, known as dividends, and share price changes as the value of the company changes.

Over the longer term, equities can offer greater growth potential than many other asset types. But the value of equities can go up and down a lot and tend to carry a higher risk than corporate or government bonds or money market instruments.

Hedging – Aims to reduce the risk of an asset. Currency hedging is a specific example – where an investment is 'hedged back to sterling' a fund manager is trying to protect that investment from an unwanted move in sterling exchange rates. Whilst hedging can reduce potential risk it also reduces potential returns.

High Yield Bond – This is a type of bond that offers higher interest payments due to the increased risk of default by the company issuing the bond. It can also be known as a "junk" bond. These bonds will have low credit ratings of BB or below.

Investment Grade – A credit rating given to a government or corporate bond that indicates that the agency giving the rating believes that the issuer has a relatively low risk of default. Bonds with credit ratings of AAA, AA, A or BBB are considered investment grade.

Liquidity – This is how quickly an asset, such as equities, corporate bonds or property, can be traded within a market and turned into cash.

London Interbank Bid Rate (LIBID) – This is the interest rate at which banks bid for cash deposits from each other.

Market Capitalisation – This is the total value of a company's issued securities at their current market prices. This figure should include all the different types of security issued by the company, such as shares and bonds, but is often used in relation to the equity or stock market capitalisation. The market capitalisation of a company is the market price per share multiplied by the number of shares in issue. Companies are often referred to as large cap (an abbreviation for large market capitalisation), mid cap (an abbreviation for a medium-sized company by market capitalisation) or small cap (an abbreviation for small market capitalisation).

Maturity – This is the length of time until an asset becomes due for repayment. For example with a Corporate Bond this is the length of time until the initial sum is repaid.

Money Market Instruments – These include bank deposits, certificates of deposits or fixed interest securities.

The return achieved from money market instruments is a combination of interest and any changes in the value of the instruments.

Money market instruments can be considered to be very low risk, but there are circumstances where they can fall in value.

Multi-Asset – A fund that invests in a range of assets, such as equities, bonds, property and alternative assets, is known as a Multi-Asset fund. By investing in a range of assets the fund is not relying on the performance of assets of the same type. This helps to provide diversification of risk.

Options – Legal agreements that give the holder the right (but not the obligation) to buy or sell the underlying asset at an expiration date, at a price determined at the time of dealing.

Passive or active – The funds available to you are either actively or passively managed.

- **Passively managed fund** – Aims to track the movements of an index or indices, such as the FTSE 100* . It is not possible for a passively managed fund to track its benchmark exactly because of the costs it incurs buying and selling its underlying assets. The managers of the fund tend to have lower expenses than active fund managers, and the charges to investors therefore also tend to be lower.
- **Actively managed fund** – Active funds are those that are managed with the aim of generating returns greater than the market, as measured by a benchmark or an index.

Private Equity – This is money invested in private companies (those companies that are not publicly traded on a stock exchange, such as the London Stock Exchange) or which is used to buyout publicly traded companies in order to make them private companies.

Property – Investment in commercial property (such as retail, office and industrial properties). This can be done either by investing directly (eg owning physical property) or indirectly (eg owning shares in a property company as part of a diversified range of assets). The return achieved from investing in property is a combination of rental income and changes in the value of the property; which is generally a matter of a valuer's opinion rather than fact. It should also be noted that property can be difficult to sell, which can delay withdrawing money from a fund that invests in property. Property can be considered to be lower risk than equities, but higher risk than bonds over the long-term.

Prospectus – The legal document which sets out what a fund's investment objectives are and how it will operate. It is provided by the managers of the funds Prudential invest in.

Repurchase Agreements (also known as Repo) – An agreement in which one party sells securities to another party and agrees to repurchase those securities on a specified later date at a specified price.

Shares – see Equities.

Smaller Companies – Companies quoted on a recognised exchange that have a market worth below that of the largest companies. In the UK, smaller companies are typically defined as those with market capitalisations below the 350 largest companies.

Tracking error – This is the extent to which a fund's return differs from that of its benchmark.

Transferable Securities – These are assets which are traded on capital markets. The term is probably most commonly known and used in association with Undertakings for Collective Investments in Transferable Securities (UCITS) in UK and Europe. Examples include depositary receipts and some types of warrants which are derivatives giving the right to buy or sell assets like equities at a set price on or before a future date.

Unit – Unit-linked investment funds are divided into units of equal value. When investing, an individual's contribution is used to buy units. The value of these units will fall or rise in line with the underlying investments.

PRUDENTIAL

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LAVS379702 10/2018

LOCAL PENSION BOARD
4 MARCH 2019

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 2,6 and 10. The impact on risk 3 has been changed from 4 to 3

6. Risk 5 has been completely removed as the 2018 amendment regulations have been implemented.

Identified Risks of Concern

7. There are currently no identified risks of concern.

Recommendation

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

Appendix

9. Risk Register

Equality and Human Rights Implications

10. None.

Officers to Contact

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Leicestershire Pension Fund Risk Register February 2019

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. Outstanding legal challenges could significantly impact on the Fire scheme rules and administration time	Reputation Potential loss of business Increased administration	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	**4**	**3**	**12**	**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 Press the LGA and all relevant parties nationally on regulatory changes	**3**	**3**	**9**	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 Reputation	Ian Howe	LGA to provide guidance to Funds System changes implemented All members notified All scenarios tested	**3**	**1**	**3**	**Tolerate**		**3**	**1**	**3**	Ian Howe
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.	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	**3**	**2**	**6**	Ian Howe/ Declan

				Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.							allow better targeting of default risks Investigate arrangements to de-risk funding arrangements for individual employers. Consult with all Fund employers Amend the Funding Strategy Statement				Keegan
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	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	**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

				been necessary.		processes, and ensuring that managers take a holistic view on the risks associated with the investments they make on behalf of the 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	**2**	**2**	**4**	Chris Tambini

											governance surrounding the transition				

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					
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
	1 Very Rare/Unlikely	**2** Unlikely	3 Possible/Likely	4 Probable/ Likely	5 Almost certain

Likelihood*

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