

Funding Strategy Statement (FSS) – Hymans Robertson update 15 Sep 2022

Background

Under LGPS Regulations, all 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 Pension Fund Sub-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, to 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 approved by the Sub-Committee on 25 February 2020 as part of the 2019 triennial actuarial valuation.

2022 FSS review

The 2022 review has focussed on adapting the FSS to the changing regulations and environment within which the Fund operates.

The evolving challenges, increasing diversity of employers and growing complexity and regulation in the LGPS over the last few years have together meant the FSS has become increasingly unwieldy. 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" policy documents. This will replace the current approach of having a single FSS covering all circumstances.

- The **core document** will include all the funding information required by LGPS Regulations and Statutory Guidance. It will also be 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** will work both to complement the core FSS and also as standalone documents in their own right. These documents will set out the Fund's policies with regards to specific elements of strategy and include more details on process and practicalities. These will cover areas such as cessations, contribution reviews, contribution prepayment requests, and the specific issues for academies.

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

1. Review of funding assumptions

The actuary has reviewed the funding assumptions as part of the 2022 valuation. These have been updated to reflect emerging experience and market conditions as at 31 March 2022. The Sub-Committee considered and agreed these at its 21 February 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 stress-tested the results under additional climate scenarios.

The modelling results under the stress tests were slightly worse than the core modelling results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks.

The Fund's FSS should clarify this recent work.

3. Employer flexibilities

In September 2020 the Government introduced new legislation to permit LGPS Funds to treat employers more flexibly if necessary, in particular:

- Allowing a review of the employer's contribution rate between triennial actuarial valuations if the employer's circumstances change materially;
- If an employer leaves the Fund, with a cessation debt to pay, this can be spread over a number of years rather than having to be paid in a single lump sum;
- If an employer wishes to leave the Fund but does not wish to trigger a cessation debt, this can be arranged via a "Deferred Debt Agreement", whereby the employer remains active in the Fund even though it has no employee members.

The Fund's FSS needs to confirm the Fund's policies in these areas.

4. Exit credits

If an employer leaves the Fund with a surplus position, prior to May 2018 there was no facility for this to be repaid to the employer. Legislation in May 2018 changed that, introducing the possibility of an "exit credit" being paid by the Fund to such an employer.

The legislation triggered a number of queries and issues, however, and so in 2020 there was further regulation to clarify these points. The Fund's FSS therefore needs to allow for these updates.

FSS - next steps

Following this meeting, a draft version of the FSS and policies will be issued to all participating employers for comment alongside their 2022 valuation results: LGPS Regulations require the FSS to be subject to formal consultation. This will likely take place during November 2022.

Following the end of the consultation period, any comments received may lead to amendments to the document. The Sub-Committee will then be asked to approve the final version of the FSS at its 20 February 2023 meeting thus allowing the Actuary to sign off the final valuation documents in time for the statutory deadline of 31 March 2023.