

Funding Strategy Statement (FSS) – Update for Pensions Committee Meeting 21 Oct 2022

Background

Under Local Government Pension Scheme Regulations, all LGPS funds have a statutory obligation to produce an FSS. It is a key document for the Fund, in two ways:

- 1 The inputs it requires: the Fund's officers and Pensions Committee need to go through a process to be satisfied that the Fund is managing funding risks and will be collecting an appropriate level of contributions from all employers in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas.
- 2 The outputs it gives: the finalised FSS itself should be a clear and transparent reference point for the Fund's stakeholders. It will set out how the Fund manages funding risks and provide evidence that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

The FSS is prepared in collaboration with the Fund Actuary and forms an integral part of the triennial valuation. The FSS also outlines how the funding strategy fits in with the investment strategy.

The [current FSS](#) was presented to Committee on [23 June 2021](#) to reflect updates required for the administering authority to be able to exercise powers in relation to "employer flexibilities", for exiting employers and for contribution reviews between triennial valuations.

2022 FSS review

The 2022 review has focussed on adapting the FSS to the changing regulations and environment within which the Fund operates. The 2022 review also reflects the updated approach to funding, working with the new Fund Actuary Hymans Robertson.

The evolving challenges, increasing diversity of employers, and growing complexity and regulation in the LGPS over the last few years have together meant that many LGPS Funds have found themselves with an FSS that has become understandably but increasingly long and complex. While the purpose of the FSS is to act as a compliant and robust reference document, it is acknowledged that a more streamlined document and modular approach to policies would improve accessibility and useability - ultimately making it more practical for all stakeholders (particularly employers).

The revised structure will be a streamlined "core" FSS document which is complemented by a number of "satellite" policies. This will replace the current approach of having a single FSS covering all circumstances.

- The **core document** includes all the funding information required by LGPS Regulations and Statutory Guidance. It is also restructured into sections within an LGPS employer's lifecycle (ie arrangements on joining, calculating assets and liabilities, setting contributions, arrangements on leaving, etc).
- The **satellite policies** work both to complement the core FSS and also as standalone documents in their own right. These documents set out the Fund's policies with regards to specific elements of strategy and include more details on process and practicalities. These cover areas such as:
 - a) Pass-through policy for new contractor admission bodies
 - b) Policies for new and existing academies and free schools

- c) Policies relating to exiting employers, to include exit credits, subsumption, spreading of payments, managed exits, etc.
- d) Bulk transfers policy including academy consolidations and approach to deferred and pensioner members for consolidating academies
- e) Treatment of Secondary contributions
- f) Information relating to how the fund has approached climate-related funding risk
- g) Information relating to documentation of key risks and controls.
- h) Information relating to the FSS consultation process, the review process and how the FSS is made available.

Alongside the restructure there are regulatory and other updates required since the current FSS was prepared. The most significant changes to bring to the Committee's attention include:

1. Review of funding assumptions and approach

The actuary has reviewed the funding approach and assumptions as part of the 2022 valuation. These have been updated to reflect Hymans Robertson's actuarial methodology, and emerging experience and market conditions as at 31 March 2022. The Committee considered and noted these at its 29 June 2022 meeting, and they need to be incorporated into the FSS.

2. Climate risk

The Fund recognises that climate change is a key risk due to the open-ended time horizons of the liabilities. As part of the modelling analysis for reviewing the Council's contribution strategy, the actuary will stress-test the results under additional climate scenarios. The Fund's draft FSS will clarify this ongoing work.

3. Risk-based exit valuation approach

The Fund is reviewing the approach to cessation valuations that are carried out when an employer leaves the Fund. The current approach is closely tied to gilt yields on a particular day, an approach which introduces much volatility into cessation valuations over time. The new approach under consideration would instead be linked to the expected investment return of the assets held by the Fund, with a prudent level of risk incorporated for the protection of the Fund. Details of this proposed approach will be made available by the Fund Actuary for discussion with Fund officers.

FSS - next steps

A draft version of the FSS and policies is being prepared by Fund officers and Hymans Robertson working in collaboration. LGPS Regulations require the FSS to be subject to formal consultation with employers. This will likely take place during December 2022 and January 2023.

Following the end of the consultation period, any comments received may lead to amendments to the document. The Committee will then be asked to approve the final version of the FSS at its 15 March 2023 meeting thus allowing the Actuary to sign off the final valuation documents in time for the statutory deadline of 31 March 2023.