



# Powys

**CRONFA BENSIWN  
POWYS  
PENSION FUND**

**Funding Strategy Statement**

Drafted February 2023

Approved #####

# Funding Strategy Statement

## 1. Introduction

This is the Funding Strategy Statement (FSS) of the Powys County Council Pension Fund.

It has been prepared by the Administering Authority in collaboration with the Fund Actuary, Aon Solutions UK, and after consultation with officers, elected members, the Fund's employers and investment advisors and is effective from the date of issue of this statement. A single strategy is produced for the Pension Fund. The FSS compliments the triennial Actuarial Valuation and the Investment Strategy Statement as follows:

Actuary's Valuation Report	Funding Strategy Statement (FSS)	Investment Strategy Statement (ISS)
Defines what employer contributions should be made to meet current and future pension payments.	States how solvency and risk will be managed in relation to liabilities.	How and where the fund will be invested and managed.

### 1.1 Regulatory Framework

This statement, originally prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997, has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the LGPS 2013 Regulations) and the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the Investment Regulations).

As required by Regulation 58(4) of the LGPS 2013 Regulations, the Statement has been prepared having regard to guidance published by CIPFA in October 2012. The Statement also has regard to updated guidance published by CIPFA in September 2016 and the supplementary statutory guidance issued by the Ministry for Housing and Local Government (MHCLG now the Department for Levelling Up, Housing and Communities (DLUHC)): Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements.

The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS.

Members' benefits and contributions are also set out in the LGPS 2013 Regulations. The members' contributions do not cover the full cost of benefits and the shortfall or liability is met by the participating employers within the fund. The FSS sets out how this liability will be funded in the long term.

### 1.2 Purpose of this Funding Strategy Statement

The main purpose of the FSS is to document the processes by which the Administering Authority:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory framework to maintain as nearly constant primary contribution rates as possible;
- enable overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating, and admitted bodies
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met
- takes a prudent longer-term view of funding the Fund's liabilities.

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The focus of the FSS is on those actions which are in the best long term interests of the Fund.

### 1.3 Reviews of FSS

The FSS will be reviewed in detail at least every three years in line with triennial valuations being carried out. It will be circulated to employers prior to the completion of each valuation. It will only need to be updated in between valuations if there has been material change. Small updates can be attached to the original approved.

### 1.4 Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

The Authority has produced this FSS having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement (ISS) published under Regulation 7 of the Investment Regulations and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

## 2. Purpose and Aims of the Fund

### 2.1 Purpose of the Fund

The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay the Scheme benefits over the long term and in doing so smooth out the contributions required from employers over the long term.

### 2.2 Aims of the Fund

The aims of the Fund in relation to the Funding Strategy include:

- to ensure the long-term solvency of the Fund. The Fund Solvency should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to maximise the returns from investments within reasonable risk parameters;
- to manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirement;
- to try to maintain stability of employer contributions, and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

### **3. Responsibilities of Key Parties**

The LGPS Regulations set out the responsibilities of the key parties and are summarised below.

#### **3.1 The Administering Authority should:-**

- administer the Fund
- collect investment income and other amounts due to the Fund including employer and employee contributions and exit payments from employers whose participation in the Fund has ceased. The administering authority will ensure all individual employers are aware that they must pay contributions in accordance with Regulations 67 to 71 of the LGPS 2013 Regulations;
- invest surplus monies in accordance with the regulations;
- pay from the Fund the relevant entitlements as set out in the LGPS 2013 Regulations
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend the FSS/ISS as necessary;
- effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.
- enable the local Pension Board to review the valuation process as set out in their terms of reference;
- ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt arrangements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all fund employers.

#### **3.2 Individual Employers should:-**

- deduct contributions from employees' pay correctly;
- pay both ongoing members' and employer's contributions (including percentage of pay, monetary shortfall recovery contributions and any contributions agreed under a deferred debt arrangement which are due) as determined by the Fund's actuary, promptly by the 19<sup>th</sup> day of the month. Unless an agreed arrangement is in place, late payments will incur interest of 1% above base rate.
- develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain;
- notify the administering authority promptly of all changes to membership or, as maybe proposed, which affect future funding;
- noting and if desired responding to any consultation regarding the FSS, the ISS, or other policies;
- pay any exit payments required in the event of their ceasing participation in the Fund.

### 3.3 The Fund Actuary should:-

- prepare valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters, on exit valuations on cessation of admission agreements or when an employer ceases to employ any active members, and in connection with bonds and other forms of security against employers default.

Such advice will take account of the funding position and FSS, as well as other relevant matters when instructed to do so.

The Fund Actuary will assist the Administering Authority:

- in assessing whether employer contributions need to be revised between actuarial valuations as required or permitted by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulation 64A.
- in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

## 4 Funding Strategy

### 4.1 Risk Based Approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by modelling carried out by the Fund Actuary, define the discount rate and, by extension, the appropriate levels of contribution payable. Together they measure the amount of risk in the funding strategy.

These three terms are considered in more detail below.

### 4.2 Solvency Target

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial methods and assumptions. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

Some comments on the principles used to derive the Funding Target and Solvency Target for different bodies in the Fund are set out below.

#### Scheduled Bodies and Admission Bodies with guarantors agreeing to subsume assets and liabilities following exit

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than risk free assets for scheduled bodies and certain other bodies. With regard to Admission Bodies the guarantor must have been judged to be of suitable covenant by the Administering Authority (see section on Guarantors in section 5).

For these bodies, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts (CPI).

## Admission Bodies and other bodies whose liabilities are expected to be orphaned

For admission bodies the Administering Authority will have regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit from the Fund, and any likely change in notional or actual investment strategy as regards the assets held in respect of the admission body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a Guarantor exists to subsume the notional assets and liabilities). For most bodies where liabilities will become orphaned, to minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments. This is described in more detail in paragraph 5.5.

### Orphan Liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments. This is described in more detail later in this document.

### Deferred Employers

For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement ends. For most such bodies, to minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments. This is described in more detail in paragraph 5.5.

If the liabilities of a particular admission body or deferred employer subject to the low risk solvency target are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target and Solvency Target used for Scheduled Bodies for practical reasons.

## 4.3 Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on modelling carried out by the Fund Actuary.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk. At the 2022 valuation, the Probability of Funding Success was set to be 80%.



The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

The Trajectory Period is set to be 25 years.

#### 4.4 Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions using the valuation data. The valuation calculations, including the future service contributions and any adjustment for the surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined above).

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:

- contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- for employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

#### 4.5 Full Funding and Solvency

The Fund is deemed to be fully funded when the assets held are equal to or greater than 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

#### 4.6 Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employer contribution rates will be adjusted to target restoration of the Funding Target over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the

Administering Authority in consultation with the Fund actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new entrants and are of sufficient term the recovery period is set with regard to the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods when the employer has a deficiency and has agreed with the Fund Actuary a limit of 25 years in these circumstances, which can be extended in exceptional circumstances for employers of sound covenant to an absolute limit of 40 years. The Administering Authority's policy with regard to employers with a deficit (surplus) is to agree recovery periods with each employer which is typically shorter (longer) where possible within this framework. The Administering Authority may encourage employers with a surplus not to take any reduction in their contribution rate to assist with stability requirements.

For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

For deferred employers, the recovery period will be set equal to the remaining period of the deferred debt agreement.

#### 4.7 Removal of surplus

Consistent with the aim to keep employer contribution rates as nearly constant as possible, the removal of surplus shall not generally apply to any employer at a funding level of between 100% and 105%. These employers will generally be required to pay the primary rate (ie the future service rate) in full, without any adjustment for a surplus.

In respect of any employer with a funding level above 105%, the removal of surplus shall generally only apply to any surplus above the 105% funding level.

The period over which any surplus is removed will be set in line with paragraph 4.6 above.

#### 4.8 Long term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the

Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average deficit recovery period, allowing for the stepping of employer contribution changes;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return required compares to the Administering Authority's view of the expected future return being targeted by the Fund's investment strategy.

#### 4.9 Phasing in of Contribution Rates

Phasing in periods will be influenced by the perceived credit worthiness of the employer when there is a deficiency and an increase in contributions. The Administering Authority's policy is that in the normal course of events no more than 3 annual steps will be permitted. Further steps may be permitted at the Administering Authority's discretion, but the total is unlikely to exceed 6 steps.

Where there is a surplus, or contributions are being stepped down, no limit will be set to phasing in contribution rates.

#### 4.10 Grouping or Pooling

In some circumstances it is desirable to group or pool employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping of employers can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at initial grouping and at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be offered its own contribution rate.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits at no fault of the employer can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Currently there is one group of employers in the Fund pooled together for funding and contribution purposes. All risks are shared within this group, they have a common primary (future service) contribution rate but they retain

responsibility for the payment of the contributions towards the deficit relating to them.

In addition Powys County Council has agreed a risk sharing approach with a number of employers whereby the employer will pay their primary rate only plus any agreed additional contributions arising from actions taken by the employer. Such employers will be required to sign an agreement with Powys County Council which will set out the contributions to be paid.

The employers to whom these grouping arrangements apply are set out as an Appendix to this Statement.

#### 4.11 Asset shares notionally allocated to employers

In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own asset share within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

The asset share allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit payments, transfers in and out and investment income. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The actuary will assume an estimated cashflow equal to the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.
- Allowance for lump sum death in service benefits shared across all employers in the Fund.
- An overall adjustment, as part of each triennial valuation, to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, or the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers, the

actuary will instead use an analysis of gains and losses to roll forward the asset share. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset share.

#### 4.12 Fund Maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. To protect the Fund against the risk of payroll failing to grow at the assumed rate, the Administering Authority will monitor payrolls where this approach is agreed.

Where an employer is assessed to be in surplus and contributions are to be set below the primary rate, this will be implemented via a reduction as a percentage of pensionable pay.

#### 4.13 Benefit uncertainties

Current benefit uncertainties are set out in section 6.5 Regulatory Risk.

At present the Administering Authority considers that an allowance should be made in the liabilities for the potential costs of McCloud/Sargeant cases. This allowance will be monitored by the Administering Authority and Fund Actuary and may be updated once further information is available. Further details are set out in the Employer Policy.

## **5. Special Circumstances related to certain employers**

### **5.1 Interim Reviews**

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions is set out in the Employer Policy.

### **5.2 Guarantors**

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an exiting employer defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an admission body. The effect of that action could be to reduce the Funding Target and Solvency Target for the employer, which could probably lead to reduced contribution requirements.

### **5.3 Bonds and other securitization**

Paragraph 6 of Part 3 of Schedule 2 of the LGPS 2013 Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i)) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the Admission Body.

The Administering Authority's approach in this area is set out in the Employer Policy.

## 5.4 Subsumed Liabilities

Where an admission body is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund (the 'accepting employer') has agreed to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them has been taken on by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

## 5.5 Orphan Liabilities

Where an admission body is ceasing participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority may act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arising on the orphan liabilities creates a cost for those other employers to make good such deficiency. To give effect to this, the Administering Authority may seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally UK Government bonds.

However, if these liabilities are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target used for Scheduled Bodies for practical reasons.

Any excess or deficient returns on the notional or actual assets attributable to these liabilities relative to the Funding Target will be added to or deducted from the investment return to be attributed to the notional assets of all employers in the Fund.

Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each triennial valuation. This will be achieved by the Fund Actuary notionally re-allocating assets within the Fund as required.

## 5.6 Exit Valuations

Where an employer exits the Fund, an exit valuation will be carried out in accordance with regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation may distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed (see above) by other employers.

For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

For orphan liabilities the exit valuation could anticipate investment in low risk investments such as UK Government bonds or be calculated in the same way as subsumed liabilities, as considered appropriate.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation (in other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required) unless it is agreed by the Administering Authority and the other parties involved that:

- the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer; or
- the employer and Administering Authority will enter into a deferred debt agreement

Any deficit would normally be levied on the departing employer as a single capital payment, although the Administering Authority may allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is set out in the Employer Policy.

For exits where the calculations are carried out on or after 1 January 2021:

- allowance will be made for the proposed McCloud remedy
  - allowance will be made for the costs of GMP indexation and equalisation
- In determining the allowance to be made, the Administering Authority will have regard to any relevant guidance prepared by the Scheme Advisory Board or DLUHC, and the advice of the Fund Actuary. It will be kept under review as further information becomes available.

## 5.7 Exit Credits

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months the exit date.

Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided. In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

- (a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus)



- (b) the proportion of the surplus which has arisen because of the value of the employer's contributions
- (c) any representations 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 2013 Regulations, and
- (d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place.

In particular:

- the Administering Authority will not generally pay an exit credit larger than the total of the exiting employer's contributions paid into the Fund, less any costs incurred by the Administering Authority in relation to the exit;
- where an employer has a risk sharing in place with Powys County Council such that it pays only the future service rate, no exit credit or payment will be made, and all assets and liabilities will be subsumed by Powys County Council.

Further details of the Administering Authority's policy for exit valuations and exit credits are set out in the Employer Policy.

## 5.7 Deferred Employers

In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer. For deferred employers where a deferred debt agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the deferred debt agreement;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Further details of the Administering Authority's policy for deferred debt agreements are set out in the Employer Policy.

## 6. Key Risks & Controls

### 6.1 Types of Risk

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

- investment;
- solvency;
- liability;
- regulatory;
- employer.

The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.

### 6.2 Investment Risks

Risk	Control
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers.</p> <p>The Administering Authority will request quarterly funding updates between the completion of the valuation report and the date of the next valuation to monitor the position.</p>
Inappropriate long-term investment strategy	Set Fund-specific benchmark in accordance with appropriate advice.
Active investment manager underperformance relative to benchmark	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. The Fund Actuary will be asked to evaluate the implications if there is significant underperformance.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<p>Seek feedback from employers on scope to absorb short-term contribution rises.</p> <p>Mitigate impact through deficit spreading and phasing in of contribution rises.</p> <p>Consult employers on possibility of paying more (extra administration and</p>

Risk	<i>Control</i>
	higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost.
Potential cashflow implications of increasing maturity of the Fund, for example as a result of reduced numbers of staff working in local government or through outsourcing	<p>Regularly review position including communication with employers about their plans.</p> <p>Plan investments to ensure sufficient liquidity.</p>
Pooling of investments	<p>The Fund holds assets in the LGPS pooling arrangement with Wales Pension Partnership ('WPP') and will transition further assets to WPP in the future. Through this arrangement the Fund is exposed to the risk of failing to transition effectively to new pooling arrangements resulting in poorer value for money; lower investment returns; and inability to effectively execute investment strategy. The Committee monitor the WPP and work with the investment consultant to ensure these risks are managed.</p> <p>In addition, some of the Fund's investments are in pooled investment vehicles and the Fund is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Committee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.</p>
Climate Change	The Fund recognises that climate change is one of the material factors that pose a potential financial risk over our timescale, and that as institutional investors,

Risk	Control
	<p>there is an ability to help tackle the challenges posed by climate change.</p> <p>At the 2022 valuation the Fund Actuary will undertake scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period.</p>

### 6.3 Solvency Risks

Risk	Control
<p>Permitting surpluses or deficiencies to be eliminated over a <u>recovery period</u> rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.</p>	<p>It is policy to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 25 years in the vast majority of circumstances, and no longer than 40 years under any circumstances.</p>
<p>Permitting contribution rate changes to be introduced by <u>annual steps</u> rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.</p>	<p>The risks inherent in each situation are discussed with the Fund Actuary and to limit the number of permitted steps to three annual steps or, at the Administering Authority's discretion, to six annual steps.</p>

### 6.4 Liability Risks

Risk	Control
<p>Pensioners living longer and changing retirement patterns.</p>	<p>Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary investigates these matters at each valuation or if appropriate more frequently and will report on developments.</p> <p>If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers on the anticipated costs that will emerge at the next valuation and will review the bonds that are in place for the Transferee Admitted Bodies.</p>
<p>Deteriorating patterns of ill health and other early retirements</p>	<p>Employers are charged the extra capital cost of non ill health early</p>

Risk	Control
	<p>retirements following each individual decision.</p> <p>Ill health retirements will be monitored.</p>
Demographic experience differing from the assumptions used by the actuary	The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation, or more frequently if appropriate.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<p>Allowing for a risk-based approach should limit the impact of short term changes in returns on Government bonds on the liabilities.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Inter-valuation monitoring, as set out above, gives early warning of changing liability values.</p>
Pay and price inflation significantly more than anticipated	<p>Employers pay for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> <p>Allowance may also be made in actuarial calculations for any short term inflationary pressures where this is considered appropriate and prudent. At the 2022 valuation, an additional allowance was made in the assumptions for the impact of expected high short term inflation.</p>
Where it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A.	

## 6.5 Regulatory Risk

Risk	Control
Changes to regulations.	The Administering Authority will keep abreast of all proposed changes and where possible express their opinion during consultation periods after careful consideration.

	The Fund Actuary is asked to assess the impact on costs of any changes and where these are likely to be significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.
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There are a number of uncertainties associated with the benefit structure at the current time including:

- The timing and detail of any final regulations in relation to the remedy to compensate members for illegal age discrimination following the outcome of the McCloud/Sargeant cases.
- The outcome of the cost management process as at 31 March 2020.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

In determining how these uncertainties should be allowed for in employer contributions the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice.

For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based on a high level analysis of the employer's fund membership. Members' benefits will be valued as required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

- It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
- Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.

- The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

For new employers commencing participation in the fund after 31 March 2022, the allowance made will be monitored by the Administering Authority and Fund Actuary and may be updated once further information is available.

In addition, a consultation document was issued by MHCLG (now DLUHC) entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the LGPS 2013 Regulations as a result of this consultation and consider any actions required at the 2019 or subsequent valuations, taking account of the Fund Actuary's advice.

## 6.6 Employer Risk

Risk	Control
Administering Authority being unaware of structural changes in an employer's membership (e.g. large fall in employee members or a large number of retirements).	<p>The Administering Authority monitors membership movements on an annual basis, via a report from the administrator to the Pension Fund Committee.</p> <p>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) or 64(7) of the LGPS 2013 Regulations between triennial valuations.</p>
The risk of being unable to collect contributions from employers with no contributing members (e.g. risk associated with employers with a small number of declining contributing members).	<p>The Administering Authority monitors membership movements on an annual basis as set out above.</p> <p>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) of the LGPS 2013 Regulations between triennial valuations.</p>
Administering Authority failing to commission the Fund Actuary to carry out an exit valuation for a departing employer and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers to inform it of forthcoming changes
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to

Risk	Control
	<p>the time of departure. The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible.</p> <p>Requiring a bond or some other security to protect the scheme from the existing deficit and the extra cost of early retirements on redundancy if the employer failed.</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p>
<p>The response to the COVID-19 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions.</p>	<p>The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Fund's policy are met.</p>

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## Appendix

### Grouped employers

Currently there is one group of employers in the Fund pooled together for funding and contribution purposes. All risks are shared within this group, they have a common primary (future service) contribution rate but they retain responsibility for the payment of the contributions towards the deficit relating to them. The following employers included in this group at the date of writing this Statement are as follows:

- Welshpool Town Council
- Llanidloes Burial Joint Committee
- Town Council of Newtown & Llanllwchaiarn
- Ystradgynlais Town Council
- Ystradfellte Community Council
- Llandrindod Wells Town Council
- Brecon Town Council
- Llanidloes Town Council
- Machynlleth Town Council

### Risk sharing

Powys County Council has agreed a risk sharing approach with a number of employers whereby the employer will pay their primary rate only plus any agreed additional contributions arising from actions taken by the employer. Such employers will be required to sign an agreement with Powys County Council which will set out the contributions to be paid. The employers who have signed such an agreement at the date of writing this Statement are as follows:

- PAVO
- Theatr Brychyniog
- Adapt Business Services Limited
- The Ystradgynlais Miners Welfare & Community Hall Trust Ltd
- Shaw Healthcare