Meeting: **Local Pension Board**

Date/Time: **Wednesday, 26 October 2022 at 10.00 am**

Location: **Microsoft Teams**

Contact: **Mr. M. Hand (0116 305 6038).**

Email: **matthew.hand@leics.gov.uk**

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 17 August 2022.		(Pages 3 - 6)
2.	Question Time.		
3.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
4.	Declarations of interest in respect of items on the agenda.		
5.	Pension Fund Administration Report July to September 2022 - Quarter Two.	Director of Corporate Resources	(Pages 7 - 18)
6.	Pension Fund Valuation - Funding Strategy Statement and Indicative Whole Fund Results.	Director of Corporate Resources	(Pages 19 - 110)
7.	Pension Fund's Strategies and Policies	Director of Corporate Resources	(Pages 111 - 124)
8.	Pensions Dashboard Programme	Director of Corporate Resources	(Pages 125 - 130)

9.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 131 - 152)
10.	Dates of Future Meetings. Wednesday 8 Feb 2023 10am Wednesday 26 April 2023 10am Wednesday 2 August 2023 10am Wednesday 18 October 2023 10am		
11.	Any other items which the Chairman has decided to take as urgent.		

TO:

Employer representatives

Mrs R. Page CC
Mr. R. Shepherd CC

Employee representatives

Ms. C. Fairchild
Ms. R. Gilbert
Mr. M. Saroya

Leicestershire County Council
PENSION FUND

Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Wednesday, 17 August 2022.

PRESENT

Mrs. R. Page CC (in the Chair)

Mr. R. Shepherd CC
Ms. C. Fairchild
Cllr. D. Bajaj

Apologies were received from Mr. Manjit Saroya and Ms Ruth Gilbert.

27. Minutes.

The minutes of the meeting held on 4 May 2022 were taken as read, confirmed and signed.

28. Question Time.

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

29. Urgent Items.

There were no items for consideration.

30. Declarations of interest in respect of items on the agenda.

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.

31. Pension Fund Administration Report April to June 2022 - Quarter One.

The Board received a report from the Director of Corporate Resources on relevant issues in the administration of Fund benefits, including performance of the Pensions Section against its performance indicators. A copy of the report marked ‘Agenda Item 5’ is filed with these minutes.

The Board noted the workload pressure on the Pensions Section due to critical statutory areas of pensions administration, including year-end, completion of scheme members annual benefits statements, and the Fund’s valuation had resulted in key performance indicators on business processes having fallen in comparison to the previous quarter.

The Board were requested to submit any comments or requests they may have in relation to training provided in-house and via the Hymans Robertson online training system be submitted to the Pensions Manager.

RESOLVED:

That the report be noted.

32. Pension Fund Valuation 2022.

The Board received a report from the Director of Corporate Resources on the assumptions as part of the Fund's 2022 valuation. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Arising from the discussion the following points were noted:

i. During Covid-19 there had been a belief that longevity assumptions would reduce or stay the same. Whereas the updated long-term calculation suggested a long-term trend of 1.5% annual improvement in longevity.

ii. A Member queried the effect of salary increases on the Fund, given current uncertainty in regards to the local government pay award offer. In response the Pension Manager informed the Board that salary increases had become less significant as more scheme members now had career average benefits service since April 2014. Members noted that inflation was more of an impact to the Fund, due to continued increases to the consumer price index (CPI). The Fund's Actuary Hymans Robertson continued to monitor the situation as part of the valuation and would tweak its assumption accordingly.

RESOLVED:
The Board noted that the report be noted.

33. Pension Fund Annual Report and Accounts 2021/22.

The Board received a report from the Director of Corporate Resources on the Fund's Annual Report and Accounts 2021/22. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

The Board noted that the external audit of the Pension Fund's Accounts was underway, and that the Board and Committee would be updated once complete.

The Board welcomed the Fund's Annual Report and noted it would be received by the Local Pension Committee on 9 September 2022 for approval prior to the Fund's Annual General Meeting scheduled for 12 December.

RESOLVED:

That the report be noted.

34. Local Pension Board Annual Report 2021/22.

The Board considered the draft Local Pension Board Annual Report which summarised some of the key highlights of the Board's work undertaken during 2021/22. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

The Board supported the contents of the report, which would be reported to the Local Pension Committee on 9 September and the Fund's Annual General Meeting on 12 December 2022.

RESOLVED:

That the Local Pension Board Annual Report be approved

35. McCloud Remedy Report.

The Board received a report from the Director of Corporate Resources which provided an update on work regarding the McCloud remedy. A copy of the report marked 'agenda item 9' is filed with these minutes.

The Board noted that it was unclear how long the McCloud project was expected to take, and that progress would be intermittent and depend on resource availability, as well as national guidance which was awaited. Officers assured Members that the Board would remain updated on progress and developments linked to McCloud and the 'Pensions Dashboard' project.

Members asked that officers consider how they could signpost to scheme members the reports the Board received, through the Member Self Service portal, given the issues reported on could be of interest.

RESOLVED:
That the report be noted.

36. Risk Management and Internal Controls.

The Board considered a report by the Director of Corporate Resources, the purpose of which was to detail any concerns relating to the risk management and internal controls of the Fund. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Arising from discussion, the following points were made:-

i. The Fund was currently consulting on a Net Zero Climate Strategy for the Pension Fund to manage risks and opportunities arising from climate change. Communications had been circulated to employer and scheme members and would be highlighted in Annual Benefit Statement correspondence.

ii. The Fund were developing a Cyber Security policy which planned to be presented in draft form at the October meeting. In terms of a planned audit the Fund awaited national developments in relation to the Pension Regulator's Code of Practice, and the Good Governance Project, to check the Fund was up to standard.

RESOLVED:
That the report be noted.

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

The Chairman reiterated the point the Pensions Manager raised regarding training and asked Members to let the Pensions Manager know if they had any further training requirements or topics they wished to cover.

38. <u>Date of next meeting.</u>

RESOLVED:
It was noted that the next meeting of the board would be held on 26 October 2022 at 10am via Microsoft Teams.

Times Not Specified CHAIRMAN
17 August 2022

LOCAL PENSION BOARD – 26 OCTOBER 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION REPORT
JULY to SEPTEMBER 2022 - QUARTER TWO

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the main administrative actions in the quarter. The report covers governance areas including administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators. The Board is recommended to highlight any areas of concern it wishes to raise with the Local Pensions Committee.

Background

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 98,000 members.

Performance Indicators

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

Performance of Pensions Section

4. The results for the July to September 2022 quarter are included as the Appendix.

5. KPIs on customer feedback remain strong.

6. From October 2022 changes have been made to help improve two of the business process KPIs.

- Annual allowance was completed by the 6 October 2022 statutory deadline, so more resource is now available for the checking of retirements.
- Two additional colleagues are being trained on death benefit checking and payments.

<u>Governance – Service Delivery</u>

<u>General Workloads</u>

7. The tables show the position in the key work areas, July to September 2022.

July 2022

Area	Cases completed in the period	Remaining cases at the end of the period	Remaining cases in Pensions	Maximum Number of Cases at Month End
Preserved benefits	225	1106	821	1000
Retirement Options	209	327	109	300
Retirements Paid	167	439	91	300
Deaths	105	234	94	200
Refunds	89	266	82	400
Pension Estimates	84	121	96	250
Transfers in	52	290	110	200
Transfers out (excluding interfunds out) *	16	54	32	100
Aggregations	65	1520	1329	1000
New starters set up on the pension system	1422	n/a	n/a	n/a

August 2022

Area	Cases completed in the period	Remaining cases at the end of the period	Remaining cases in Pensions	Maximum Number of Cases at Month End
Preserved benefits	168	1181	907	1000
Retirement Options	225	380	187	350
Retirements Paid	139	420	76	350

Deaths	123	198	68	200
Refunds	102	356	125	400
Pension Estimates	59	155	126	250
Transfers in	66	271	118	200
Transfers out (excluding interfunds out) *	40	44	21	100
Aggregations	27	1653	1466	1000
New starters set up on the pension system	211	n/a	n/a	n/a

September 2022

Area	Cases completed in the period	Remaining cases at the end of the period	Remaining cases in Pensions	Maximum Number of Cases at Month End
Preserved benefits	84	1238	966	1000
Retirement Options	280	380	190	300
Retirements Paid	213	465	89	300
Deaths	120	198	58	200
Refunds	156	288	92	400
Pension Estimates	90	126	104	250
Transfers in	94	257	111	200
Transfers out (excluding interfunds out)*	36	45	31	100
Aggregations	96	1607	1422	1000
New starters set up on the pension system	921	n/a	n/a	n/a

*Interfunds out are excluded from the figures as Regulations allow one year for members to decide whether to transfer.

New starters are set up from IConnect interfaces load files provided by the employers.

8. The main point to note.

- It was a very challenging quarter with three large areas of work taking place. The 31 August statutory deadline for annual benefit statements following the completion of year-end, the Fund Valuation, and annual allowance.

Pensions Helpdesk

9. The Pension Section introduced the Pensions Helpdesk in January 2021 open 9am to 5pm. This was designed to provide a more consistent approach for dealing with member enquiries and to improve the customer experience.

10. The helpdesk is maintained, via a roster on colleagues the Early Leavers Team, usually with 3 Pension Assistants and a more senior colleague available for calls at a single point of time, with the rest of the team easily contactable to help cover peaks in calls.

11. The Early Leavers Team also deal with significant other areas of work including preserved benefits and aggregations.

12. The helpdesk receives 1,344 calls in an average month with calls averaging 5 minutes 25 seconds. The volume of calls has steadily increased since January 2021.

13. Officers have monitored the times calls reach the Helpdesk and these are primarily between 9am and 2pm each day.

14. Whilst aiming to maintain the high level of customer service, yet balancing resource on the Early Leavers Team to deal with other work areas (especially preserved benefits and aggregations), the time of the Helpdesk has been amended to 9am to 2pm (Mon to Fri). Calls after 2pm will be directed to areas of the website where members will be able to find information themselves. If this is not sufficient, members will be able to ring back the following day between 9am and 2pm.

15. The Pensions Manager will closely monitor customer feedback to see if this change reflects negatively in the customer feedback KPIs moving forward.

Governance – General

Complaints – Internal Disputes Resolution

16. The Pension Section deals with complaints through the Local Government Pension Scheme's formal Internal Dispute Resolution Procedure (IDRP). However, complaints are usually resolved informally, avoiding the need for the IDRP to commence. Initial complaints are often caused by misunderstandings or human error and can quickly be resolved.

17. In the period July to September 2022 there were two new IDRP Stage 2 appeals.

In both cases, the independent person who considered these at Stage 2 of the IDRP process, did not uphold the complaints. Both cases may now be taken to the Pensions Ombudsman, by the respective scheme members.

An earlier Stage 2 case was concluded in the quarter. The scheme member's previous employer changed their previous decision, now enabling the member to claim payment of pension benefits. The payment has been made to the member.

2021/22 Statutory Work - Annual Benefit Statements and Annual Allowance

18. The 31 August statutory deadline of the production of active member's annual benefit statements was completed. 35,541 active members received their 31 March 2022 statement. 7 active members did not receive their annual benefit statements. These members work at Total Swim. The delay has been caused by the ongoing legal non-completion of the Fund admission agreement, following the staff moving from The Life MAT to Total Swim in June 2021.

19. 152 individual annual allowance letters have been sent to scheme members detailing their annual allowance for 2021/22. There were approximately 100 other cases calculated and checked, where the member did not breach, so no letter was required. The statutory annual allowance exercise was completed by the 6 October 2022 deadline.

Breaches Log

20. The Pension Manager retains the Fund's breaches log. Each breach is reviewed to decide if the breach is material or not. Only material breaches are reported to the Pensions Regulator.

21. There was a breach in the quarter (July to September), because of the failure to provide the 7 members of Active Swim their 2022 annual benefit statements, however the Pensions Manager does not consider this a material breach given they received statements in 2021. The members have been informed in writing of the situation, and as soon as the outstanding legal agreement is completed their 2022 statements will be issued.

McCloud and Dashboards

22. The Board requested McCloud is a standing item at each quarterly report.

23. In the quarter July to August the following progress was made on McCloud.

- Data in respect of Leicestershire Police, Countesthorpe Parish Council and Voluntary Action Leicester has been manually input on to member's pension records.

- Data in respect of Melton Borough Council, Blaby District Council and Hinckley and Bosworth Borough Council is being worked through to enable an assessment of data quality.

- Queries in respect of some of the data provided by Leicestershire Police and Leicester City Council has been returned for further clarification.

24. Two temporary Pension Assistants will be recruited, initially for six months, to assist with the manual input of data as this is expected to form a significant element of the exercise.

25. Dashboards is covered in a separate report to the Board. Dashboards will also become a standing item in each quarterly report, moving forward.

Governance – Audit

26. During the quarter July to September 2022, there was one Internal Audit report received.

    - Pensions Increase. The was no recommendations on the results of the Pensions Increase calculations for April 2022.

    - However, to improve good governance on the process, in future years the annual pensions increase sign off document will be authorised by the Pensions Manager. Sign off will include the individual cases checked during the review by Pension Fund Officers and general sign off on the annual increase exercise.

Governance - Regulations

27. There were no new Regulations implemented in the July to September quarter.

Governance – Valuation

28. Year-end was completed and the valuation data submitted to the Fund Actuary. The whole fund results have been received from the Actuary, but to avoid duplication, a separate report on the Funding Strategy Statement and Whole Fund results is included later in the Board meeting agenda.

Governance – The Pensions Regulator Code of Practise

29. In 2021 The Pensions Regulator (TPR) completed a consultation on amalgamating their current codes into one single code.

30. The new code was expected in early/mid 2022, but at the time of writing it is still to be published. It is likely to include some changes and additions that Funds will need to comply with.

31. Officers and The Fund's Actuary will compare the current codes and the new single code via a "gap" analysis.

Governance – Employer Risk

32. Fund Officers continue to regularly review employer risk. Where there are outstanding admission agreements or bonds, these are reported to the Board each quarter. Whilst this is regularly monitored, employer risk work continues to expand and resource available is stretched.

33. The Pensions Manager has reviewed this area of risk and created a new role in the Pension Section, primarily assisting with Pension Fund employer risk and dealing with certain legal aspects. It is expected the successful candidate will start in post in quarter three.

34. In the table below, the outstanding cases are listed in risk order, highest to lowest. The highest risk cases are the longest unsigned admission agreements. Unsigned admission agreements mean, the staff that have transferred to the new employer are currently not active LGPS members. Once the admission agreement is legally signed, the pension start date for the staff will be backdated to the date of transfer, so the staff do not lose any scheme membership.

35. Medium or lower risk cases tend be where bonds are outstanding. The risk level is assessed by either bond value or the type of employer that provided the outsourcing and their ability to act as guarantor to the Fund.

36. When scheme members reach age 55 the risk increases because if those members are made redundant or retire on interests of efficiency, they qualify for unreduced pension benefits. A strain cost is generated that must be paid in full by the employer.

37. At the time of writing the report, 7 October 2022, there are several cases outstanding.

Letting employer and Contractor	**Outstanding Issue**	**Type of admission agreement and start date if outstanding**	**Full or Capital Cost Bond / Value and End Date**	**Comments**	**Fund Risk Level**
LIFE MAT to Total Swim	Admission agreement and bond	Pass through 7 June 2021 7 members – they have been informed.	Capital Cost Bond of £4,000	The Academy has signed both legal documents. Both documents are with Total Swim that has agreed them and is arranging signature.	High
Leicestershire County Council and City	Admission Agreement	Pass-through 9 April 2022	n/a	Joint tender by County and City.	High

Letting employer and Contractor	Outstanding Issue	Type of admission agreement and start date if outstanding	Full or Capital Cost Bond / Value and End Date	Comments	Fund Risk Level
Council to Ingeus		1 member (split role covers City and County) – the member has been written to		Ingeus have confirmed their Legal team are reviewing the draft admission agreement	
Lutterworth AT to Cucina	Admission Agreement	Pass-through 9 April 2022 8 members – have been written to	n/a	Admission agreement has been agreed by all parties. Awaiting signature	High
Leicester City Council (Granby School) to Caterlink	Admission Agreement	Pass-through 1 August 2022	n/a	Draft admission agreement has been circulated and Officers are chasing	Medium/ High
Leicester City Council (St Barnabas School) to Caterlink	Admission Agreement	Pass-through 1 August 2022	n/a	Draft admission agreement has been circulated and Officers are chasing	Medium/ High
Beacon Academy to Churchill Services	Admission Agreement	Pass-through 1 September 2022	n/a	Draft admission agreement has been circulated and Officers are chasing	Medium/ High
Odyssey Education Trust (Humberstone Primary School) to Caterlink	Bond	Pass-through 1 January 2022	Capital Cost bond of £27,000 3 years	Officers continue to chase completion	Low
City Council to East West Community Centre Ltd	Bond (previously not required but member aged 55)	Pre April 2019	Capital Cost bond of £16,000 3 years	Pensions Manager attending an East West Committee Meeting in October	Low
MET to Taylor Shaw (Elior)	Bond	Passthrough 1 August 2021	Capital Costs of £12,000 3 years	Officers continue to chase for completion of the bond	Low

Letting employer and Contractor	Outstanding Issue	Type of admission agreement and start date if outstanding	Full or Capital Cost Bond / Value and End Date	Comments	Fund Risk Level

38. The cases completed in the quarter are listed below.

- Leicester City Council to Turning Point 2022 contract – Admission Agreement (backdated to 01/04/2022)
- Leicestershire County Council to Turning Point 2022 Contract – Admission Agreement (backdated to 01/04/2022)

Governance – Knowledge and Understanding

39. The Pensions Manager collated feedback from the Board on the Fund's on-line knowledge and understanding training tool and reported this back to the provider.

40. The provider welcomed the feedback and is actively working through several improvements to enhance the training for the next release.

41. The Pensions Manager will provide further information once this is available.

Recommendation

42. It is recommended the Board considers the report and highlights any areas of concern it wishes to raise with the Local Pension Committee.

Equality and Human Rights Implications

None specific.

Appendix

Key Performance Indicators July to September 2022

Officers to Contact

Declan Keegan
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Telephone: (0116) 305 6199
Email: Declan.Keegan@leics.gov.uk

Ian Howe
Pensions Manager
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APPENDIX

Quarter - July to September 2022									
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%	88%	►	91%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲	96%
Pension payments made within 10 working days of receiving election	95%	95%	▲	93%	Experience of dealing with Section - rated at least good or excellent	95%	90%	►	94%
Death benefits/payments sent to dependant within 10 working days of notification	90%	78%	▼	76%	Establish members thoughts on the amount of info provided - rated as about right	92%	99%	▲	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%	100%	▲	100%
Close to target	►				Email response - content detail	92%	100%	▲	99%
Below target	▼				Email response - timeliness	92%	91%	►	93%

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LOCAL PENSION BOARD - 26 OCTOBER 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND VALUATION - FUNDING STRATEGY STATEMENT AND INDICATIVE WHOLE FUND RESULTS

Purpose of the Report

1. The purpose of this report is to inform the Board of the key policy changes in the Leicestershire Local Government Pension Scheme (LGPS) draft Funding Strategy Statement (FSS), the indicative whole fund valuation results, and the proposed change to the CPI assumption.

Background

2. Each LGPS administering authority has a statutory obligation to have an actuarial valuation carried out every three years and all Funds in England and Wales have a valuation carried out as of 31 March 2022.

3. The major purpose of the actuarial valuation is for the actuary to set employer contribution rates for a three-year period, that commences one year after the valuation date (i.e. for the period 1 April 2023 to 31 March 2026). To set these contribution rates the actuary must take account of a large number of factors, most of which are assumptions of what will happen in the future. The draft assumptions for use at the 31 March 2022 valuation were presented to Committee at the 10 June 2022 meeting.

4. In addition to the assumptions that remain under review, Officers must review and update the Fund's Funding Strategy Statement (FSS). The FSS underpins the Fund policies and includes a table detailing the Fund's framework for setting contribution rates for differing employer groups.

5. As part of the valuation process, employers must be made aware of the FSS and any key changes, and a consultation must take place with the employers. A timetable of the valuation process is included in the report.

Funding Strategy Statement

6. The Actuary and Fund Officers work collaboratively on the Fund's FSS. Officers have used this opportunity to review the "style and presentation" of the FSS, with the intention of making this easier to navigate for all parties.

7. The new style FSS, attached as Appendix A to this report, comprises two main sections; a core section and four appendices. The "core section" covers the following;

   - Welcome to the FSS
   - Calculation of employer contributions
   - Additional contributions that may be payable
   - Calculation of assets and liabilities
   - Employers joining the Fund
   - Bulk transfers of staff
   - Employers leaving the Fund
   - Statutory reporting

   Appendices to the core FSS, generally relate to Leicestershire Fund policies that cover the following;

   - Regulatory framework
   - Roles and responsibilities
   - Risks and controls
   - Assumptions
   - Pass-through policy
   - Academies policy
   - Contribution reviews
   - Cessation policy

8. Much of the information in the new style draft FSS remains the same as the Fund's previous FSS, but for ease the key changes are highlighted in yellow. These are detailed as follows;

   - Contribution reductions (Point 2.3). This sets out the Fund's proposal on how to deal with employer rates, especially with the improved funding position since the 2019 valuation, for those well-funded employers in surplus. The concept was taken to the Local Pension Committee on the 26 November 2021 for noting, and further information will follow in the final FSS in early 2023.

   - Prepayment of contributions (Point 2.9). There is no change to the Fund's current approach for the prepayment of contributions, however this is now more explicit in the FSS.

   - Early retirement on ill-heath grounds (Point 3.2). There is no change to the Fund's current approach to ill health risk mitigation, however this is now more explicit in the FSS.

- Risk and control – For best practice the FSS now includes a link to the Fund's risk register (Appendix C – C1). The risk register will continue to be reviewed by Officers.

- Employer covenant assessment and monitoring (Appendix C – C6). There is no change to the Fund's current approach, however this is now more explicit in the FSS.

- Climate risk and TCFD reporting (Appendix C – C7). This makes the Fund's approach more explicit in the FSS.

- The Fund has updated the assumptions applied at cessation following an employer's exit from the Fund (Appendix D – D5). This is a proposed change and moves away from a gilts-based cessation for employers exiting the Fund with no guarantor. Further information on this will be submitted to the Local Pension Committee.

Assumptions – June 2022

9. There are several assumptions used in the Fund Valuation. These were taken to Pensions Committee on the 10 June 2022 and were provisionally approved for the 2022 Fund Valuation, subject to any final amendments that may be necessary.

10. The assumptions were then presented to the Pension Board on the 17 August 2022 for noting. The full report and Hymans Robertson Assumption Paper are available in the background papers, but the key assumptions from June 2022 are summarised in the following table. The financial assumptions rely on market conditions on 31 March 2022 and are based on Hymans' economic scenario model.

Assumption	Approach
Longevity	A long-term trend of 1.5% annual improvements
Investment Return	4.4% p.a. assumed investment return over 0 to 20 years aiming to meet a prudent 75% success rate
Discount Rate	Beyond 20 years, use the Fund's agreed level of prudence of 75%
Benefit Revaluation and Pensions Increase	The median (average) CPI over the first 20 years of 2.7% p.a.
Salary Increases	0.5% above 2.7% CPI inflation
Others	Model using the Leicestershire Fund data and based on the Club Vita analysis

11. Since June 2022 there has been continued uncertainty in the markets and Officers and the Fund Actuary have discussed possible amendments to the 2.7% CPI inflation rate.

Assumption - Inflation

12. Due to the ongoing economic situation and more recent significant market fluctuations, inflation continues to be closely monitored by the Fund Actuary and Officers.

13. Current inflation is significantly above the Bank of England target (2% pa) and the assumption proposed in June 2022, for the 2022 valuation, was 2.7% pa. A high 2023 pension increase of around 10% is likely, based on the expected September 2022 CPI inflation, which is announced in mid-October 2022. However, prevailing expectations are that inflation pressures will be relatively short-term (1-2 years) and move back towards the Bank's target in the medium to longer term (3 years +). In the contribution modelling carried out by the Fund's actuary to set employer rates, the inflation assumption used reflects this pattern and allows for the short-term spike in the early years.

14. The CPI inflation assumption quoted in the FSS (and as proposed at June 2022 Local Pension Committee) of 2.7% per annum is an average of the short-term high levels and lower longer-term reversion to around 2% pa, over the approximate average period of the Fund's liabilities (see chart below). There remains uncertainty around both the level of future short-term inflation and how long the current period of higher inflation will last. However, whilst higher inflation pushes up the value of the Fund's liabilities, the Fund is currently invested in many asset classes that would be expected to provide a good level of protection against sustained periods of higher inflation, for example, growth assets such as equities are generally expected to perform better in an inflationary environment to provide similar levels of 'real' returns.

15. The vast majority of employers in the Fund are open employers with a long-term commitment to the LGPS. This means that the Fund (and the actuary) can take a longer-term view on risks such as high short-term inflation. This is similar to the long-term approach the Fund was able to take during the pandemic when asset values fell by over 10% (which would have a similar impact on funding). The Fund carried out in-depth asset liability modelling for the stabilised group of employers in quarter one 2022. The funding strategy was 'stress tested' for various risks, including climate transition risks, asset shocks and high inflation. The results evidenced that the current funding strategy is resilient to these risks at an acceptable level of prudence.

16. Employers planning on exiting the Fund soon (such as admission bodies with contract end dates) may be more concerned about the impact of short-term inflation on their funding position after the valuation date. Officers and the Fund actuary will be considering the future funding implications for this group closely at the valuation and will seek to engage early with affected employers. The wider impact to the Fund of this group is mitigated by (i) the

majority of short-term employers now participate on a passthrough basis with their pensions risk exposure retained by secure, longer-term employers, and (ii) many of the admission bodies (non-passthrough) are expected to be well funded at the 2022 valuation.

17. The Fund will continue to monitor actual and future expected inflation (and how the Fund's assets have performed in 'real' terms) as more information emerges. Officers are reviewing the proposed 2.7% per annum CPI valuation assumption and plan to bring additional detail to November meeting of the Local Pension Committee on the impact of inflation on future cashflows (and fund liquidity) once the 2023 pension increase order (which is based on September CPI) is known.

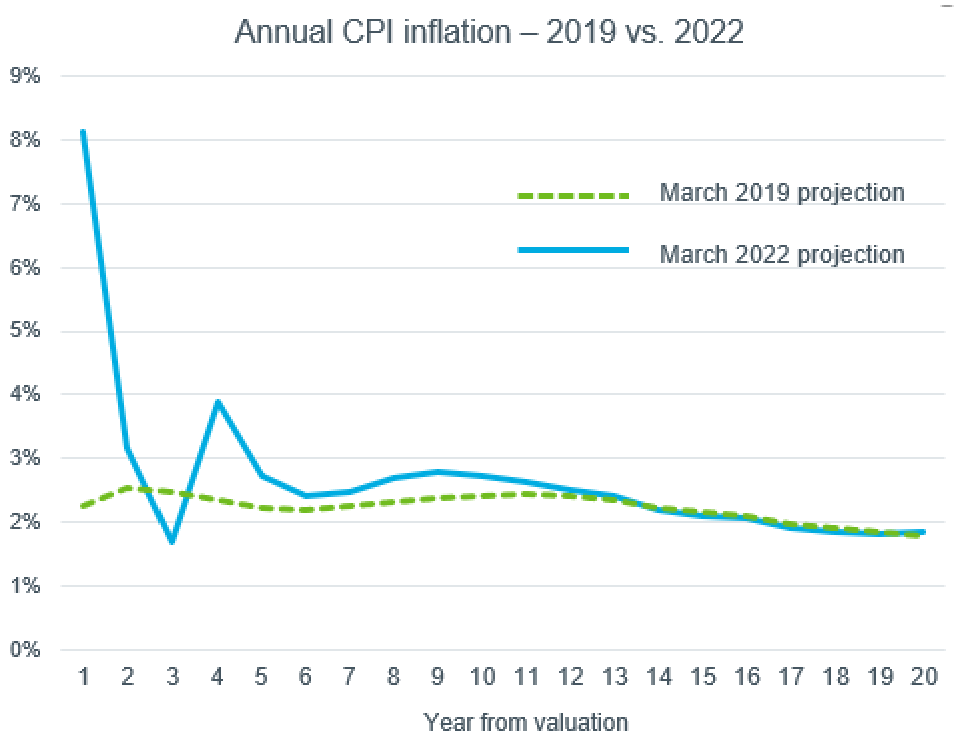

Chart shows median expected annual CPI inflation from the Fund actuary's ESS (Economic Scenario Service) model.

Indicative Whole Fund Result

18. Using the assumptions that were provisionally approved in June 2022, the indicative funding position for the whole Fund improved from 89% at the 31 March 2019 valuation, to 109% at the 31 March 2022 valuation.

19. The Fund's Indicative Whole Fund Valuation Results are attached as Appendix B to this report (for and on behalf of Hymans Robertson LLP).

20. The improvement from 89% in March 2019 to being fully funded (which is equivalent to being 100% or over) in March 2022 is welcome, but this brings additional points that need to be considered.

21. Most of the funding improvement was generated by higher-than-expected investment returns. Over the three-year valuation period (between 2019 and 2022) the expected investment return was 11.8% but the actual investment return was 34.3%, a difference of 22.5%, impacting on the funding position positively by £867m. This is not a guide for future investment growth.

22. See slide 16 of Appendix B -

23. It should be noted, the total funding level is only at a single point in time (31 March 2022) and the markets continue to fluctuate. Employers may incorrectly believe the overall improvement in funding is a right to pay lower contributions, and whilst some employers may be over 100% funded, this does not entitle employers to an immediate reduction in rate.

24. Employers that are over 120% funded will be considered for a possible reduction in rates over the longer-term as previously detailed in the draft FSS (see Appendix A Point 2.3).

25. Since March 2022 the markets have fallen, however this is likely to be offset by higher expected future returns driven by the rise in interest rates. Employer rates must be considered using a long-term approach and Officers should not react with immediate reductions to employer rates, especially so given the current turbulence in the markets. Therefore, a more prudent long-term approach needs to be taken.

26. The 109% whole fund result is calculated using the 2.7% per annum CPI assumption. Given the uncertainty around short-term inflation, Officers are considering an increase to the 2.7% per annum CPI assumption. If the CPI assumption increased to 2.9% per annum, the whole fund result would reduce to 105%. This would be more prudent given the current economic uncertainty and would serve to reduce certain employers' high funding positions.

27. See slide 19 of Appendix B.

28. Using 2.7% CPI and the whole fund's funding position of 109%, certain individual employers' funding positions far exceed 109% funding. The range is highlighted in Appendix B.

29. See slide 23 of – Appendix B.

30. Officers plan to bring additional detail to November's Local Pension Committee on the impact of inflation on future cashflows (and fund liquidity) once the 2023 pension increase order (which is based on September CPI) is known. This will help determine the CPI assumption to be used but it is expected that Officers will recommend an increase from 2.7% pa.

Timeline

31. The latest valuation timeline is detailed as follows.

Date	Topic	Action or Awareness
August/September 2021	Mid-valuation funding update	Board/Committee – **done**
September 2021	Provide Hymans Robertson with stabilised employer data	Pension Section - **done**
September/October 2021	Calculate indicative stabilised employer rates	Hymans Robertson – **done**
November 2021	Agree principles for the 2022 assumptions	Committee - **done**
March 2022	Results of the stabilised employer modelling	Committee – **done**
April 2022	Provide the stabilised employers with their indicative rates. 1 April 2023 to 31 March 2026	Pension Section/Stabilised employers – **done**
June 2022	Detail proposed valuation assumptions	Committee – **done**
August 2022	Provide Hymans with all Fund data	Pension Section – **done**
August/September 2022	Review selected employer's financial health	Pension Section – **done**
September 2022	Review proposed key policy changes to the Funding Strategy Statement	Committee – **Meeting cancelled due to the Queen's passing. Will now be taken to November Committee**
September/October 2022	Calculate Whole Fund results	Hymans Robertson - **done**
October/November 2022	Whole Fund valuation results	Board/Committee – **current stage**
November 2022	Investment Strategy Statement Draft Funding Strategy Statement (full)	Committee
November 2022 (through to January 2023)	Provide the other employers with their indicative rates. 1 April 2023 to 31 March 2026. Start a consultation with employers on the	Pension Section/Fund employers

	Funding Strategy Statement and Investment Strategy Statement (subject to possible amendments for the climate strategy)	
January 2023	Changes to Funding Strategy Statement and Investment Strategy Statement	Pension Section/Fund employers
February 2023	Final assumptions and Funding Strategy Statement and Investment Strategy Statement finalised	Committee/Board
March 2023	Final valuation report produced with final employer rates	Hymans Robertson
April 2023 to March 2026	Employer rates implemented	Pension Section/Fund employers

32. The full draft Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) will be reviewed and presented to Local Pension Committee in November 2022. This is reliant on completion of the Climate Strategy.

33. Officers will propose to start a consultation with employers on the FSS and ISS after the Committee meeting in November. To assist administration, this will commence at the same time employers receive their indicative employer rates.

34. The final assumptions will be taken to the Committee in February 2023 alongside the final FSS and ISS after completion of the employer consultation.

Recommendation

35. It is recommended that the Board notes;

- The recommended changes to the FSS.
- The indicative whole fund valuation result.
- The potential change to the future CPI assumption.

Equality and Human Rights Implications

36. There are no equality or human rights implications arising from the recommendations in this report.

Appendix

Appendix A – Fund's Draft Funding Strategy Statement
Appendix B – Fund's Indicative Whole Fund Valuation Result

Background Papers

Report of the Local Pension Board on 17 August 2022 "Pension Fund Valuation 2022"
https://bit.ly/3ezqB7m

Leicestershire County Council Pension Fund Actuarial valuation at 31 March 2022
https://bit.ly/3D5m5qS

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Leicestershire County Council Pension Fund

Funding Strategy Statement

September 2022

DRAFT

Contents

1 Welcome to our Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Leicestershire County Council Pension Fund (the Fund).

The Leicestershire County Council Pension Fund is administered by Leicestershire County Council, known as the administering authority. Leicestershire County Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

There's a regulatory requirement for Leicestershire County Council to prepare a FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact ian.howe@leics.go.uk.

1.1 What is the Leicestershire County Council Pension Fund?

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

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

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

1.3 Who is the FSS for?

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

Different types of employers participate in the Fund:

Scheduled bodies

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

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

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

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

1.4 How does the funding strategy link to the investment strategy?

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

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

1.5 Does the funding strategy reflect the investment strategy?

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

1.6 How is the funding strategy specific to the Leicestershire County Council Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer total contributions are calculated and set by the Fund actuary and are required to be expressed under the regulations via two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – an adjustment to the total contribution rate to allow for the current funding position of the employer's past service benefits.

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

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

The contribution rate for each employer is then based on:

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

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

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs[1]
Sub-type	**Local authorities, police, fire**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target[2]	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
Minimum likelihood of success	75%	75%	75%	75%	75%	75%
Maximum time horizon[3]	17 years	15 years	17 years	17 years	Average future working lifetime, if less	Same as the letting employer
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					

Type of employer	Scheduled bodies			CABs and designating employers		TABs[1]
Sub-type	Local authorities, police, fire	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Secondary rate (deficit)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: Reductions may be permitted by the administering authority - see section 2.3 below				
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None

[1] Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority (in most cases this is set equal to the letting authority's total contribution rate). The Fund's policy on pass-through employers is detailed in Appendix E.

[2] See Appendix D for further information on funding targets.

[3] Maximum time horizon applies only to Primary contribution rates and may be set lower at the administering authority's discretion. Secondary contributions (where a deficit exists) are set by spreading the deficit over an appropriate period as determined by the administering authority, which will be shorter.

2.3 Contribution reductions

Where an employer has a surplus, as calculated by the Fund actuary on the appropriate funding basis, a reduction in contribution rate may be permitted by the administering authority.

The following framework will be used as a guide, and the administering authority has discretion.

Employer funding level	Total contribution rate
Less than 100% funded	Employer pays a contribution rate to increasing their funding level
Between 100% and 110%	Employer pays a contribution rate to continue to build up their funding level to between 110% and 120%
Between 110% and 120%	Employer pays a contribution rate to maintain their funding level between 110% and 120%
Greater than 120% funded	Employer is allowed to benefit from a contribution rate reduction, to gradually reduce their funding level down to 120%, where applicable

2.4 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. If this isn't appropriate, contribution increases or decreases may be phased subject to agreement by the administering authority.

The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	Local authorities, police & fire.
Maximum contribution increase per year	+2% of pay
Maximum contribution decrease per year	-2% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.5 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in Appendix G. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.6 What is pooling?

The administering authority does not currently allow employers to enter into a funding pool except under specific circumstances. Where an employer is participating in the Fund under a pass-through admission agreement this employer will be pooled with the letting authority. Similarly, when an academy joins an existing multi-academy trust (MAT) within the Fund, the funding positions are pooled together. In both situations the funding position of the individual employers are no longer tracked separately.

The Fund's policies on pass-through employers and academies are detailed in Appendix E and Appendix F respectively.

2.7 What are the current contribution pools?

There are currently no contribution pools in the Fund with the exception of MATs and pass-through employers who are pooled with the respective letting authority.

2.8 Administering authority discretion

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

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate or extended time horizon. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

2.9 Prepayment of contributions

The Fund permits the prepayment of employer contributions in specific circumstances.

Employer contributions

- The Fund will consider requests from employers to make payment of their employer contributions early.
- Each case will be considered on its own merits, taking into account the type of the employer, the employer rate, the amount and the value of cash the Fund holds.

Employee contributions

- The Fund will not usually consider requests to allow payment of employee contributions early.
- In exceptional circumstances, Officers may consider this on a case-by-case basis.

Prepayment of contributions does not guarantee improved investment benefits and any detriment is at the employer's own risk.

3 What additional contributions may be payable?

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

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the administering authority agrees but when spread, the employer will need to pay for the lost investment return.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum. Each employer has an 'ill health allowance' built into the full contribution rate that is set at each actuarial valuation, but for higher risk employers or breaches of the "ill health allowance" the Fund may require immediate payment of this funding strain.

To mitigate this, employers may choose to use external insurance made available by the Fund (which is currently provided through Legal & General).

- **TABs** – the Fund's admission agreement requires TABs to take out ill-health liability insurance (IHLI).
- **Other employers** – IHLI is offered to all other employers. This is not mandatory but is strongly recommended for smaller and mid-size employers.

If an employer insures against the risk of ill-health retirements, there will be a reduction to the employer's contribution rate that is the equivalent to the external insurance premium rate.

In the event of an ill health early retirement:

- **Insured employers –** will be invoiced for the funding strain cost which they pay to the Fund. The employer then claims this cost back via the insurance contract.
- **Uninsured employers –** the Pension Manager reviews cases each quarter and the employer may be asked to make an additional payment towards the funding strain.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

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

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

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

4.2 How are employer liabilities calculated?

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

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

4.3 What is a funding level?

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

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

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

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

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

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

5.2 New academies

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

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

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

The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy's contribution rate (where not joining an existing MAT) is based on the current funding strategy (set out in section 2) and the transferring membership.

Academies joining an existing MAT within the Fund will be pooled with this MAT and will fully share all risks and costs. Academies within a MAT pay the same total contribution rate. If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT (unless it is not possible to identify all deferred and pensioner members of the transferring academy).

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

The Fund's full policy on academy participation is detailed in Appendix F.

5.3 New admission bodies as a result of outsourcing services

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

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

Passthrough admissions

The Fund's preference is that all new admission bodies will be set up via a pass-through arrangement. The Fund's policy on passthrough is detailed in Appendix E.

Non-passthrough admission

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

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

5.4 Other new employers

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

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

5.5 Risk assessment for new admission bodies

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

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

This must cover some or all of the:

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

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

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

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA), where an employer with no active members had been participating in the Fund as a deferred employer (see below).

On cessation, the employer may be permitted to enter into a deferred debt arrangement (DDA) and become a deferred employer in the Fund (as detailed in Section 7.4). If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the Fund.

7.2 What happens on cessation?

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

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

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

After an employer without a guarantor has left the scheme and paid off the deficit in full or settled the surplus (calculated using assumptions in place at the time of leaving) future risk then sits with the remaining Fund employers.

The Fund actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and will be invoiced to the employer on completion of the cessation valuation (or in certain cases may be deducted from the cessation surplus or added to the cessation deficit).

The Fund's cessation policy is detailed in Appendix H.

7.3 How do employers repay cessation debts?

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

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

The Fund's policy on employer flexibilities on exit is set out section 3.2 of the cessation policy in Appendix H.

7.4 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond the DDA/DSA they have no further obligation to the Fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis at the formal valuation.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis at the formal valuation.

7.5 What happens if there is a surplus?

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

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

The exit credit policy is set out within section 3.3 of the Fund's cessation policy in Appendix H.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

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

8.2 Solvency

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

(a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

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

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

Relative factors include:

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

Absolute factors include:

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

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

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

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

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

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

A2 Consultation

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

The Fund's consultation process during a valuation year includes issuing a draft version of the FSS to participating employers, highlighting the key changes, and inviting employers to attend an open forum. Draft employer valuation results will be issued alongside the draft FSS. Employer feedback from this process will be considered, and any changes incorporated within the final version of the FSS that will be approved by the Fund's committee prior to the end of the valuation year.

A3 How is the FSS published?

The FSS is emailed to participating employers. Summaries are issued to members and a full copy is included in the Fund's annual report and accounts. Copies are freely available on request and is published on the administering authority's website.

A4 How often is the FSS reviewed?

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

A5 How does the FSS fit into the overall Fund documentation?

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

You can see all Fund documentation at [URL].

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a Fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the Fund.

B3 The Fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting Fund solvency and long-term cost efficiency

2 provides information to the Government Actuary's Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the Fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the Funding Strategy Statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is {{link to be added to the final version - URL [link]}}.

Details of the key fund-specific risks and controls are set out in the risk register at www.politics.leics.gov.uk

C2 Financial risks

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

C3 Demographic risks

Risk	Control
Pensioners live longer, increasing Fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the Fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience, with optional insurance.
Reductions in payroll cause insufficient deficit recovery payments.	Buy-out employers in the stabilisation mechanism to permit contribution increases. Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

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

C5 Governance risks

Risk	Control
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The administering authority develops a close relationship with employing bodies and communicates required standards. The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	The administering authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.	The administering authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases.
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the Fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation.
An employer ceases to exist, so an exit credit is payable.	The administering authority regularly monitors admission bodies coming up to cessation. The administering authority invests in liquid assets so that exit credits can be paid.

C6 Employer covenant assessment and monitoring

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

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	Assessment of key financials and comparison with Fund Actuary's assessment of pension risks	Regular monitoring (at triennial valuation, or more regularly where necessary)
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	On admission Fund considers letting authority covenant, contract length and potential capital costs risk.	Regular monitoring (at triennial valuation, or more regularly where necessary)
Designating employers	Employers made aware of LGPS risks and encouraged to take ill-health insurance	Assessment of employer rates at triennial valuation

The outcome of any assessments may be a factor considered when setting employer contribution rates.

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the Fund has carried out in-depth asset liability modelling to stress test the funding and investment strategies against possible future climate scenarios. The current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The Fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the Fund (eg global climate policy changes).

Further details on how the Fund manages climate risks is set out in the Fund's climate policy at [URL]

Appendix D – Actuarial assumptions

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

D1 What are assumptions?

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

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

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

D2 What assumptions are used to set the contribution rate?

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

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

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

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

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (Medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt yield (RPI)	17 year govt bond
10 Years	16th %ile	0.8%	-1.9%	-0.3%	-0.4%	-0.7%	-0.6%	-0.1%	2.4%	-1.7%	1.1%
	50th %ile	1.8%	0.2%	1.1%	5.7%	5.6%	4.4%	1.6%	4.1%	-0.5%	2.5%
	84th %ile	2.9%	2.4%	2.4%	11.6%	11.7%	9.5%	3.2%	5.7%	0.7%	4.3%
20 Years	16th %ile	1.0%	-1.5%	0.7%	1.7%	1.5%	1.4%	1.1%	1.6%	-0.7%	1.3%
	50th %ile	2.4%	0.1%	1.5%	6.2%	6.1%	5.0%	2.1%	3.1%	1.0%	3.2%
	84th %ile	4.0%	1.9%	2.2%	10.6%	10.8%	8.9%	3.2%	4.7%	2.7%	5.7%
40 Years	16th %ile	1.2%	-0.3%	1.5%	3.2%	3.1%	2.6%	2.0%	1.1%	-0.6%	1.1%
	50th %ile	2.9%	1.2%	2.3%	6.7%	6.5%	5.5%	3.1%	2.4%	1.3%	3.3%
	84th %ile	4.9%	3.1%	3.5%	10.2%	10.2%	8.8%	4.4%	3.9%	3.2%	6.1%
Volatility (5 yr)		2%	7%	6%	18%	19%	15%	7%	3%		

D3 What financial assumptions were used?

Discount rate (ongoing basis for funding level calculations)

For the purpose of calculating the ongoing funding level, the discount rate is based on a prudent estimate of future returns, specifically that there is a 75% likelihood of these returns being achieved over the 20 years following the calculation date.

At the 2022 valuation, the ongoing basis discount rate of 4.4% pa applies. This is based on a there being a 75% likelihood that the Fund's assets will achieve future investment returns of 4.4%pa over the 20 years following the 2022 valuation date.

If an employer is funded on the low risk exit basis, a lower discount rate may apply – see section D5 below.

Future investment returns and discount rate (for setting contribution rates)

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

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

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate (at end of funding time horizon)
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.2%
Low-risk exit basis	Employer approaching cessation (excluding TABs)	0.5%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the Fund

Discount rate (ongoing basis for funding level calculations)

For the purpose of calculating the ongoing funding level, the discount rate is based on a prudent estimate of future returns, specifically that there is a 75% likelihood of these returns being achieved over the 20 years following the calculation date.

At the 2022 valuation, the ongoing basis discount rate of 4.4% pa applies. This is based on a there being a 75% likelihood that the Fund's assets will achieve future investment returns of 4.4%pa over the 20 years following the 2022 valuation date.

If an employer is funded on the low risk exit basis, a lower discount rate may apply – see section D5 below.

Pension increases and CARE revaluation

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

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

Salary growth

The salary increase assumption at the latest valuation has been set to CPI plus 0.5% pa plus a promotional salary scale.

D4 What demographic assumptions were used?

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

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

Life expectancy

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

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

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

Other Demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	485	488	0.00	0.00	0.00	0.00
25	117	0.17	320	322	0.00	0.00	0.00	0.00
30	131	0.20	227	229	0.00	0.00	0.00	0.00
35	144	0.24	178	179	0.10	0.07	0.02	0.01
40	150	0.41	143	144	0.16	0.12	0.03	0.02
45	157	0.68	134	135	0.35	0.27	0.07	0.05
50	162	1.09	111	111	0.90	0.68	0.23	0.17
55	162	1.70	87	88	3.54	2.65	0.51	0.38
60	162	3.06	78	78	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year								
Age	**Salary scale**	**Death before retirement**	**Withdrawals**		**Ill-health tier 1**		**Ill-health tier 2**	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	423	280	0.00	0.00	0.00	0.00
25	117	0.10	285	189	0.10	0.07	0.02	0.01
30	131	0.14	239	158	0.13	0.10	0.03	0.02
35	144	0.24	206	136	0.26	0.19	0.05	0.04
40	150	0.38	171	114	0.39	0.29	0.08	0.06
45	155	0.62	160	106	0.52	0.39	0.10	0.08
50	160	0.90	135	89	0.97	0.73	0.24	0.18
55	163	1.19	101	67	3.59	2.69	0.52	0.39
60	170	1.52	81	54	5.71	4.28	0.54	0.40

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?

Where there is a guarantor the following exit basis will apply:

- **Admission bodies (TABs)** – where the liabilities will be passed back to the letting authority on exit, the contractor exit basis will apply (see below)
- **Other employers** - in specific circumstances an exiting employer may have a guarantee provided by another employer within the Fund or by a parent company etc. If the Fund is satisfied with the covenant of this guarantee the liabilities may be calculated on the ongoing basis.

Contractor exit basis

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contribution rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.

Low risk exit basis

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

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

- The discount rate used for calculating the funding position will be higher than the ongoing funding basis, specifically that there is a 90% likelihood that the Fund's assets will achieve future investment returns over the 20 years following the date of the calculation.
- The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Appendix E – Passthrough policy

Policy on passthrough

Effective date of policy	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the Fund on a passthrough basis.

In addition, and subject to review on a case-by-case basis, the Fund may be willing to apply its passthrough principles to other admission bodies where liabilities are covered by a guarantor within the Fund.

Contractors are still permitted to enter the Fund under non-passthrough admissions as detailed in Section 5.3 of the FSS. This policy does not apply in these cases.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the Fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the passthrough arrangement.
- To outline the process for admitting new contractors into the Fund

1.2 Background

Employees outsourced from local authorities, or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007).

This may be achieved by offering affected employees membership of an alternative broadly comparable scheme. However this is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Passthrough is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the contractor's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the Fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the Fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the Fund on a passthrough basis. Each case will be treated on its own merits, but in general:

- Pass through is the preferred approach for the admission of all new contractors to the Fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, Police & Fire authorities, and academy trusts (the letting authority).
- The contractor’s pension contribution rate is set equal to the contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority’s contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, under its passthrough arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and the contractor will have the ill health insurance in place, usually as a requirement of the admission agreement.
- The contractor will not be required to obtain a full indemnity bond but may be required to obtain a capital cost bond to cover strain potential costs for those members age 55+. This is assessed on a “case by case” basis.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor’s staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the Fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations or Fund recharges. Likewise, no “exit credit” payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass though agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above. The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the Fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will typically be set equal to the total employer contribution rate payable by the letting authority. This means that the contractor's contribution rate will change when the letting authority rate changes.

Alternatively, the administering authority may wish to pursue a fixed rate with the contractor (subject to the agreement of the letting authority).

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a passthrough basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the Fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a passthrough arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains, augmentations or professional fees at the end of the contract. If the contractor does not pay, it becomes the letting authority's liability.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation should be agreed between the contractor and letting authority before the contract commences and should be appropriately detailed in the service agreement and legal documentation.

The details of any risk sharing agreements should be shared with the administering authority to ensure the correct funding treatment is applied. There may be additional actuarial, legal and professional fees to administer such agreements for which the letting authority and/or the contractor would be liable to pay.

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authorities' FRS102 / IAS19 disclosures.

The letting authority and contractor should seek approval from their auditor of the proposed accounting treatment in the first instance.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification -** The letting authority must publicise this passthrough policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.

- **Template admission agreement** – a template admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.

- **Post commercial contract** – Once the admission agreement has been signed, the winning bidder is then able to enter the Fund. NB, the letting authority must ensure that the commercial contract is also signed.

- **Signed admission agreement -** Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the Fund under a passthrough agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

The fund’s approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically “Section 2 – How does the Fund calculate employer contributions?”.

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically “Section 5 – What happens when an employer joins the Fund?”

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically “Section 6 – What happens when an employer leaves the Fund?”

Appendix F – Academies policy

Effective date of policy	DATE

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the FSS, new academies join the Fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the Fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the Fund's discretion, however guidance on how the Fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the Fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the Fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- the Fund's current approach is to treat all academies within a MAT as a single employer (effectively operating as a funding pool where all pension risks are shared).
- academies must consult with the Fund prior to carrying out any outsourcing activity.
- the Fund will generally not consider receiving additional academies into the Fund as part of a consolidation.

3 Policies

3.1 Admission to the Fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

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

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If an academy is joining an existing MAT within the Fund then it may pay the MAT contribution rate (which may or may not be updated as a result - see below)..

3.2 Multi-academy trusts

Asset tracking

The fund's current policy is to pool assets (and liabilities) of all the academies within a MAT. Once an academy joins a MAT the individual asset share of that academy is merged into the MAT and no longer tracked individually.

Contribution rate

The MAT is treated as a 'full funding risks' pool meaning that all academies within the MAT pay the same contribution rate to the Fund and all membership experience is shared across the MAT (ie full cross-subsidy exists).

Any transferring academy will pay the certified contribution rate of the MAT it is joining. At the discretion of the Fund, the MAT's contribution rate may be revised by the Fund actuary to allow for impact of the transferring academy joining.

Academies leaving a MAT

If an academy(ies) leaves a MAT, it is not generally possible (or practical) to identify the ex-employees of the transferring academy, therefore all deferred and pensioner members will remain with the MAT. The notional funding position of the transferring academy will be removed from the MAT before being transferred. This calculation will be carried out under the same principles as new academy conversions (as described below and per section 5.2 of the FSS).

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before the academy transfers. Liabilities relating to the transferring academy's former employees (ie members with deferred or pensioner status) remain with the MAT.

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

The MAT's estimated funding level will be based on market conditions on the day before the transfer.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB were one or both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the Fund's contribution review policy and per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 7.4 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the Fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund. It is the Fund preference that academies do not seek to consolidate.

Where a direction has been granted the Fund does not generally accept academy consolidations into the Fund. The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the Fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the Fund's admissions / pass-through policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Related Policies

The fund's approach to admitting new academies into the Fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

- Contribution policy
- Cessation policy

Appendix G – Contributions reviews

Policy on contribution reviews

Effective date of policy	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation.
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation.
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation.
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation.
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security).
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring.
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer’s request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix H – Cessation policy

Policy on cessations

Effective date of policy	DATE

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in Section 3 - Policies).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the administering authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer

- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the Fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-

    - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
    - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
  - a) The extent to which there is an excess of assets in the Fund relating to that employer in paragraph (2)(a)
  - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  - d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- the Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the Fund by the exiting employer.
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

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 as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see 3.3 Exit credits below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis[1]	Shared between other fund employers
Colleges & Universities	Low risk basis	Shared between other fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Contractor exit basis[2]	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

[1]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 (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

Further details are included in the Fund's Academies Policy.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

Spreading the exit payment could increase the cost due to lost investment return in the period.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within six months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The Fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).

- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/letting authority. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund.

ii. No exit credit will be payable to any admission body who participates in the Fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/letting authority and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the Fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the Fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the pension manager, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
  - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
  - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original letting authority or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

Leicestershire County Council Pension Fund

Actuarial valuation at 31 March 2022

Initial results

Tom Hoare FFA

Richard Warden FFA

04 October 2022
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

A glossary of technical terms used in this report can be found in Appendix 5

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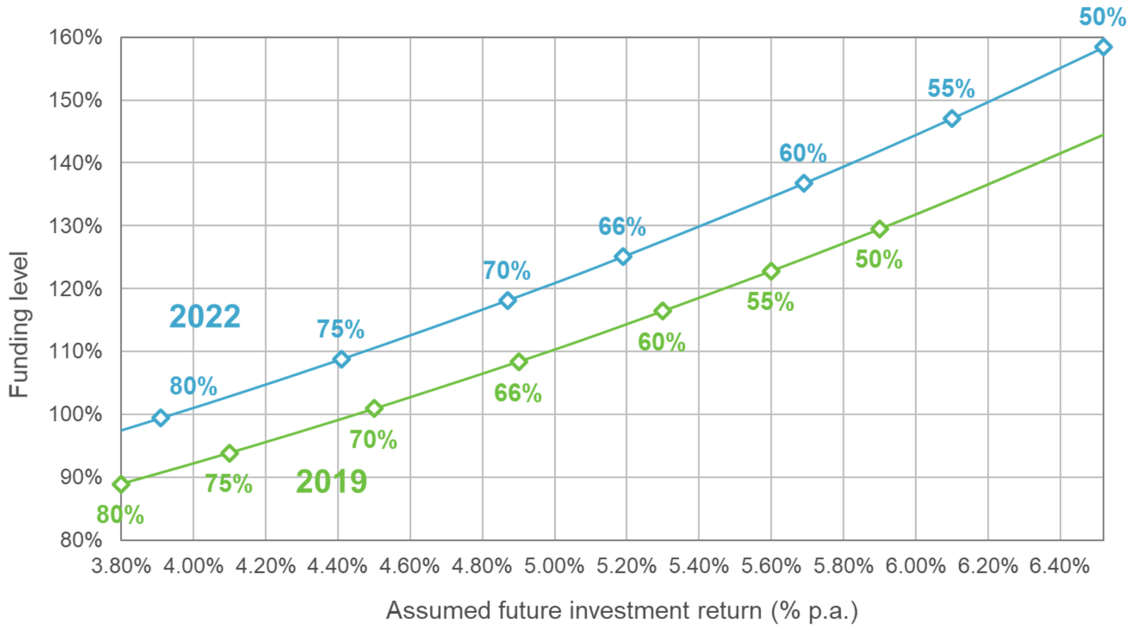
Executive summary

Funding position

- As at 31 March 2022, the funding position has improved from the last valuation.
- The required investment return to be 100% funded is now 3.9% pa (4.5% pa at 2019).
- The likelihood of the Fund's investment strategy achieving the required return is 80% (70% at 2019).



Changes since the last valuation

The main factor driving the funding position improvement is stronger than expected investment returns.

These have more than offset the increase in short to medium-term inflation expectations.

The Covid-19 pandemic has seen a higher level of mortality in the membership than expected. However, the funding impact on liabilities has not been significant.

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early Leavers	9,904	11,987	2083	+£0m
Ill-health retirements	205	174	-31	+£7m
Salary increases	3.5% pa	4.6% pa	1.1% pa	-£38m
Post-retirement				
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£68m
Pension ceasing	£9.5m	£10.1m	£0.5m	+£7m

The valuation process

The valuation process

1. ✓ Contribution rate modelling — Spring 2022
2. ✓ Assumptions advice — May/June 2022
3. ✓ Employer risk management — Summer 2022
4. ✓ Data provision — August 2022
5. ✓ **Initial results — October 2022**
6. Funding Strategy Statement — Autumn 2022
7. Employer results — November 2022
8. Employer discussions — December 2022 / January 2023
9. Valuation sign off — March 2023

Initial results

This report:

- presents the funding position of the Leicestershire County Council Pension Fund ("the Fund") on the valuation date of 31 March 2022
- explains why the funding position has changed since the last valuation in 2019
- shows the sensitivity of the funding position

There are two main actions:

1. Understand the fund-level funding position, noting this does not directly drive individual employer contribution rates.
2. Identify risks to explore and consider options for management.

Data and assumptions

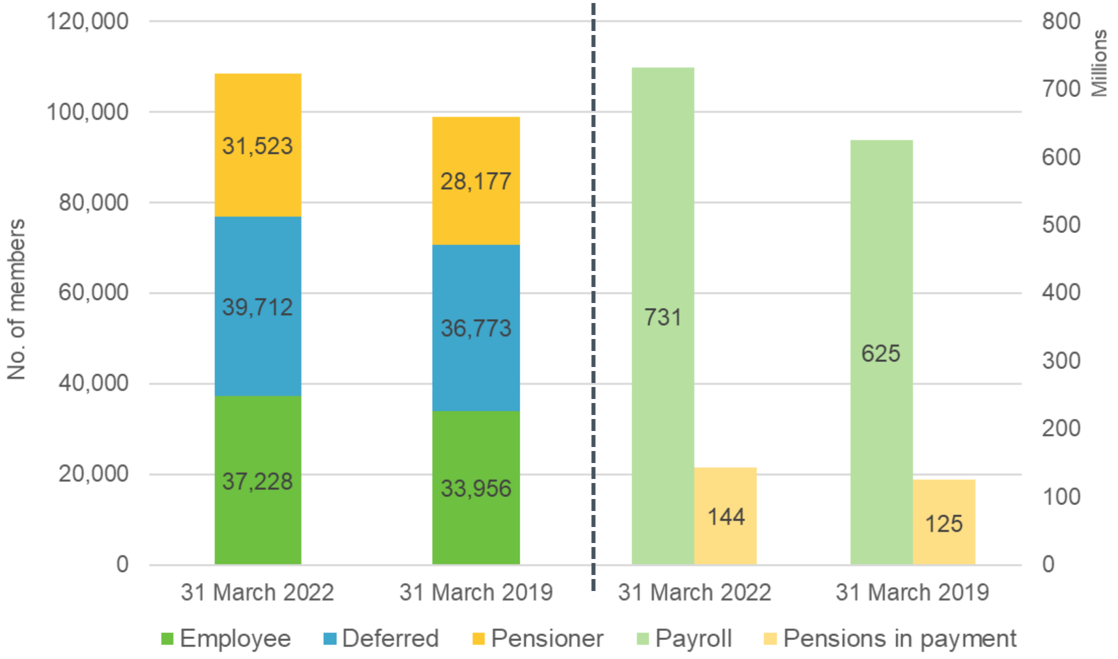
Data

We have used the below data provided by the Administering Authority:

- Membership data uploaded to the DataPortal on 18 August 2022
- Cashflow and investment data, provided over the intervaluation period for monthly employer asset tracking

Accurate results depend on good data quality. Based on the DataPortal's validations, we believe the membership data is fit for purpose for these initial results. The data will be reviewed again when we prepare employer-level results at the next valuation stage.

Membership summary



The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2022. Details can be found at http://www.lgpsregs.org/.

Assumptions

To set and agree assumptions for the valuation, the Administering Authority commissioned an assumption setting paper – '220523 2022 valuation assumptions advice - Leicestershire County Council Pension Fund – Final (for June committee)'. The assumptions in this report were agreed by the Pensions Committee on 10 June 2022. The assumptions represent the 'best estimate' of future expectations – that means we estimate there is a 50% chance that future events will be better or worse than the assumption. The discount rate is the exception, as it includes the margin of prudence required by the LGPS Regulations.

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Financial assumptions

Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	4.4% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 75% likelihood of returning above the discount rate.	3.8% pa (based on a 80% likelihood)
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.2% pa	To determine the size of future final-salary linked benefit payments.	2.8% pa

Assumptions

Demographic assumptions

Longevity

Whole fund average life expectancies from age 65, with 2019 comparison.

	31 March 2022	31 March 2019
Male pensioner	21.5 years	21.5 years
Male non-pensioner	22.3 years	22.2 years
Female pensioner	24.4 years	23.8 years
Female non-pensioner	25.9 years	25.2 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

Other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	55% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

Further information on these assumptions can be provided upon request.

Assumptions

Benefit structure

Results are based on our understanding of the benefit structure of the LGPS in England and Wales on 31 March 2022 – see www.lgpsregs.org. However, there are areas of uncertainty and potential change.

McCloud

Benefits accrued by certain members between 2014 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. We've made an allowance for the cost of these potential improvements, based on the guidance issued by Department of Levelling Up, Housing and Communities on 22 March 2022. We expect minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. There is also an ongoing legal challenge to the 2016 cost cap valuation. We have assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension equalisation and revaluation

We have assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2019 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (eg the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, we have made no allowance for these changes.

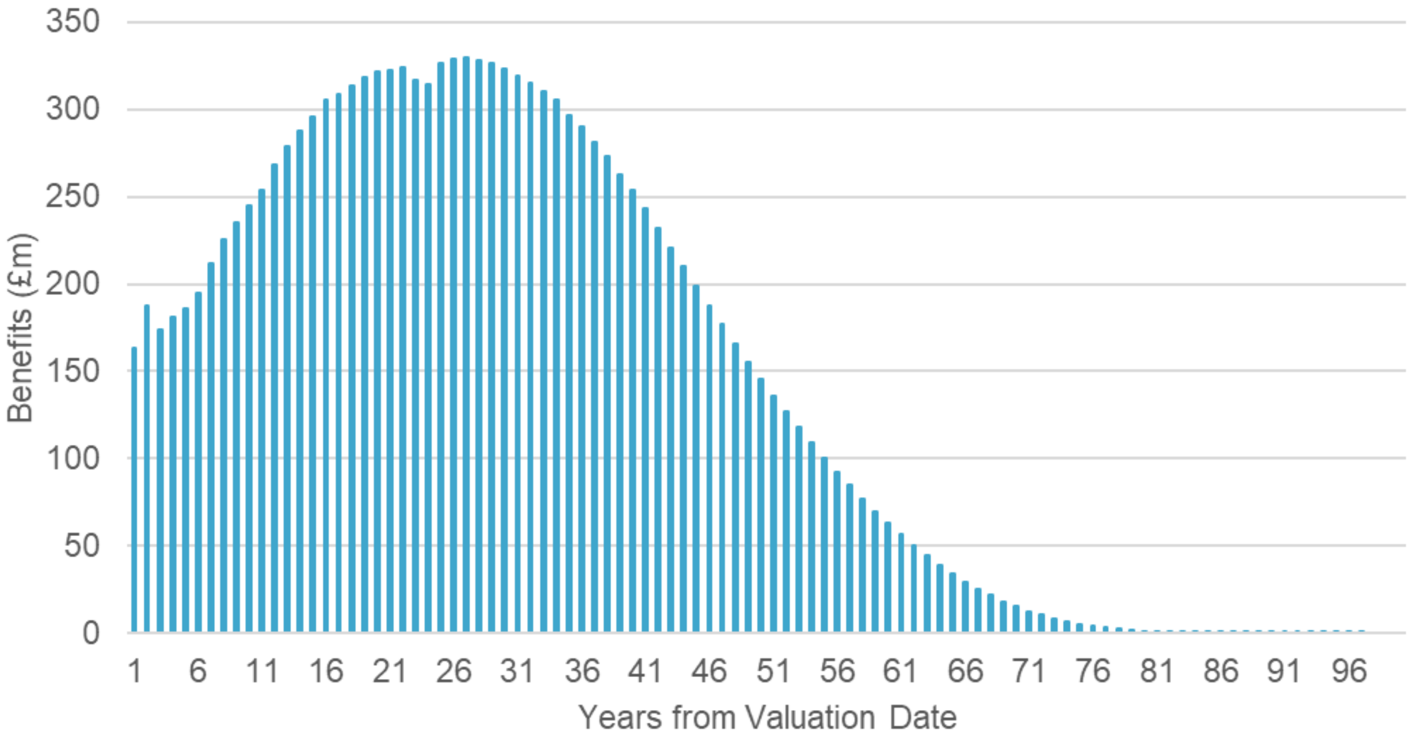
Fund-level results

Projected future benefit payments

Combining membership data and the assumptions allows us to project future benefit payments for all benefits accrued up to 31 March 2022.

The projection will be different from the last valuation due to:

1. Events between 2019 and 2022 which were different from expectations – reflected in the updated membership data.
2. Estimates of the future which have changed – reflected in the updated assumptions.



Funding position as at 31 March 2022

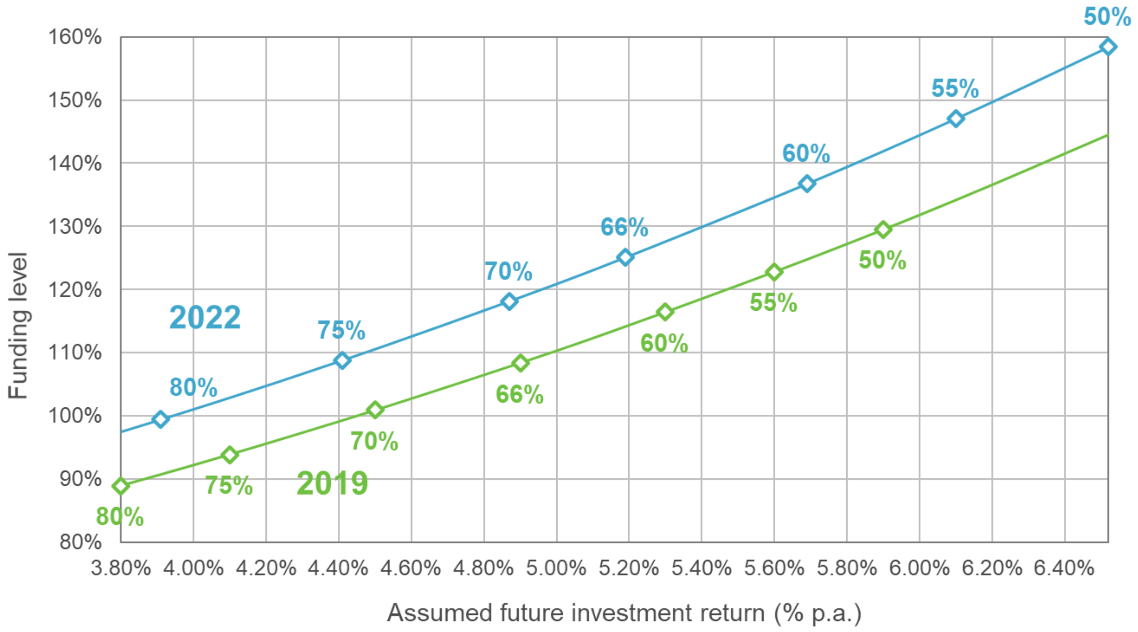
We can place a single value on all the future projected benefit payments for current members, called the liabilities. Comparing the liabilities to the market value of the Fund's assets at the valuation date provides the funding level (assets divided by liabilities).

To calculate the liabilities, we discount the benefit payments with an assumed future investment return (the 'discount rate'). Future investment returns are uncertain, so we calculate the liabilities and funding level across a range of future investment returns.

To help stakeholders better understand funding risk, we also calculate the likelihood of the Fund's investment strategy achieving certain levels of return.

- The funding level is 100% if future investment returns are c.3.9% pa
- The likelihood of the Fund's assets yielding at least this return is around 80%.
- The comparator at 2019 was a return of 4.5% pa which had a likelihood of 70%.
- **The funding position at 2022 is stronger than 2019.**
- There is a 50% likelihood of an investment return of 6.5% pa. So the best-estimate funding level is 158% at 31 March 2022 (129% at 2019).

Funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date

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Single funding position as at 31 March 2022

The chart on the previous page provides stakeholders with a better understanding of the funding position. However, we are still required to report a single funding position at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.4% pa has been used. There is a 75% likelihood associated with a future investment return of 4.4% pa.

This table details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison (NB at 2019 the reported position used a discount rate with a 80% associated likelihood).

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position on 31 March 2022. There are limitations:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.
- The market value of assets changes daily

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	2,038	1,842
Deferred Pensioners	1,031	966
Pensioners	2,254	2,041
Total Liabilities	**5,323**	**4,849**
Assets	**5,790**	**4,312**
Surplus/(Deficit)	**467**	**(537)**
Funding Level	**109%**	**89%**

Important: *the reported funding level does not directly drive employers' contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

Financial

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3 year period	11.8%	34.3%	22.5%	+£867m
Annual	3.8% pa	10.3% pa	6.5% pa	

The Fund's expenses (in relation to non-investment activities) over the last 3 years have totalled £7.2m. This figure is equivalent to 0.3% of the Fund's total pensionable pay. This is equivalent to the last valuation (0.3%). Unless otherwise instructed, we will make allowance for the Fund's expenses by adding an allowance of 0.3% of pay to employer contribution rates from 1 April 2023.

Membership

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	9,904	11,987	2,083	+£0m
Ill-health retirements	205	174	-31	+£7m
Salary increases	3.5% pa	4.6% pa	1.1% pa	-£38m
Post-retirement				
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£68m
Pension ceasing	£9,541m	£10,052m	£511m	+£7m

The most significant external event since the last valuation was the Covid-19 pandemic. The experience analysis shows that sadly, there were a higher than expected number of deaths. However, the impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension. Further information on the Fund's mortality experience can be found in the latest Club Vita reports.

Changes since the last valuation

Future expectations

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 4.4% pa vs. 3.8% pa at 2019.	Decrease of £637m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £420m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Increase of £0m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £22m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £37m

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Reconciling the overall change in funding position

The tables below provide insight into the funding position changes between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen, which relate mostly to items on the asset side. Then the impact of actual experience, which mainly affects the liabilities.

Expected development

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	**4,312**	**4,849**	**(537)**
Cashflows			
Employer contributions paid in	534	0	534
Employee contributions paid in	135	0	135
Benefits paid out	(507)	(507)	0
Net transfers into / out of the Fund	(10)	*	(10)
Other cashflows (e.g. Fund expenses)	(7)	0	(7)
Expected changes			
Expected investment returns	457	0	457
Interest on benefits already accrued	0	580	(580)
Accrual of new benefits	0	626	(626)
Expected position at 31 March 2022	**4,914**	**5,548**	**(634)**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	**4,914**	**5,548**	**(634)**
Events between 2019 and 2022			
Salary increases greater than expected	0	38	(38)
Benefit increases less than expected	0	(68)	68
Early retirement strain (and contributions)	5	6	(1)
Ill health retirement strain (and contributions)	5	(7)	12
Early leavers less than expected	0	0	0
Commutation less than expected	0	5	(5)
McCloud remedy	0	10	(10)
Other membership experience	0	(3)	3
Higher than expected investment returns	867	0	867
Changes in future expectations			
Investment returns	0	(637)	637
Inflation	0	420	(420)
Salary increases	0	0	0
Longevity	0	15	(15)
Other demographic assumptions	0	(2)	2
Actual position at 31 March 2022	**5,790**	**5,323**	**467**

Numbers may not sum due to rounding

Sensitivity and risk analysis

Valuation results depend on actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means it's important to understand their sensitivity and risk levels.

Financial assumptions

How results vary with the assumed future investment return is set out on page 14. Future inflation is currently very uncertain, the impact of varying levels is set out below.

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	**(£m)**	**%**
2.5%	629	112%
2.7%	467	109%
2.9%	299	105%

Regulatory, Administration and Governance risks

Potential risks include changes in central government legislation which may affect the future cost of the LGPS; failures in administration processes leading to incorrect data; and inaccuracies in actuarial calculations. These risks should be included in the Fund's risk register and monitored and managed as part of its ongoing risk management framework.

Demographic assumptions

The main demographic risk is that people live longer than expected. The table below shows the impact of longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results).

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	**(£m)**	**%**
1.5%	467	109%
1.75%	424	108%

Climate change risk

Results may materially change due to the impact of climate change, because of transition and physical risks. We have not quantified the risk exposure here as the Fund has carried out analysis when considering its funding and investment strategy via an in-depth asset-liability modelling exercise.

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Initial employer results

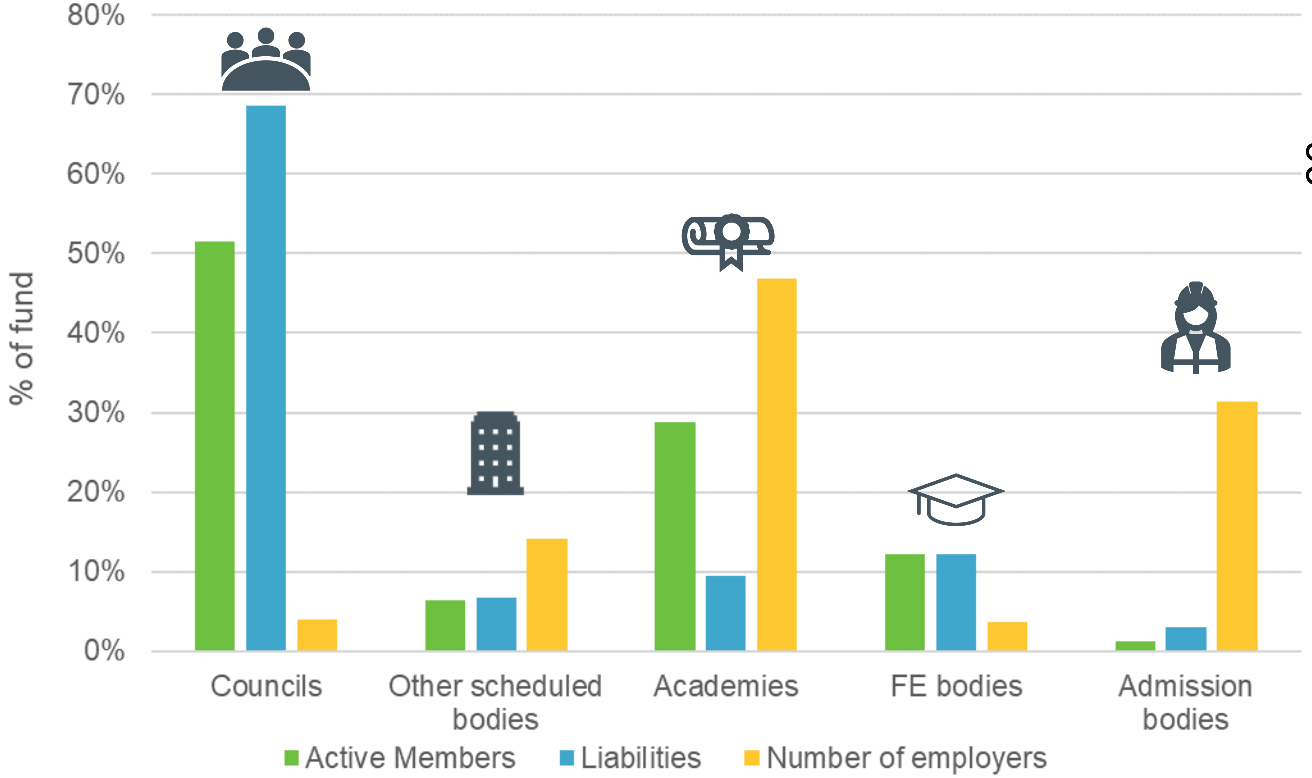
Focusing on employers

Whole-fund level results give a useful overview of the Fund's health but are not the valuation's most important output.

In reality, the Fund is funded at individual employer level. Each employer is responsible for funding the benefits earned by their current and ex-staff. As at 31 March 2022 there are around 286 individual employers in the Fund.

The next stage of the valuation is to prepare funding positions and review contribution rates for each individual employer in the Fund. There is a significant range and diversity of employers, so we will work with the Fund to make sure the funding strategy recognises this diversity and is flexible enough to cater for employers' differences.

Fund employers by type



Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Capturing the diversity in funding calculations

Employer diversity is not restricted to type and size – even for smaller employers, there are significant differences in funding positions and contribution rates. This may be due to previous decisions, for example early retirement experience, pay awards, level of contributions paid, or because the membership varies.

Life expectancy is a good example of the diversity of membership. Studies show it can vary between members due to factors like socio-economic status and retirement health. Using Club Vita to set a baseline life expectancy assumption captures this individual member variation. That means the liabilities and contribution rates better reflect the Fund's, and each employer's, membership.

Difference in average life expectancy (from fund average) at employer level

Most employers are grouped around a central cluster; outliers will have a relatively larger proportion of members in higher/lower socio-economic groups.

Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Individual employer funding levels

The Fund is composed of around 286 employers, each of which has its own funding position and contribution plan. The Fund's overall funding position is the combination of all these employers' results.

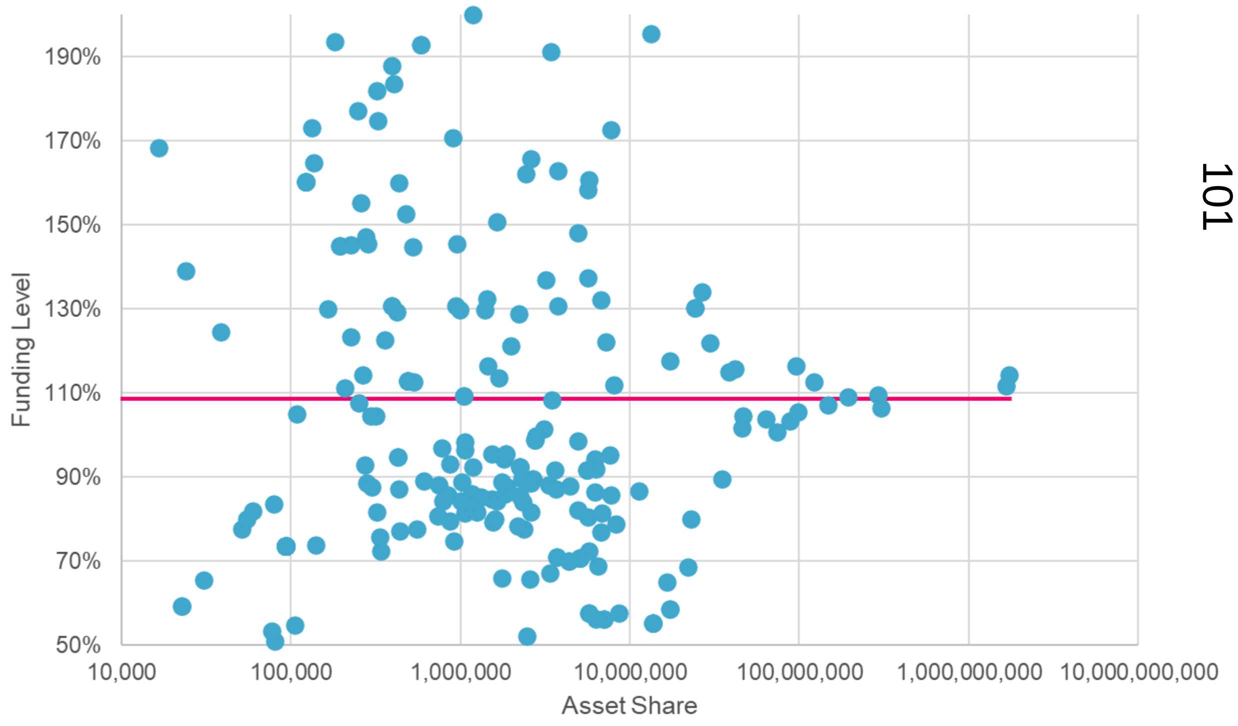
This chart shows the range of employer funding positions. Each dot represents an employer and shows:

- The employer's share of the Fund assets, horizontal scale (NB this is a logarithmic scale, to accommodate the great range in size of employer from smallest to largest).
- The employer's funding level on 31 March 2022, vertical scale.

The red line is the Fund's overall funding level and shows that it does **not** relate to the average of the employer results. Instead, the whole Fund position is driven by the largest employers (right-hand side of the chart).

This shows the importance of considering individual employer results as well as the whole Fund position.

Employer funding level vs asset share



Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Decisions and next steps

Decisions and next steps

1. Discuss funding risks and agree any further exploration or consideration.
2. Confirm that no changes are needed to valuation data or assumptions.
3. Prepare individual employer valuation results for discussion with Officers.

Appendices

APPENDIX 1

Deriving future investment return likelihoods

To derive the distribution of future investment returns and obtain associated likelihoods, we use the Fund's long-term investment strategy and our Economic Scenario Service (ESS) model. The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class, eg UK equities. The ESS reflects correlations between asset classes and wider economic variables (eg inflation). In the short-term (first few years), the models are fitted with current financial market expectations. Over the longer-term, models are built around our views of fundamental economic parameters, for example equity risk premium, credit-spreads and long-term inflation.

Fund's long-term investment strategy

Asset class	Allocation
A Credit (4 yr maturity)	3.0%
Cash	0.5%
DGF High Beta	2.5%
DGF Low Beta	5.0%
EM Debt Local	2.5%
EM equities (unhedged)	5.0%
Global Equites (hedged)	16.0%
Global Equities (unhedged)	16.0%
Index linked gilt (14 yr maturity)	4.5%
Infrastructure equity (listed)	9.8%
Multi Asset Credit (sub investment grade)	4.0%
Private Equity	5.8%
Private Lending	10.5%
Property	10.0%
UK Equities	5.0%
Total	**100.0%**

ESS individual asset class return distributions at 31 March 2022

		Annualised total returns															
		Cash	Index Linked Gilts (medium)	UK Equity	Private Equity	Property	Emerging Market Debt (local currency)	Listed Infrastructure Equity	Diversified Growth Fund (high equity beta)	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	All World Equity GBP Hedged	All World ex UK Equity in GBP Unhedged	Direct Lending (private debt) GBP Hedged	Corp Short A	CorpMedium A	Inflation (CPI)	EM Equity Unhedged
10 years	16th %'ile	0.8%	-1.9%	-0.4%	-1.2%	-0.6%	-1.5%	-1.1%	1.1%	1.4%	1.7%	-0.3%	-0.4%	2.7%	1.4%	-0.1%	1.6%	-2.5%
	50th %'ile	1.8%	0.2%	5.7%	9.4%	4.4%	3.4%	4.9%	5.4%	3.2%	3.5%	5.9%	5.8%	6.0%	2.4%	1.6%	3.3%	5.8%
	84th %'ile	2.9%	2.4%	11.6%	20.1%	9.5%	8.6%	10.9%	9.5%	5.1%	5.2%	11.9%	11.9%	9.2%	3.4%	3.2%	4.9%	14.4%
20 years	16th %'ile	1.0%	-1.5%	1.7%	2.4%	1.4%	0.5%	1.2%	2.8%	2.1%	2.8%	1.9%	1.8%	4.3%	2.0%	1.1%	1.2%	0.1%
	50th %'ile	2.4%	0.1%	6.2%	10.0%	5.0%	4.2%	5.6%	6.0%	3.8%	4.4%	6.4%	6.3%	6.8%	3.2%	2.1%	2.7%	6.3%
	84th %'ile	4.0%	1.9%	10.6%	17.6%	8.9%	8.1%	10.1%	9.4%	5.7%	6.0%	11.0%	11.1%	9.2%	4.6%	3.2%	4.3%	12.8%
40 years	16th %'ile	1.2%	-0.3%	3.2%	4.7%	2.6%	1.9%	2.6%	4.0%	2.5%	3.6%	3.5%	3.4%	5.5%	2.4%	2.0%	0.9%	2.1%
	50th %'ile	2.9%	1.2%	6.7%	10.3%	5.5%	5.0%	6.1%	6.6%	4.4%	5.3%	6.8%	6.8%	7.7%	3.9%	3.1%	2.2%	6.8%
	84th %'ile	4.9%	3.1%	10.2%	16.1%	8.8%	8.2%	9.8%	9.4%	6.5%	7.1%	10.4%	10.4%	10.0%	5.8%	4.4%	3.7%	11.7%
	Volatility (Disp) (5 yr)	1.7%	6.8%	18.1%	30.3%	14.9%	15.1%	17.8%	12.6%	5.0%	5.9%	18.2%	18.5%	10.5%	3.0%	6.5%	3.3%	26.0%

APPENDIX 2

Sample rates for demographic assumptions

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	485.17	487.81	0	0	0	0
25	117	0.17	320.47	322.22	0	0	0	0
30	131	0.20	227.38	228.58	0	0	0	0
35	144	0.24	177.66	178.58	0.10	0.07	0.02	0.01
40	150	0.41	143.04	143.73	0.16	0.12	0.03	0.02
45	157	0.68	134.35	134.98	0.35	0.27	0.07	0.05
50	162	1.09	110.75	111.14	0.90	0.68	0.23	0.17
55	162	1.70	87.21	87.56	3.54	2.65	0.51	0.38
60	162	3.06	77.73	78.01	6.23	4.67	0.44	0.33
65	162	5.10	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	422.91	280.42	0	0	0	0
25	117	0.10	284.56	188.66	0.10	0.07	0.02	0.01
30	131	0.14	238.54	158.13	0.13	0.1	0.03	0.02
35	144	0.24	205.88	136.43	0.26	0.19	0.05	0.04
40	150	0.38	171.35	113.51	0.39	0.29	0.08	0.06
45	157	0.62	159.90	105.91	0.52	0.39	0.1	0.08
50	162	0.90	134.81	89.19	0.97	0.73	0.24	0.18
55	162	1.19	100.59	66.62	3.59	2.69	0.52	0.39
60	162	1.52	81.07	53.62	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

Figures are incidence rates per 1,000 members, except salary scale

APPENDIX 3

Inflation expectations

Current inflation is significantly above the Bank of England target (2% pa) and recent norms. It is likely this will mean a high 2023 pension increase (based on September 2022 CPI inflation).

Current expectations are that inflation pressures will be short-term and move back to normal in the longer-term. The inflation assumption we have used reflects this pattern and allows for the short-term spike – see the blue line on the chart.

The assumption noted in this report is an average of the blue line over the approximate duration of the Fund's liabilities.

Increased uncertainty and risk

There is a lot of uncertainty around both the level of future short-term inflation and how long the period of higher inflation will last. We will continue to work with the Fund to monitor actual and future expected inflation as more information emerges.

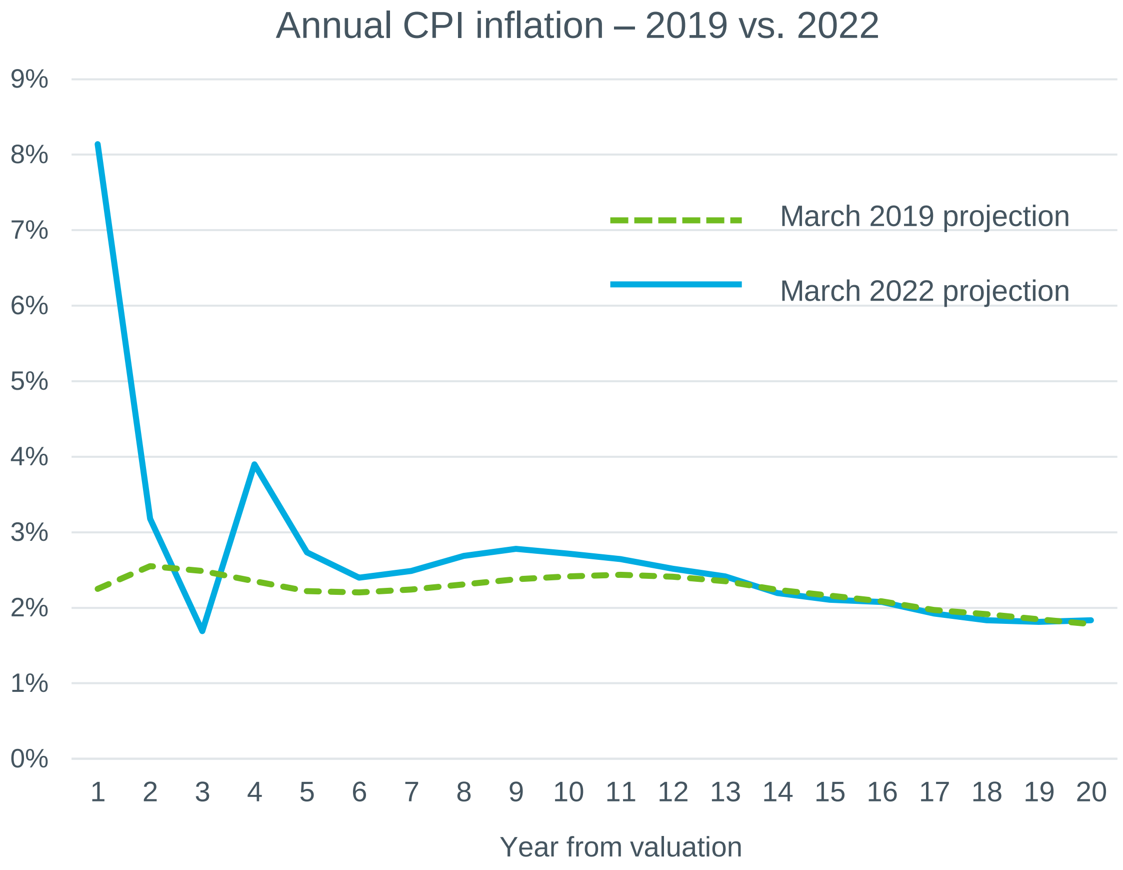


Chart shows median expected annual CPI inflation from ESS model.

APPENDIX 4

Reliances and limitations

We have been commissioned by Leicestershire Country Council ("the Administering Authority") to carry out a full actuarial valuation of the Leicestershire County Council Pension Fund ("the Fund") as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

This paper is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of:

- presenting the current funding position using a range of actuarial assumptions
- explaining why the funding position has changed since the previous valuation in 2019
- showing the sensitivity of the funding position.

It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

This information can be used by the Administering Authority to support the development of the funding strategy and to identify and understand areas of potential risk that it may wish to explore or mitigate during the valuation process.

Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:
- TAS100; and
- TAS300.

Note that this report does not comply with paragraphs 12 (b) or (c) of TAS 300, regarding future projections of funding level and its volatility. The figures in this report provide a notification of the whole Fund funding position, rather than individual employer positions. Therefore, we do not believe the exclusion of the information under these paragraphs is material.

APPENDIX 5

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.

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APPENDIX 5

Glossary

Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

Agenda Item 7

LOCAL PENSION BOARD - 26 OCTOBER 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUNDS STRTEGIES AND POLICIES

Purpose of the Report

1. The purpose of this report is to present for the Board's consideration the annual update of the Pension Fund's current strategies and policies, covering any new policies that have been introduced or amendments that have been made.

Background

2. The responsibility of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS). Part of its role is to review the Fund's Governance and Policy documents, as set out below.

3. This is an annual report to provide the Board with a summary of current policies or strategies. Any new or amended policies will be brought to the Board and then presented to the Pensions Committee for approval at a subsequent meeting, as the body responsible for the governance of the Fund.

Summary of Current Policies

4. All current policies covering both administration and investments, are listed below. Updated policy documents are attached to this report, other policies can be found on the Pension Fund website here.

Policy	**Existing Policy (Yes/No)**	**Changes Made (Yes/No)**	**Changes**	**Date Last Updated**	**Date Next Review Scheduled**
Investment Strategy Statement	Yes	No	-	February 2021	November 2022
Investment Advisor Objectives	Yes	No	-	December 2020	December 2022
Responsible Investment Plan	Yes	No	-	January 2021	January 2023
Net Zero Climate Strategy (target set of Net Zero by 2050)	No – due for consultation November 2022	No		N/A	November 2025
Funding Strategy Statement	Yes	Yes – redrafted layout with some minor changes	See comments later in the report	January 2021	December 2022
Administration and Communication Strategy	Yes	No	-	November 2021	October 2023
Fund Training Policy	Yes	_	-	March 2022	March 2023
Pension Fund Budget and Business Plan	Yes	Updated to reflect the 22/23 Business Plan	The two key points were the introduction of Dashboards and Insight reports	March 2022	February 2023
Conflict of Interest Policy	Yes	No	-	June 2021	June 2024
Fund Employer Risk Policy	Yes	No	-	June 2021	June 2023
Administering Authority (Fund) Discretions Policy	Yes	Yes	-	September 2021	September 2023
Administering Authority Distribution of	Yes	-	-	November 2021	November 2023

Death Grant Policy					
Administering Authority Over and Underpayment Policy	Yes	-	-	November 2021	November 2023
Cyber Policy	No – draft October 2022	-	New draft policy. Separate report provided	October 2022	October 2023

Net Zero Climate Strategy

5. The Local Pension Committee agreed at its meeting on 26 November 2021 to commence work on producing the Fund's first Climate Strategy, recognising the systematic impact climate change could have on the Fund. At the 10 June 2022 meeting it was agreed to engage on proposed metrics and targets that were in line with the Net Zero Investment Framework developed by the Institutional Investors Group on Climate Change. The engagement took place from 5 July to 18th September and the Fund received over 1000 responses from scheme members, employers, investment managers and others which are being utilised to shape the Fund's Net Zero Climate Strategy (NZCS)

6. The outcome of the engagement, alongside the draft NZCS will be presented to the Local Pension Committee on 18 November, prior to further consultation with a final version of the NZCS scheduled to be presented to the Committee for approval in March 2023.

Pension Fund Budget and Business Plan

7. The Pension Fund Budget and Business Plan was approved by the Local Pension Committee on 25th March 2022.

Funding Strategy Statement (FSS)

8. Each LGPS administering authority has a statutory obligation to have an actuarial valuation carried out every three years and all Funds in England and Wales have a valuation carried out as of 31 March 2022.

9. The major purpose of the actuarial valuation is for the actuary to set employer contribution rates for a three-year period, that commences one year after the valuation date (i.e. for the period 1 April 2023 to 31 March 2026). To set these contribution rates the actuary must take account of a large number of factors, most of which are assumptions of what will happen in the future.

10. In addition to the assumptions that remain under review, Officers must review and update the Fund's Funding Strategy Statement (FSS). The FSS underpins the Fund policies and includes a table detailing the Fund's framework for setting contribution rates for differing employer groups.

11. An updated FSS has been drafted and is due to be presented to the Local Pension Committee on 18 November 2022. The document has already been included in the Board's pack, in the earlier Funding Strategy Statement (FSS) and Whole Fund Results report. Much of the information in the draft document remains the same as the Fund's previous FSS, but for ease the key changes are highlighted in yellow. This replicates the information in the earlier report but is listed here for completeness. These are detailed as follows;

    - Contribution reductions (page 4 – Point 2.3). This sets out the Fund's proposal on how to deal with employer rates, especially with the improved funding position since the 2019 valuation, for those well-funded employers in surplus.

    - Prepayment of contributions (page 6 – Point 2.9). There is no change to the Fund's current approach for the prepayment of contributions, however this is now more explicit in the FSS.

    - Early retirement on ill-heath grounds (page 7 – Point 3.2). There is no change to the Fund's current approach to ill health risk mitigation, however this is now more explicit in the FSS.

    - Risk and control – For best practice the FSS now includes a link to the Fund's risk register (Appendix C – C1). The risk register will continue to be reviewed by Officers.

    - Employer covenant assessment and monitoring (Appendix C – C6). There is no change to the Fund's current approach, however this is now more explicit in the FSS.

    - Climate risk and Task Force on Climate-related Financial Disclosures reporting (Appendix C – C7). This makes the Fund's approach more explicit in the FSS and will align with the Net Zero Climate Strategy currently in development.

    - The Fund has updated the assumptions applied at cessation following an employer's exit from the Fund (Appendix D – D5). This is a proposed change and moves away from a gilts-based cessation for employer's exiting the Fund with no guarantor. Further information will be brought to Committee on this.

12. After the strategy has been approved by the Pensions Committee, it will then go for consultation with the Fund Employers from November to January.

Cyber Policy

13. A new policy outlining the Fund's approach to Cyber Risk has been drafted and is included as this report's appendix. Fund officers worked with LCC's Technical Security Officer to ensure that the policy can demonstrate that the Fund has robust governance arrangements in place and to provide assurance to the Fund's stakeholders that any risks are well managed.

14. The policy covers actions in respect of systems, particularly the Altair network of systems and covers the checks Officers have in place to ensure regular Cyber Security checks continue to be performed and also the processes that Heywood have in place with regards to combatting Malware attacks.

15. The policy also covers the processes in place for staff. Many of these align with LCC policy, including actions taken in respect of any data breaches, password controls and sending emails securely.

Recommendation

16. The Board is asked to comment on the revised policies and strategies ahead of the Local Pension Committee meeting on 18th November 2022, where approval will be sought.

Equality and Human Rights Implications

17. None specific

Appendix

Draft Cyber Policy Document

Background Papers

Report to the Local Pension Committee on 10 June 2022 "Responsible Investing Update"
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6759&Ver=4

Report to the Local Pension Committee on 23 March 2022 "Business Plan and Budget 2022/23
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6758&Ver=4

Report to the Local Pension Committee on 21 November 2021 "Responsible Investing Update"
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6526&Ver=4

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Leicestershire Local Government Pension Scheme

Cyber Policy

Sections

1. Introduction
2. Policy Objectives
3. Purpose of the Policy
4. Effective date and reviews
5. Scope
6. Cyber Issues Relating to Systems where Pensions Data is stored
7. Cyber Issues Relating to Staff
8. Officers to contact

Leicestershire County Council as the Administering Authority of the Leicestershire Pension Fund is responsible for setting policies, strategies and statements to ensure the Fund's obligations to its members, employees and stakeholders are met. These are available here.

This policy was approved by the Pension Committee on xx/xx/xxxx.

1 Introduction

The Leicestershire County Council Pension Fund holds personal information for in excess of 100,000 members and has a Fund value of over £5bn. Pension schemes hold large amounts of personal data and assets which can expose them to significant risks if an error occurs. These risks include service disruption, fraudulent activity and data leakage.

The Pensions Regulator requires pension schemes to take steps to build ‘cyber resilience’ – the ability to assess and minimise the risk of a cyber incident occurring, but also to be able to recover when an incident takes place. Schemes are required to work with all relevant parties to define their approach to managing this risk.

The Pensions Regulator summarises it’s expectation of pension schemes as follows:

- Trustees and scheme managers are accountable for the security of scheme information and assets.
- Roles and responsibilities should be clearly defined, assigned and understood.
- You should have access to the required skills and expertise to understand and manage the cyber risk in your scheme.
- You should ensure sufficient understanding of the cyber risk: your scheme’s key functions, systems and assets, its ‘cyber footprint’, vulnerabilities and impact.
- The cyber risk should be on your risk register and regularly reviewed.
- You should ensure sufficient controls are in place to minimise the risk of cyber incident, around systems, processes and people.
- You should assure yourselves that all third-party suppliers have put sufficient controls in place. Certain standards and accreditations can help you and your suppliers demonstrate cyber resilience.
- There should be an incident response plan in place to deal with incidents and enable the scheme to swiftly and safely resume operations. You should ensure you understand your third-party suppliers’ incident response processes.
- You should be clear on how and when incidents would be reported to you and others, including regulators.
- The cyber risk is complex and evolving, and requires a dynamic response. Your controls, processes and response plan should be regularly tested and reviewed. You should be regularly updated on cyber risks, incidents and controls, and seek appropriate information and guidance on threats.

The Pensions Regulator requires pension schemes to take steps to build ‘cyber resilience’ – the ability to assess and minimise the risk of a cyber incident occurring, but also to be able to recover when an incident takes place. Schemes are required to work with all relevant parties to define their approach to managing this risk.

Further information and guidance from The Pensions Regulator can be found here.

The Pensions Manager is responsible for ensuring that sufficient controls are in place to minimise the risk of a cyber incident occurring. This policy details the controls that have been implemented. The policy is split into two sections, Systems and Staff.

2 Policy Objectives

The policy objectives aim to ensure the Fund has robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies including those by The Pensions Regulator, whilst ensuring compliance with appropriate legislation and statutory guidance.

3 Purpose of the Policy

The policy is designed to provide assurance to the Fund's stakeholders that all appropriate steps regarding cyber security are in place, that the data held is secure and that any risks are well managed.

4 Effective date and reviews

This policy was first presented to the Local Pensions Board on 26th October 2022 and approved by the Pensions Committee on xx/xx/xxxx. The policy will be reviewed by officers annually and will be presented to the Board and Committee if changes are required.

5 Scope

The policy applies to:

- Administrators of the scheme;
- Third parties who store Fund data on their systems.

6 Cyber Issues Relating to Systems where Pensions Data is stored

6a. Heywood Pension Technologies

Heywood are our main system supplier and are responsible for the provision of:

Altair: A database containing all information relating to all active scheme members, plus those members who have left employment, which includes a benefit calculator, workflow, document imaging and Altair Pensioner Payroll. This is the key system used by Pensions as it holds live data used to calculate pension benefits and is updated daily.

iConnect: A web portal that enables employers to upload scheme member data directly into Altair;

Member Self Service: A web portal that enables scheme members to view their pension records, receive secure correspondence and also perform their own pension calculations;

Insights: A reporting tool to enable Officers to write and run complex reports.

Following an Information Security Risk Assessment of Heywood conducted by the LCC Technical Security Officer in February 2020, it was established that the measures and controls agreed during the procurement process were still in place and cyber accreditations held at the time of procurement had been kept up to date.

Going forward Officers will continue to review arrangements on an annual basis, ensuring that the accreditations continue to be up to date, and in addition, annual disaster recovery exercises and cyber security reviews continue to be carried out annually. Copies of the accreditations and reviews are held on Pension records.

The latest versions of the accreditations that Heywood have in place are:

- Cyber Essentials (expires August 2023)
- ISO 14001:2015 (expires 30th November 2023)
- ISO 9001:2015 (expires 19th December 2023)
- ISO 27001:2013 (expires 19th December 2023)

Further Information

Cyber Incidents

In the event of an incident, Officers will notify Heywood via a log on their helpdesk. This would apply regardless of the size and severity of the incident, though it is good practice to follow up the submission of an urgent log with a phone call. The incident will then be investigated by Heywood. Details of the Heywood contact details are also held offline.

Targeted Cyber Attacks

The biggest risk to data are targeted ransomware attacks. Heywood have advised that the following processes are in place:

To protect data from these attacks, the Leicestershire Altair data is backed up separately from the other Altair customers. A daily backup takes place every night, and the data is stored on a backup repository in the Leicestershire's primary datacentre for 7 days. Every night, that night's backup is copied to the Leicestershire's secondary datacentre (the datacentre that is also used to run the Disaster Recovery server from) and on a weekly basis a backup is then stored offline on tape. In the case of a ransomware attack, there is a physical perimeter of where the malware can encrypt and corrupt data. Heywood's backup repositories are offline – as in they cannot be accessed from the internet, and don't have out bound internet access, and so are virtually invulnerable to these kinds of malware attacks.

Heywood also employ an industry standard Antivirus package that is tuned to detect and defend against particular cryptolocker attacks. However, even if someone was able to access the repository and then also manage to get a ransomware malware to run for long enough to corrupt backup data on one of the repositories, there is 7 days of daily, 4 weekly and 2 monthly backups available immediately from the alternate datacentre.

In the unlikely event that both primary and secondary datacentres are targeted and data is lost, there is still the ability to restore to backups stored on physical tapes. However, due to the nature of offline tape storage being much slower, these backups are limited to monthly restore points.

Officers will need to manually re-enter data from system audit reports that record all data changes during a specified period.

6b. Other Service Providers

The Fund has contracted other service providers to whom Fund data is shared. Officers will ensure that these providers can provide assurances that they will continue to mitigate, manage and report any cyber issues.

This will require officers to ensure ISO accreditations and business continuity plans are up to date, and also obtain assurances that annual cyber checks, e.g. disaster recovery exercises and penetration testing have taken place. This can be done by obtaining documentary evidence e.g. certificates, reports or emails confirming that checks have been performed.

6c. LCC Network

Officers access the Fund's systems including access to emails through the LCC network. Loss of access to the network would cause significant difficulties in accessing the Fund's systems. The network is managed by LCC and Officers will ensure on an annual basis that regular cyber checks continue to be carried out.

7 Cyber Issues Relating to Staff

7a. Training

In accordance with LCC policy, all staff must undertake mandatory training through LCC's online 'Learning Hub'. This includes cyber related courses including Information Security and Fraud Awareness.

This must be completed within four weeks of joining LCC.

7b. Emails

Emails must be sent safely in accordance with LCC guidance.

7c. **Passwords**

Wherever possible, LPF will comply with the LCC password policy. Where this is not possible, such as PING where the parameters are set by the system administrators, then LPF will adopt the strongest possible parameters within the limits of that system.

Password Policy for Altair

PING

PING is an authentication platform which allows access to altair. Whilst they do not entirely comply with LCC password policy, when combined with the requirement for a secondary login, Officers are satisfied that the security is at an appropriate level.

Altair

Altair is the core administration system used by Pension Officers.

The Fund has adopted the following settings:

A password strength of 7 (very strong);

No expiry date on the password;

Password retry: 9 attempts (LCC [policy allows 10 but Altair limits this to 9)

Minimum password length: 10 characters

Number of stored historic passwords: 8 (these cannot be reused)

These have currently been set to comply with LCC password policy.

Altair allows for the creation of specific roles within it's framework to limit users access to certain functionality within the system.

There are currently five roles used by pensions staff:

Officers	**Role**
Pensions Assistants and Officers	LCC Role 1
Officers who deal with I-Connect	LCC Role Systems Admin
Pensions Officers - Continuous Improvements Team only	LCC Role 3
Assistant/Managers who authorise payments	LCC Role 3 & Authorise
Systems Managers	LCC Admin & Payroll Superuser

In addition, there are two roles used by payroll staff:

Officers	Role
Payroll Officers (input data)	LCC Payroll
Payroll Control Staff (run payrolls)	LCC Payroll Control

Roles are amended as jobs change and a check is carried out every six months, to ensure all users are still on the correct role and leavers have been disabled. In addition a System Audit is also conducted by Internal Audit on an annual basis as part of their key ICT controls work.

7d. Data Breaches

In the event of a data breach, e.g. personal information sent to the wrong scheme member, Pension Officers must follow the LCC procedure, which requires the incident to be reported via the Incident Reporting Form. This is then sent to the Information Governance Team who will advise on appropriate action to be taken.

The Fund has a Retention Schedule and also a Fair Processing Notice, which specifies how long data can be held and who it is shared with. These documents are reviewed every two years.

7e. Roles and Responsibilities

Activity	Responsibility
Reporting Cyber Breaches	All
Maintaining a Cyber Security Policy for Pension Fund	Pensions Manager and Pensions Project Manager
Reviewing Cyber Risks	Pensions Project Manager and Third Parties
Maintaining Cyber Risks on Pension Fund Risk Register	Pensions Manager
Maintenance of Security Controls on Fund Administration system	Pensions Project Manager
Maintaining Cyber Risk across Administering Authority	LCC Technical Security Officer
Reporting Data Breaches and Incidents	All

8 Officers to Contact

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LOCAL PENSION BOARD - SEPTEMBER 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSIONS DASHBOARD PROGRAMME REPORT

Purpose of the Report

1. To provide the Board with details of the Pensions Dashboards Programme (PDP) and a position update with regards to the Fund.

Background

2. The PDP is intended to provide a single, secure port of call for individuals to access their pension history in one place, including eventually their State Pension. It is intended that the initial version of the PDP will be relatively simple, offering users the opportunity to find their active and deferred pensions and then view information about the value of those pensions. It is expected though, that the service provided will develop as the use of PDP becomes more commonplace, and it is understood what people find useful. Long term there is an aim that the PDP will enable users to make more informed choices around their pensions.

3. Ecosystem

The PDP is made up of a framework of systems to form an 'Ecosystem'.

The Ecosystem consists of:

4. Dashboards

There will be multiple dashboards available to users, including one developed by the government's Money and Pensions Service, plus others created by commercial providers. This will form the 'front end' of the ecosystem.

5. Identifier Service

The dashboard is linked to an identifier service, which allows users to prove who they are so that data providers can be assured that they are giving access to the correct person. The service proves identity to an acceptable standard across the whole of the ecosystem.

6. Consent and Authorisation Service

Once the user has been identified they will be asked to give consent to search for pensions data. Those permissions are passed on to the finder service to send to data providers.

Data providers will acknowledge receipt of a search request, even if no data found. If there is a match they interact with the Consent and Authorisation service to check permissions.

7. Pension Finder Service/ISPs

The Finder service then receives data from the Consent and Authorisation service before sending out an instruction to all Integrated Service Providers (ISP) to search for users' pensions. The ISP provides the link from Funds administration systems to the dashboard. In essence, this functions like a giant switchboard.

If data is found the ISPs send the data directly to the Dashboards for the user to access.

8. Governance Register

This is the final part of the digital architecture and provides assurance that the Ecosystem is operating correctly and securely, enabling compliance and monitors the system for issues.

Note that the ecosystem is designed to work without a central database of personal information, thus protecting users and their data. This is also aimed to provide assurance to Funds that GDPR and related legislation is adhered to.

Best practice security standards as recommended by the National Cyber Security Centre will be applied. The technology will be tested for it's ability to protect itself from a cyber-attack.

A video summarising how the system works can be found here.

Currently the project is in the "Develop and Test" phase. The developers are continuing to work with dashboard suppliers on testing and integrating the different elements of the framework and connecting volunteer data and dashboard providers.

9. Onboarding

Pension schemes will be 'onboarded' to the PDP in three waves:

Large schemes between April 2023 and September 2024;

Medium schemes between October 2024 and October 2025;

Small schemes during 2026.

LGPS funds will need to onboard for this service by 30th September 2024, which will allow users to initially establish solely if they have a pension benefit with the Fund. From 1st April 2025, the Fund will then also be expected to be able to supply details of those pension benefits.

10. Legislation Timeline

3 December 2018 – 28th January 2019: Government produced a consultation, Pensions Dashboards: working together for the consumer.

6th July 2020 – 31st August 2020: PDP launched a Call for input on data standards

11th February 2021: Pension Schemes Bill came into effect, creating a legislative framework for pension dashboards, making it mandatory for pension providers and schemes to connect to pension dashboards

31 January 2022 – 13 March 2022: Consultation on the draft Pensions Dashboards Regulations 2022

28 June 2022 – 19th July 2022: Pensions Dashboards: further consultation

19 July 2022 – 30th August 2022: PDP launched a consultation on dashboard standards and a call for input on the design standards.

The Pensions Dashboards Regulations are currently expected to come into effect by the end of the year.

Risks/Issues and Actions Taken

11. Integrated Service Provider (ISP)

The Fund will need to arrange to sign up with an ISP to enable our data to be accessible through the PDP ecosystem. It is expected that there will be a number of providers available including Heywood, our main systems provider.

Officers have already had initial discussions with Heywood regarding signing up to their ISP. As they are already our system supplier the onboarding process would be relatively straightforward.

12. Data Quality

When pension searches are being conducted, Funds will need to establish the matching criteria to be used. A final decision regarding that criteria will be made nearer to the go live date. However, it is expected that matches with be made on a combination of National Insurance number, surname and date of birth.

Incorrect data held on records will result in either a partial match or a mismatch. It is understood that where a partial match is returned through the ecosystem, the user will need to provide further information to Funds within 30 days or the search will end. On receipt of this additional information, officers will need to perform a check to establish if there is membership within the Fund. At this stage it isn't clear how long officers will have to respond. A

process will need to be established for dealing with these requests. In order that the number of requests received are kept to a minimum, it will be important to ensure that data held is as accurate as possible.
Scheme member data is used for different purposes and the cleanliness of that data is measured in a multitude of ways. Historically, data standards have focussed on the existence of data (The Pension Regulator's common and scheme specific data scores), rather than the accuracy of that data. For dashboards, a new standard is currently being developed, which is expected to focus on accuracy.

Officers will continue to use the existing TPR data scores as a method of cleansing data until the new standard is established.

Another aspect of data quality to consider is the importance of ensuring that data is being received every month from fund employers. This will allow the Fund to comply with the requirements to hold data on new scheme members within three months of joining the scheme. The Fund already receives monthly data from employers, as part of the i-Connect process, meaning that the data held in the system is up to date. It is the case though that some employers do not always provide the data promptly and Officers will be contacting all employers to emphasise the importance of prompt data provision to ensure the Fund complies with expected dashboard legislation.

A possible outcome following the dashboard launch will be a higher profile for the pensions industry in general, which could result in an increase in the number of enquiries directly to the Fund, covering such topics as pension estimates, transfers and refunds.

In addition as the initial version of the dashboard will not provide information relating to 'deferred refunds', i.e. where a user has membership of the Fund, but not enough to meet the vesting period establishing entitlement to a pension benefit. This may also result in an increased number of enquiries directly to the Fund.

13. Next Steps

Dashboards continues to be a topic at all upcoming national Pension meetings including the Pensions Managers' Conference and the LGA's LGPS Trustee Conference and any updates on future developments will be provided at a future Board meeting in 2023.

Recommendation

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

Equality and Human Rights Implications

None specific

Officers to Contact

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Agenda Item 9

Leicestershire County Council PENSION FUND

LOCAL PENSION BOARD – 26 OCTOBER 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose of the Report

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. The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record, and members be kept aware of 'risk management and internal controls. The code states this should be a standing item on each Pension Board and Pension Committee agenda.

3. In order to comply with the code, the risk register and an update on supporting activity is included on each agenda.

Risk Register

4. The risks are split into six different risk areas. The risk areas are.

- Investment risk
- Liability risk
- Employer risk
- Governance risk
- Operational risk
- Regulatory risk

5. There have been no changes to any of the risk scores since the Pensions Board meeting in August 2022, however there are some updates on existing risks. The risk register is attached as the Appendix.

- Risk 3 (Investments) – 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
  The Fund continues to develop a Net Zero Climate Strategy to consider the risk and opportunities related to climate change.

- Risk 8 (Governance) – If the Funds In House AVC provider does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members
  Several Funds met with the AVC provider, designed to build on future improvements, and to try and negate any future drop in service standard.

- Risk 12 (Operational) – If the Pension Section fails to meet the information/cyber security and governance requirements there may be a breach of statutory obligations
  Officers have developed a new Fund Cyber risk policy. Internal Audit are still planning to carry out audit reviews of both the Good Governance Project and The Pension Regulators new code of practice, once these projects move ahead nationally.

- Risk 13 (Operational) – If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pension of the one-off payment could be wrong.
  A new system development in Altair is being released from Heywood later in 2022, enabling Officers to check member's individual bank account details, before making payment.

6. To meet Fund Governance best practise, the risk register has been shared with Internal Audit. Internal Audit have considered the register and are satisfied with the current position.

Recommendation

7. It is recommended that the Board notes the revised risk register of the Pension Fund.

Equality and Human Rights Implications

None

Appendix

Appendix - Risk Register

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<u>Appendix - Leicestershire Pension Fund Risk Register October 2022</u>

In the Fund's register there are six risk groups. Each risk sits within a risk group.

Risk Groups

1. Investment Risk
2. Liability Risk
3. Employer Risk
4. Governance Risk
5. Operational Risk
6. Regulatory Risk

Investment Risk

Risk no	Risk Area	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	**Investments**	**Invs**	**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 and/ or shocks e.g. CV19.	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**	Bhulesh Kachra
2	**Investments**	**Invs**	**Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations**	Poor performance of individual managers including LGPS Central, poor asset allocation policy or costs of transition of assets to LGPS Central is higher than expected	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. Lower returns will	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate Shareholders' Forum, Joint Committee and Practitioners'	**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 poorer relative	**2**	**2**	**4**	Bhulesh Kachra

Risk no	Risk Area	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
					ultimately lead to higher employer contribution rates than would otherwise have been the case		Advisory Forum will provide significant influence in the event of issues arising. Appraisal of each LGPS Central investment product before a commitment to transition is made. Where appropriate specialist transition manager being appointed, with independent specialist oversight. Transitions are phased over time to allow capacity to be managed and lessons learned					performance will occur. Decisions regarding manager termination to consider multiple factors including performance versus mandate and reason for original inclusion. 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 audit activity, which has been designed in collaboration with the audit functions of the partner funds Each transition's approach is independently assessed with views from 8 partners sought.				
3	**Investments**	**Invvs**	**Failure to take account of ALL risks to future investment returns within the setting of asset allocation**	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to	Chris Tambini	Ensuring that all factors that may impact onto investment returns are taken into account when	**3**	**4**	**12**	**Treat**	Responsible investment aims to incorporate environmental (including Climate change), social and	**3**	**3**	**9**	Bhulesh Kachra

Risk no	Risk Area	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
			policy and/or the appointment of investment managers	risks inherent within the investment.	higher employer contribution rates than would otherwise have been necessary.		setting the asset allocation. Only appointing investment managers that integrate responsible investment (RI) into their processes. Utilisation of dedicated RI team at LGPS Central and preparation of an annual RI plan , Climate Risk Report and Climate Stewardship Report. The Fund also produces an annual report as part of the Taskforce on Climate-related Financial Disclosures. The Fund is also member of the Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement which is focused on promoting the highest standards of corporate governance and					governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. Annual refresh of the Fund's asset allocation allows an up to date view of risks to be incorporated and avoids significant short term changes to the allocation. Asset allocation policy allows for variances from target asset allocation to take advantage of opportunities and negates the need to trade regularly where investments under and over perform in a short period of time. The Fund is in the process of developing a Net Zero Climate Strategy to take into account the risk and opportunities				

Risk no	Risk Area	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
							corporate responsibility.					related to climate change.				

Liability Risk

Risk no	Risk Area	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
4	**Liability**	**Invs**	**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. The 2019 valuation assessed the contribution rates with a view to calculating monetary contributions	**4**	**2**	**8**	Bhulesh Kachra

Risk no	Risk Area	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
												alongside employer percentages of salaries where appropriate. Regular review of market conditions and dialogue with the schemes biggest employers with respect to the direction of future rates. Planning for the 2022 valuation has commenced with the actuary. GAD Section 13 comparisons. Funding Strategy Statement approach to increase the fund to over 100% funded.				

Employer Risk

Risk no	Risk Area	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
5	**Employer**	**Pens**	**If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late** **This includes data at year-end**	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 and employers that change payroll systems so require new reporting processes	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations Failure to meet statutory year-end requirements	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 31/3/2022) Year-end specifications provided Employers are monthly posting	**3**	**3**	**9**	**Treat**	Inform the Local Pension Board annually Continued development of wider bulk calculations Implemented automation of certain member benefits using monthly data posted from employers Pensions to develop a monthly tracker for employer postings	**3**	**2**	**6**	Ian Howe
6	**Employer**	**Pens**	**If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected**	Errors by Fund employers payroll systems when setting the changes	Lower contributions than expected. Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set	Ian Howe	Pension Section provides employers with the annual bandings each year. Pension Section provides employers with contributions rates (full and	**4**	**2**	**8**	**Treat**	Pension Officers check sample cases at year-end Pension Officers to report major failings to internal audit before the annual audit process	**4**	**1**	**4**	Ian Howe

Risk no	Risk Area	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
					than necessary		50/50) Internal audit check both areas annually and report their findings to the Pensions Manager					Major failings to be reported to the Pensions Board				
7	**Employer**	**Invs**	**Employer and employee contributions are not paid accurately and on time**	Error on the part of the scheme employer CV19 may reduce some employer's income so they are unable to make payment	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act.	Ian Howe	Receipt of contributions is monitored, and late payments are chased quickly. Communication with large commercial employers with a view to early view of funding issues. Internal Audit review on an annual basis and report findings to the Pensions Manager	**2**	**4**	**8**	**Treat**	Late payers will be reminded of their legal responsibilities.	**2**	**3**	**6**	Declan Keegan

Governance

Risk no	Risk Area	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
8	**Governance**	**Pens**	**If the Funds In House AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members**	The Fund must offer AVCs as per the Regulations Prudential implemented a new administration system in November 2020 Covid lockdown restrictions and home working	Failure to meet key performance target for making payments of retirement benefits to members Complaints Reputational damage Members may cease paying AVCs	Ian Howe	Written to all active scheme members with AVCs Reported it to the Chair of the Pension Boards and Senior Officers Reported to the LGA and other Funds Discussed with the Prudential Weekly list of outstanding cases sent to the Prudential for priority	**3**	**3**	**9**	**Treat**	Reported the delayed payment of benefits (due to the Prudential's delays) as a material breach to the Pensions Regulator Prudential attended a meeting with the Local Pension Board Prudential working through an improvement plan Prudential engage with Fund Officers positively to quickly resolve issues A national meeting with LGPS Funds and the Prudential took place to develop continued improvements	**3**	**1**	**3**	Ian Howe
9	**Governance**	**Pens/Invs**	**Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer**	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer contribution rates. Risk to the Fund of insolvency of an individual employer. This will ultimately increase	Ian Howe/ Declan Keegan	Ensuring, as far as possible, that the financial position of each employer is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.	**5**	**2**	**10**	**Treat**	Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates. Include employer risk profiling as part of the Funding Strategy Statement update. To allow	**4**	**2**	**8**	Ian Howe and Declan Keegan

Risk no	Risk Area	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
					the deficit of all other employers.							better targeting of default risks Investigate arrangements to de-risk funding arrangements for individual employers. Ensure that the implications of the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations is fully accounted for in the Funding Strategy				
10	**Governance**	**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, which will require 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**	Bhulesh Kachra

Operational

Risk no	Risk Area	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
11	Operational	Pens	**If the Pension Fund fails to hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual member's annual Pensions Increase results could be wrong.**	From 2018 the pensions section has had responsibility for GMPs creating the need to ensure that this is accounted for in the pensions increases	Overpaying pensions (i.e. for GMP cases pension increases are lower) Reputation	Ian Howe	Checking of HMRC GMP data to identify any discrepancies. Internal Audit run an annual Pensions Increase result test and provide an annual report of findings	3	3	9	Treat	Officers run the HMRC GMP check on a case by case basis and input the results into member records at retirement	2	1	2	Ian Howe
12	Operational	Pens	**If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a breach of the statutory obligations.**	Pensions database now hosted outside of LCC. Employer data submitted through online portal. Member data accessible through member self-service portal (MSS). Data held on third party reporting tool (DART). Greater awareness of information rights by service users.	Diminished public trust in ability of Council to provide services. Loss of confidential information compromising service user safety. Damage to LCC reputation. Financial penalties.	Ian Howe	Regular LCC Penetration testing and enhanced IT health checks in place. LCC have achieved PSN compliance. New firewall in place providing two layers of security protection in line with PSN best practice.	5	2	10	Treat	Work with LCC ICT and Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can Aquila Heywood demonstrate that they are carrying out regular penetration testing and other related processes take place. Liaise with Audit to establish if any further processes can be put in place in line with best practice. Good governance	5	1	5	Stuart Wells

Risk no	Risk Area	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
												project and the expected TPR new code of practice to include internal audit reviews of both areas. Report the findings to the Board. Developed a new Cyber risk policy				
13	**Operational**	**Pens**	**If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one off payments could be wrong**	Human error when setting up immediate payments or calculating a pension System failures Unable to meet weekly deadlines	Reputation Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly Over or under payments	Ian Howe	Benefit Team Tracker process Benefits checked and authorised by different Officers Additional Assistant Team Manager resource provided Training provided to new staff Benefits are checked by a colleague Figures are provided to the member so they can see the value and check these are correct	**5**	**2**	**10**	**Treat**	A more automated one-off payment process in place Officers re-engineered the retirement process Monitor the structure of the Pension Section to resource the area sufficiently New immediate payments bank account checks system Officers to develop an Insights report to identify discrepancies between administration and payroll sides of the system	**5**	**1**	**5**	Ian Howe

Risk no	Risk Area	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
												Ongoing officer training notes Continued develop the workflow tasks Funds over and under payment policy				
14	Operational	Pens	**If all the transfers out checks are not completely fully there could be future bad advice challenges brought against the Fund's pension administration** **There are some challenges being lodged from Claims Management Companies on historic transfers out**	Increasing demand for transfers out from members Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits Increased complexity on how the receiving schemes are set up Increased challenges on historic transfers	Reputation Future bad advice claims brought against the Fund IDRP appeals (possible compensation payments) Increased administration time and cost	Ian Howe	TPR checks Follow LGA guidance Queries escalated to Team Manager then Pensions Manager	3	3	9	Treat	Escalation process to Internal Legal Colleagues to check IFA, Company set up, alleged scam activity Further escalation process to external Legal Colleagues Signed up to The Pension Regulator's national pledge "To Combat Pension Scams" National changes potentially forthcoming for checks on the receiving scheme's arrangements Internal audit review of both transfers in and out of the Fund.	3	2	6	Ian Howe
15		Pens	**Failure to identify the death of a pensioner causing**	Late or no notification of a deceased	Overpayments or financial loss	Ian Howe	Faraday monthly reporting process of UK registered	3	3	9	Treat	Moved to 6 monthly checks, (from one	3	1	3	Ian Howe

Risk no	Risk Area	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
	Operational		**an overpayment, or potential fraud or other financial irregularity**	pensioner. Fraudulent attempts to continue to claim a pension	Legal cases claiming money back Reputational damage		deaths Life certificates for overseas pensioners Defined process governing bank account changes					check every 2 years) National Fraud mortality screening for overseas pensioners Targeted review of status for pensioners where the Fund does not hold the current address e.g. care of County Hall or Solicitors				

Regulatory

Risk no	Risk Area	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
16	**Regulatory**	**Pens**	**The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service**	Mr McCloud winning his appeal on age discrimination on public sector pension schemes and the protection afforded to older members during the move to career average benefits, followed by Government losing their right of appeal. The Unions challenge on the 2016 cost cap, could result in possible benefit recalculations if the challenge is successful	Ultimate outcome on both McCloud and the cost cap are currently unknown but likelihood is; Increasing administration Revision of previous benefits Additional communications Complaints/appeals Increased costs	Ian Howe	Guidance from LGA, Hymans, Treasury	**3**	**3**	**9**	**Treat once details are confirmed**	Employer bulletin to employers making them aware of the current situation on McCloud Await proposed resolution from the employment tribunal Assisting the LGA on the employer McCloud data template (missing hours April 2014 to date) and the wider project No statutory deadline to be set for completion of the work Team set up in the Pension Section to deal with McCloud casework Data being received from the employers and loaded into the administration system System provider to resolve current data loading issues Internal Audit review to ensure	**2**	**3**	**6**	Ian Howe

Risk no	Risk Area	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
												guidance received is followed in relation to any members affected by the judgement. Internal Audit review of progress to date. Quarterly updates to the Board				
17	Regulatory	Pens	**The implication of the national dashboard project could increase administration resulting in difficulties providing the ongoing pensions administration service**	National decision to implement pension dashboards thereby enabling people to view all their pension benefits via one single dashboard	Increased administration Data cleaning exercise on member records Increased system costs Additional communications Timing of the national exercise (April 2024) potentially conflicts with McCloud (October 2023)	Ian Howe	Initial data cleaning started Contract made with the system provider on building the data link	3	3	9	**Treat once final details are confirmed**	Work with LCC's internal IT Team Security checked on the required link to allow the access to secure member pension data GDPR requirements Quarterly updates to the Board	3	2	6	Ian Howe

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss

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

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
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	**2**	3	4	5
	Very Rare/Unlikely	Unlikely	Possible/Likely	Probable/Likely	Almost certain

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