Shropshire County Pension Fund

Funding Strategy Statement

Approved by the Pensions Committee on

17 March 2023

This Funding Strategy Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (the "fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Administered by Shropshire Council

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1. Guide to the FSS and Policies

The information required by overarching guidance and Regulations is included in Section 2 and Section 3 of the Funding Strategy Statement. This document also sets out the fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)

The actuarial assumptions and approach used for assessing the funding position of the fund and the individual employers. This includes the contribution rates – the "Primary" contribution rate covering new benefits earned, and any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate. The assumptions, together with other factors that may impact an employer's contribution outcomes, are set out here.

2. Deficit Recovery and Surplus Offset Plans (Appendix B)

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out here.

3. Ill Health Insurance Arrangements (Appendix C)

The fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by the ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out here.

4. Employer Events Framework Policy Document

The fund's Employer Events Framework Policy provides detail on the following key areas of an employer's participation in the fund and the relevant sections of the Policy Document will be deemed to be part of this Funding Strategy Statement:

- Joining the fund.
- Covenant monitoring and employer risk framework
- Inter-valuation contribution rate reviews.

- Exiting the fund

A copy of the Policy Document can be provided on request by the administering authority and can also be found on the fund's website here.

5. Glossary (Appendix D)

A glossary of the key terms used throughout is available at the end of this document here.

2. Background

Ensuring that the Shropshire County Pension Fund (the “fund”) has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Shropshire Council). The Funding Strategy adopted by the Shropshire County Pension Fund will therefore be critical in achieving this. The Administering Authority has taken advice from the actuary in preparing this Statement.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Shropshire County Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Shropshire County Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

Integrated Risk Management Strategy

The funding strategy set out in this document has been developed alongside the fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the fund in meeting its primary solvency and long-term cost efficiency objectives. Individual employer results will also

have regard to their covenant strength, where deemed appropriate by the Administering Authority.

The Regulations

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

The Solvency Objective

The Administering Authority’s long-term objective is for the fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the fund’s objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

Long Term Cost Efficiency

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the fund’s liabilities i.e. benefit payments can be reasonably met as they arise. Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that

contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the fund.

Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution.

3. Key Funding Principles

Purpose of the FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

The aims of the fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the profile of the fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

Responsibilities of the key parties

The efficient and effective management of the fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Sub-Committee), the individual employers and the fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS

The Administering Authority should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the fund's actuary
- prepare and maintain a FSS and an Investment Strategy Statement ("ISS"), both after proper consultation with interested parties
- monitor all aspects of the fund's performance and funding, amending the FSS/ISS as necessary

- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer
- pay all contributions, including their own, as determined by the actuary, promptly by the due date
- undertake administration duties in accordance with the Pension Administration Strategy.
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of fund benefits, early retirement strain
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context
- notify the Administering Authority promptly of any changes to membership which may affect future funding.
- understand the pension impacts of any changes to their organisational structure and service delivery model, and
- understand that the quality of the data provided to the fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The fund Actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the fund Actuary's role in advising the fund.

A Guarantor should:

- notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination
- provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations
- be aware of all guarantees that are currently in place
- work with the fund and the employer in the context of the guarantee, and
- receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long-term funding objective is for the fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

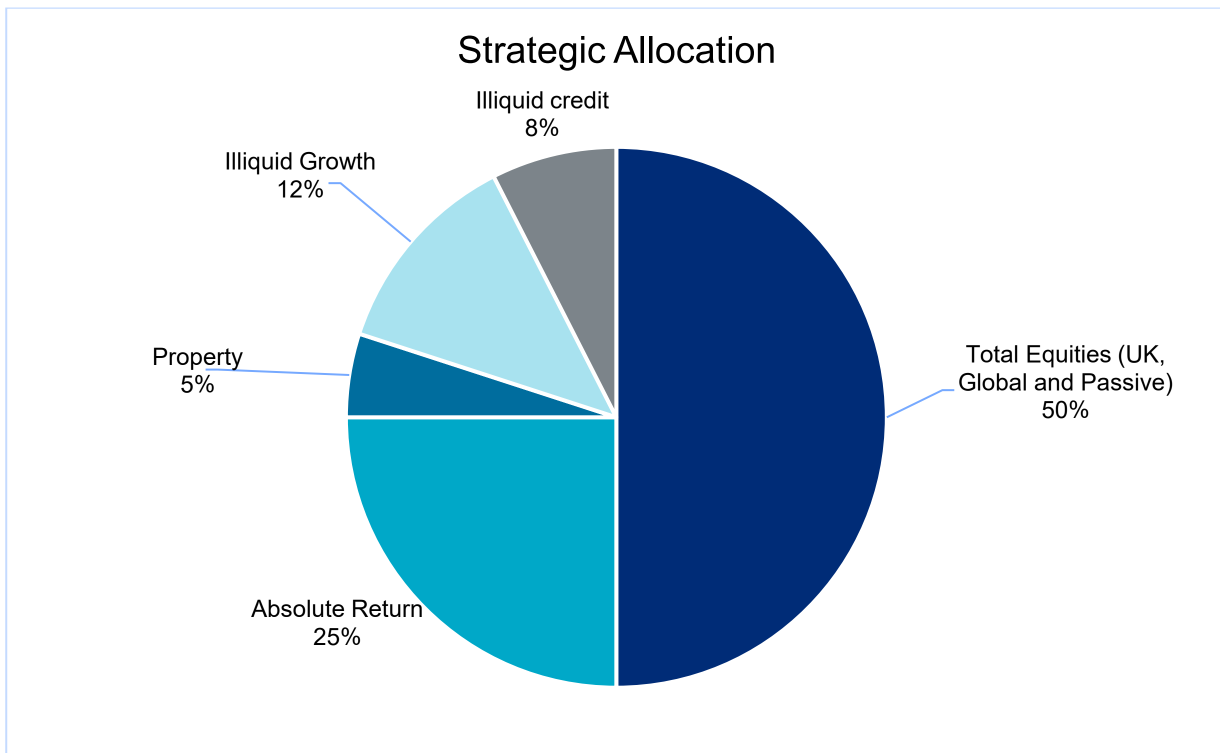
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

The results of the 2022 valuation show the liabilities to be nearly 100% covered by the assets, with a funding deficit of £10m on the fund's standard funding assumptions (rising to £22m after allowing for the reduced risk assumptions for the employers without a taxpayer guarantor that do not put a bond in place) with the funding deficit being covered by future deficit contributions.

Link to Investment Policy and the Investment Strategy Statement (ISS)

In assessing the value of the fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the fund, as set out in the ISS.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below.



ASSET CLASS	ALLOCATION	CONTROL RANGES
Total Equities (UK, Global and Passive)	50.0%	45.0% - 55.0%
Absolute Return	25.0%	20.0% - 30.0%
Property	5.0%	2.5% - 7.5%
Illiquid Growth (Infrastructure and Private Equity)	12.5%	10.0% - 15.0%
Illiquid credit	7.5%	5.0% - 10.0%

The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 2.7% per annum in excess of CPI inflation as at 31 March 2022 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in Appendix A).

Risk Management Strategy

In the context of managing various aspects of the fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate.

In particular, the fund has implemented an equity derivatives program with Legal and General Investment Management in order to manage the fund's exposure to equity markets over the short to medium term. In particular, the fund has implemented an equity derivatives program with Legal and General Investment Management in order to manage the fund's exposure to equity markets over the short to medium term. The strategy currently protects c30% of the fund's equity holdings, with protection options expiring in June 2023 and December 2023. The protection was funded by selling potential upside returns on the equity protected, with the amount of return retained by the fund varying by region. The position will be kept under review in the interim to the next valuation and beyond.

Further details will be set out in the ISS.

Climate Change

Climate change is a material risk to the fund, and so an important part of the risk analysis underpinning the funding strategy is to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes.

The fund undertakes extensive work to understand and mitigate the risks of climate change, in particular seeking to both limit the fund's impact on the environment and also to limit the potential impact of climate change on fund performance. However, it must also acknowledge that:

- climate change / material increases in global temperatures remains a significant risk, and one over which the fund has very little control
- as the potential impacts of this are so pervasive, the fund cannot fully mitigate them

Therefore as part of the current valuation an analysis of the potential impact on the projected funding level of three different scenarios based on the current strategic allocation has been undertaken. The purpose of this is to illustrate the transition and physical risks, depending on what actions are taken globally on climate change.

The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change. However, the analysis specifically includes a scenario that allows for a failure of global climate policy and so a significant increase in global temperatures, as it is important to both recognise this as a possibility and understand the potential impact on the fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The three climate shock scenarios considered are:

1. Rapid Transition - there is a sudden divestment across multiple securities in 2025 to align portfolios to the Paris Agreement goals, this will have disruptive effects on financial markets with sudden repricing followed by stranded assets and a

sentiment shock. Average temperature increase stabilises at 1.5°C around 2050. In relative terms to the best estimate basis at the valuation date, this could have a slightly detrimental impact on the funding level of around 3% after 5 years as the larger transition risks manifest. However, whilst the rapid transition sees a world that has a major shock in the early years there is then a period of recovery in the following years, with reduced physical damages in the long term. Given the fund's allocation to sustainable assets, the full impact of the initial shock is mitigated to some extent and then the fund almost fully recovers from it, with the projection then following the baseline as the time period spans out towards 20 years and beyond.

2. Orderly Transition - political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. This scenario includes additional economic damage consistent with 1.8°C of average temperature rise – peaking in 2070. In relative terms this could have a marginally detrimental impact on the funding level of 2% after 5 years as the transition risks are less impactful, and 2% after 20 years. The impact after 40 years is almost 10% which is much greater than the Rapid Transition scenario as the higher temperature rises begin to have a greater impact.
3. Failed Transition - The world fails to meet the Paris Agreement goals and global warming reaches c4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. In relative terms this could lead to a marginal increase in the funding level of 2% after 5 years which reflects the lower impact from transition risks (versus the market pricing) and a hugely detrimental impact of c17% after 20 years and over 30% after 40 years which shows the material consequences of the physical risks from the significant temperature increases as time progresses.

The analysis compliments with the fund's wider work on climate change being undertaken alongside the LGPS Central pool, and so reflect the actions taken (both historically and in future) by the fund in relation to making its asset portfolio more sustainable. Details of this are set out in the separate Taskforce on Climate Related Financial Disclosures (TCFD) reports, and the fund's climate change strategy and climate stewardship plan. The above analysis is consistent with these documents, but updated for the latest available assumptions and underlying views on the likely climate change trajectory.

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient in the context of the scenarios considered. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors, and so the analysis will be further developed and monitored over time. Other risks (e.g. longevity) will also be considered in future analysis but are expected to have a lower impact than the financial market impacts. The expected impact on asset returns under different scenarios and timeframes will be shown in more detail in the separate TCFD reports. A summary of the output of the analysis is included in the fund Actuary's report on the valuation.

Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and may require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

Financial

The financial risks include:-

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the fund impacting on cashflow requirements.
- Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.
- In practice the extent to which these risks can be reduced is limited. However, the fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

Demographic

The demographic risks include:-

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers (although the introduction of the ill health captive insurance arrangement will help to reduce this risk going forwards)
- Unanticipated acceleration of the maturing of the fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy

- Early retirements for reasons of redundancy and efficiency do not affect the solvency of the fund because they are the subject of a direct charge.

Governance

The fund has done as much as it believes it reasonably can to enable employing bodies and fund members (via their representatives on the Local Pension Board) to make their views known to the fund and to participate in the decision-making process.

Governance risks include the following:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the fund impacting on cashflow requirements.
- Changes in the Committee membership.
- For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the fund as a whole, bears the risk.

Regulatory

The key regulatory risks include the following:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the fund, typically these would be via the Cost Management Process although in light of the McCloud discrimination case, there

can be exceptional circumstances which give rise to unexpected changes in Regulations.

- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the fund due to Government policy.
- Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the fund
- if there have been material changes in the ISS

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. Further details on the circumstances in which the Administering Authority will review individual employer contribution rates in between actuarial valuations can be found in the Employer Events Framework Policy Document on the fund’s website here.

Appendix A –

Actuarial method and assumptions

The key whole fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

Financial Assumptions		
	2022 valuation assumption	Description
Investment return / discount rate	Standard approach: 4.8% p.a. (past) and 5.2% p.a. (future) Reduced risk approach: 4.55% p.a. (past) and 4.7% p.a. (future)	Derived from the expected return on the fund assets based on the long-term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation, the standard approach is based on an assumed return of 1.7% p.a. above CPI inflation (past) and 2.1% p.a. above CPI inflation (future). The reduced risk approach adopts a lower discount rate (0.25% lower for past service and 0.5% lower for future service) and applies for employers that are not (directly or indirectly) tax payer backed and opt not to provide a bond based on the termination shortfall. The real investment return will be reviewed from time to time based on the investment strategy, market outlook and the fund's overall risk metrics. Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the fund as a whole.

Inflation (Retail Prices Index)	3.90% p.a.	The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole fund's accrued liabilities).
Inflation (Consumer Prices Index)	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
Salary increases (long-term)	4.35% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the CPI assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).	
McCloud remedy	A reasonable estimate for the potential cost of the McCloud remedy has been included within the 2022 valuation results for each employer. This	

	has been calculated based on the data provided for the 2022 valuation and in line with national guidance.

Demographic Assumptions

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), including a loading reflecting fund specific experience, and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long-term improvement trend of 1.5% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		**Female Life Expectancy at 65**	
	2019	2022	2019	2022
Pensioners	23.1	22.1	25.2	24.4
Actives aged 45 now	24.4	23.4	26.8	26.2
Deferreds aged 45 now	23.1	23.1	25.8	25.7

For example, a male pensioner, currently aged 65, would be expected to live to age 87.1. Whereas a male active member aged 45 would be expected to live until age 88.4. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience.

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	103% S3PMA_CMI_2021 [1.5%] 96% S3PFA_M_CMI_2021 [1.5%]
	Dependant	123% S3PMA_CMI_2021 [1.5%] 110% S3DFA_CMI_2021 [1.5%]
	Ill Health	121% S3IMA_CMI_2021 [1.5%] 147% S3IFA_CMI_2021 [1.5%]
	Future Dependant	123% S3PMA_CMI_2021 [1.5%] 110% S3DFA_CMI_2021 [1.5%]
Active	Normal Health	107% S3PMA_CMI_2021 [1.5%] 96% S3PFA_M_CMI_2021 [1.5%]
	Ill Health	231% S3IMA_CMI_2021 [1.5%] 305% S3IFA_CMI_2021 [1.5%]
Deferred	All	112% S3PMA_CMI_2021 [1.5%] 103% S3PFA_M_CMI_2021 [1.5%]
Future Dependant (current active & deferred)	Dependant	121% S3PMA_CMI_2021 [1.5%] 111% S3DFA_CMI_2021 [1.5%]

using sk=7.5, zero initial improvements and no allowance for 2020 or 2021 data

Other Demographic Assumptions	
Commutation	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash

	available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum, is a rate of £12 cash for each £1 p.a. of pension given up.
Other Demographics	Alongside commutation, as part of the 31 March 2022 valuation, the Actuary has carried out analysis to review the assumptions relating to the incidence of ill health retirements; withdrawal rates; the proportions married/civil partnership assumption; and also the probability of member's dying prior to retirement. Following the outcomes of this analysis, the assumptions for proportions married/civil partnerships and the pre-retirement mortality have been updated in line with the recommendations from the Actuary. All other assumptions remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the fund, in accordance with the Regulations. This is allowed for by adding 0.8% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the fund to take a longer term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the fund.

Method and Assumptions Used in Calculating the Cost of Future Accrual (or Primary Rate)

The future service liabilities are calculated using the same assumptions as the solvency funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

Termination Assumptions

For terminating employers where their liabilities will be subsumed by another fund employer, the termination position will be assessed using the standard funding assumptions described above.

A lower risk approach will apply on termination where liabilities are not being subsumed, to appropriately reflect the transfer of pension risk from the exiting employer to the fund as a whole. The assumptions applying under this lower risk approach are as follows:

- Default discount rate (employers who joined the fund before 1 July 2012): based on long dated Sterling AA Corporate Bond yield of appropriate duration for the employer, but with a cap of the employer's nominal discount rate for funding purposes (as laid out above)
- Default discount rate (employers who joined the fund from 1 July 2012): based on government bonds of appropriate duration for the employer, but with a cap of the employer's nominal discount rate for funding purposes (as laid out above)
- CPI inflation: market RPI inflation (of appropriate duration for the employer), reduced by 0.3% p.a. to reflect the average difference between RPI and CPI (allowing for RPI reform in 2030). No adjustment will be made for an "inflation risk

premium" reflecting the fully hedged nature of the notional low-risk portfolio. This adjustment will be kept under review over time.

- Mortality: in line with the standard funding assumptions above, but with an adjustment to the assumed long-term improvements over time from 1.5% to 2% p.a. (to protect against future adverse demographic experience)
- Other demographic assumptions: in line with the standard funding assumptions above

The lower risk termination financial assumptions that applied at the actuarial valuation date (31 March 2022) are set out below, based on the fund's overall profile (although please see the next section covering review of the low risk termination assumptions).

Low risk termination assumptions	31 March 2022
Discount Rate (pre 01/07/2012 employers)	2.75% p.a.
Discount Rate (post 30/06/2012 employers)	1.70% p.a.
CPI price inflation	3.60% p.a.
Pension increases/indexation of CARE benefits	3.60% p.a.

Review of the Low Risk Termination Assumptions

The principle of the termination policy and the assumptions used is to ensure (as far as possible) there is sufficient monies to pay all the benefits due in relation to the "orphan" members of the outgoing employer as otherwise the remaining employers would potentially have to fund this via their contributions at subsequent valuations. This is why the fund takes a more cautious view as set out above.

The assumptions will be reviewed as a matter of course at each actuarial valuation but will also be reviewed following extreme events, such as a material shift in market conditions or economic/fiscal policy, which will affect the assets or liabilities of the exiting employer. This is to ensure that the approach remains appropriate, given the risk associated with funding the orphaned liabilities left behind by an exiting employer is being passed to other fund employers, and ultimately the tax payer. This means that the assumptions (both financial and demographic) can be changed if circumstances warrant it. Employers would be notified of any change (and the rationale for the change) and the policy would be updated.

The fund would encourage such employers who might be approaching termination to engage with the fund as early as possible, so that guidance on the approach to apply can be provided.

The fund also has the discretion to apply a different approach on a case by case basis taking into account all factors (financial and non-financial) pertaining to the exiting employer.

The investment return assumption will be no greater than the prudent expected return on the actual portfolio in which the fund is reasonably expected to invest the assets of the terminating employer.

Employer asset shares

The fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the fund as a whole unless agreed otherwise between the employer and the fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the fund relating to each employer, any movement of members between employers within the fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the fund.

More detail on the approach to assessing an employer's asset share is available on request.

Other factors affecting employer contribution outcomes

Notwithstanding the policies below, the Administering Authority, in consultation with the actuary where necessary, reserves the right to consider whether any exceptional arrangements should apply in particular cases.

Covenant: The strength of employer covenant will be considered as part of the funding approach, as detailed in the Employer Events Policy which can be found on the fund website.

Stability: Subject to affordability considerations (and any change emerging to the Primary Rate) a key principle will be, where the fund's overall situation at a given valuation dictates, to maintain the deficit contributions at least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period) where deficits remain, unless there is a specific reason not to do so. As set out in Appendix B, for those employers in surplus, surplus offset secondary contributions will only be permitted in certain circumstances.

Contribution Increases and Phasing:

Where total contributions are increasing, employers can choose to continue paying total contributions at the existing rate for 2023/24 before stepping up to the higher rate contributions from 2024/25. In certain circumstances, the employer may then be able to "phase in" the contributions over a maximum period of the next 2 years in a pattern agreed with the Administering Authority.

Where increases in contributions are material, the Administering Authority may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for the three years 2023/2026. Any application of this option is at the ultimate discretion of the fund in order to effectively manage risk. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment (where applicable) and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Pooling: Where agreed by the Administering Authority, the contribution rate outcomes for certain employers may be pooled together, with a single contribution rate being certified by the Actuary in the Rates and Adjustments Certificate e.g. for Multi-Academy Trusts who have a number of different constituent academies within the fund. Further details are set out in Employer Events Framework Policy Document, which can be found on the fund's website here.

Insurance: The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the fund.

Prepayments: Employers may also wish to make prepayments of contributions in exchange for a cash saving over the valuation certificate period. Further details of the potential savings will be set out in the Rates and Adjustments Certificate produced by the Actuary. Any employers who prepay Primary Rate contributions will also be required to make "top-up" payments should actual payroll be higher than that assumed when making the prepayment to ensure no underpayment emerges.

Early Retirement Strain Costs: Any "strain" costs generated as a result of redundancy, efficiency or flexible retirements will be recovered by additional capital payments to the fund by the employer. These will be paid in full at the point of retirement.

Deaths: The extent to which any funding strain/profit emerges on the death of a member will depend on the profile of the member (status / age / whether any dependant's benefits become payable) and impacts can be material. Any funding strain/profit will typically emerge at the next actuarial valuation through increased/reduced deficit contributions, except where the employer is terminating, when it will be taken into account when the Actuary determines the termination position.

Appendix B –

Deficit recovery and surplus offset plans

Employer Recovery Plans – Key Principles

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented so that additional contributions are paid into the fund to meet the shortfall.

For open employers in deficit, the target recovery period will be 3 years shorter than the target recovery period from the previous valuation – i.e. a continuation of the current plan. For closed employers, the recovery period will be based on the average future working life of the membership. For new employers, the default recovery period will be as follows:

Category	Target Recovery Period
Academy / MAT	In line with ceding Council
Closed employers	Based on average future working life of membership
All other employers	10 years

For those employers in deficit, Secondary Rate contributions for each employer will be expressed as £s amounts increasing at 4.35% per annum (in line with the fund's long-term pay growth assumption). It is the fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the fund.

Recovery periods will be set by the fund on a consistent basis across employer categories where possible and communicated as part of discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish. Individual employer circumstances may dictate that a different recovery period is applied in specific cases.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Surplus offset plans

For those employers assessed to be in surplus at the valuation date, surplus offsets will be allowed only where there is no deficit on the termination basis. The recovery period will be as described above.

For those employers in surplus, the Secondary Rate contribution will be expressed as a percentage of pay.

Administering Authority Discretion

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases when determining deficit recovery/surplus offset plans.

Appendix C –

Ill-health insurance arrangements

Overview of arrangement

Ill-health retirements can be expensive for employers, particularly small employers where one or two costly ill-health retirements can take materially worsen the funding position and so increase contributions.

To address this, for certain employers in the fund (following discussions with the fund Actuary) a captive insurance arrangement has been established to cover ill-health retirement costs arising from retirements from 1 April 2022. It applies only to ill-health retirements involving the early payment of pension and to the associated benefit costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate (in place of the individual ill-health allowance that is included in the rate for employers not in the captive). The premium for 2023/26 is 0.5% of pay per annum
- The captive is then used to meet strain costs emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period, any shortfall in the captive fund is effectively underwritten by the fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

Employers covered by the arrangement

The fund has set an initial eligibility criteria of employers having less than 200 active members at the valuation date.

These employers have been notified of their participation. New employers entering the fund will also be included if they meet this criteria. In certain circumstances, the Administering Authority retains the discretion to include/exclude any employer from the arrangement.

For employers outside the captive arrangement, the current treatment of ill-health retirements will still apply, whereby an assumption for ill-health retirements is made within the calculation of employer contributions and any excess costs associated with ill-health retirements will emerge as part of the subsequent actuarial valuation assessment, and in any subsequent secondary rate contributions payable into the fund.

Employer responsibilities

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to ensure robust processes are in place to determine eligibility for ill health retirements.

The fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

Appendix D –

Glossary of terms

Actuarial Valuation

An investigation by an actuary into the ability of the fund to meet its liabilities. For the LGPS the fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority

The council with a statutory responsibility for running the fund and that is responsible for all aspects of its management and operation.

Admission bodies

A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark

A measure against which fund performance is to be judged.

Benefits

The benefits provided by the fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the fund are guaranteed by statute and thereby the pensions promise is secure for members. The fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Best Estimate Assumption

An assumption where the outcome has a 50/50 chance of being achieved.

Bonds

Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE)

With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI

Acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH

An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

Contingent Assets

Assets held by employers in the fund that can be called upon by the fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the fund and employer.

Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deferred Debt Agreement (DDA)

A written agreement between the Administering Authority and an exiting fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Deferred Employer

An employer that has entered into a DDA with the fund.

Deficit

The extent to which the value of the fund's past service liabilities exceeds the value of the fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period

The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Derivatives

Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

Discount Rate

The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Early Retirement Strain

The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

Employer's Future Service Contribution Rate ("Primary Rate")

The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

Employing bodies

Any organisation that participates in the LGPS, including admission bodies and fund employers.

Equities

Shares in a company which are bought and sold on a stock exchange.

Equity Protection

An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit

The amount payable from the fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the fund Actuary.

Fund / Scheme Employers

Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate

eligibility, unlike the Part 2 fund Employers. For example, these include councils, colleges, universities and academies

Funding or solvency Level

The ratio of the value of the fund's assets and the value of the fund's liabilities expressed as a percentage.

Funding Strategy Statement

This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the fund.

Government Actuary's Department (GAD)

The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the fund can consider the employer's covenant to be as strong as its guarantor's.

Guarantee of Last Resort

For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the fund, however the liabilities are not subsumed in this case.

Ill-Health Captive

This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

Investment Strategy

The long-term distribution of assets among various asset classes that takes into account the funds objectives and attitude to risk.

Letting employer

An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Liabilities

The actuarially calculated present value of all benefit entitlements i.e. fund cashflows of all members of the fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Long-term cost efficiency

This is a measure of the extent to which the fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Maturity

A general term to describe a fund (or an employer's position within a fund) where the members are closer to retirement (or more of them already retired) and the investment

time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

McCloud Judgment

This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Members

The individuals who have built up (and may still be building up) entitlement in the fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the fund.

Orphan liabilities

Liabilities in the fund for which there is no sponsoring employer within the fund. Ultimately orphan liabilities must be underwritten by all other employers in the fund.

Percentiles

Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions

When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment

The payment by employers of contributions to the fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value

The value of projected benefit payments, discounted back to the valuation date.

Primary Contribution Rate

The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

Profile

The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption

An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the fund for the three-year period until the next valuation is completed.

Real Return or Real Discount Rate

A rate of return or discount rate net of (CPI) inflation.

Recovery Plan

A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SAB Funding Basis or SAB Basis

A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4%

p.a.], so it can be substantially different from the actuarial assumptions used to calculated the fund's solvency funding position and contribution outcomes for employers

Scheduled bodies

Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary Rate of the Employer's Contribution

An adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Section 13 Valuation

In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target

An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Strain Costs

The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

Valuation funding basis

The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the fund's investments, expressed as an expected out-performance over CPI in the long term by the fund's assets i.e. the "real rate".

50/50 Scheme

In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Contact details

The Shropshire County Pension Fund is a data controller under data-protection law. This means we store, hold and manage your personal information in line with statutory requirements to enable us to provide you with pension administration services. To enable us to carry out our statutory duty, we must share your information with certain bodies, but will only do so in limited circumstances. For more information about how we hold your information, who we share it with and what rights you have, you can ask for this information from the fund, please visit www.shropshirecountypensionfund.co.uk.

If you can read this but know someone who cannot, please contact us on 01743 252130 so we can provide this information in a more suitable format.

Office hours

Monday to Thursday	8.45am to 5.00pm
Friday	8.45am to 4.00pm

Contact details

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