

FUNDING STRATEGY STATEMENT

MERSEYSIDE PENSION FUND

[DATE]

WIRRAL COUNCIL

AS APPROVED BY PENSION COMMITTEE, [DATE]

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Merseyside Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

Note - Square brackets indicate areas which are yet to be finalised. These will be completed before the FSS is formally signed off in March 2023.

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

This Funding Strategy Statement has been prepared by Wirral Council (the Administering Authority) to set out the funding strategy for the Merseyside Pension 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).

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GUIDE TO THE FSS AND POLICIES

The information required by overarching guidance and Regulations is included in Sections 2 and 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 used for assessing the funding position of the Fund, individual employers and the contribution schedules, known as the primary rate, together with any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate, 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. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix C)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [here].

4. Review of Employer Contributions between Valuations (Appendix D)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here].

5. Covenant Assessment and Monitoring Policy (Appendix E)

An employer's financial covenant is its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. This is a critical consideration in an employer's funding and investment strategy as it is the employers who underwrite the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces. Further details on how employer covenant is assessed and monitored by the Fund is set out [here].

6. Notifiable Events Framework (Appendix F)

Whilst in most cases regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to proactively notify the Administering Authority of any material changes. This policy sets out when this may happen and the notifiable events process. More details are set out [here].

7. Ill Health Insurance Arrangements (Appendix G)

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].

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BACKGROUND

It is the fiduciary responsibility of the Administering Authority (Wirral Council) to ensure that Merseyside Pension Fund (the “Fund”) achieves its overarching objective to secure and maintain sufficient assets to cover all pension liabilities over the long-term.

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

The Administering Authority has taken advice from the Actuary in preparing this Statement.

[Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given the opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received.]

INTEGRATED RISK MANAGED 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 and the investment strategy applied to the asset shares of those employers.

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 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. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise. 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.

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

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process. Furthermore, 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 two 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 Scheme so far as it relates 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.

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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 FSS 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 long-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.

THE AIMS OF THE FUND ARE TO:	THE PURPOSE OF THE FUND IS TO:
<ul style="list-style-type: none"> • 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, mandatory, 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. 	<ul style="list-style-type: none"> • receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below:

KEY PARTIES TO THE FSS

The Administering Authority should:	The Individual Employer should:
<ul style="list-style-type: none"> • 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 an 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 • 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. • prepare and maintain a Pension Administration strategy outlining procedures and timelines for the exchange of information 	<ul style="list-style-type: none"> • 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 (including any exit payments upon ceasing participation where applicable) • 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 scheme benefits and 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 or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund • understand the pensions impacts of any changes to their organisational structure and service delivery model • 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 may result in the employer paying higher contributions than otherwise would be the case if the data was of high quality • comply with Regulations in the case of a bulk transfer of staff. • Comply with the information exchange procedures and timelines as set out in the Pension Administration strategy

The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> • 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 early retirement strain costs, ill health retirement costs, etc • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on the use of 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 on 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. 	<ul style="list-style-type: none"> • notify the Administering Authority promptly of any changes to its status as guarantor, as this may impact on the treatment of the employer in the valuation process or upon termination • where necessary, 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 • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

SOLVENCY FUNDING TARGET

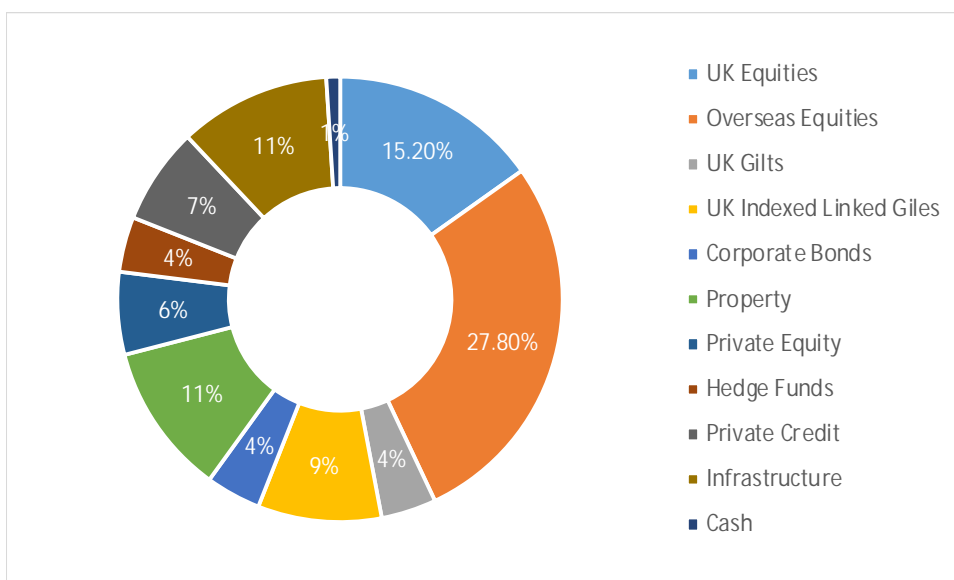
Securing the “solvency” and “long-term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

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

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 taking into account the investment strategy adopted by the Fund, as set out in the ISS, which can be found on the Fund’s website.

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



RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund’s financial risks, the Administering Authority has implemented a number of investment risk management techniques that cover the total Fund and/or specific employers and these have been allowed for in the actuarial valuation calculations. In outline these are set out below (further information can be found in the ISS).

<p>Equity Protection</p>	<p>The Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).</p>
<p>Liability Driven Investments (LDI)</p>	<p>The Fund has implemented an LDI strategy in order to hedge part of the Fund’s assets against changes in certain employer or orphan liabilities.</p>
<p>Lower risk investment bucket</p>	<p>This strategy predominately uses lower risk income generating assets (including corporate bonds, property, illiquid credit and infrastructure) and liability driven investments (LDI) (which fully hedges interest and inflation exposure), and is expected to mitigate (but not eliminate) funding volatility for employers within it. In these circumstances, the discount rate used will be derived to be consistent with the lower risk investment strategy. The implementation of a strategy constructed on this basis will better match the overall changes in the liabilities (solely due to discount rate and inflation changes) of those employers included in the strategy. All other things equal, this in turn would result in greater stability of the funding position for these employers. Once an employer is closer to reaching full funding then this will also give greater stability to deficit</p>

	contributions. It should be noted that an assessment of an employer's termination liabilities are linked to this strategy also so for employers considering termination, the lower risk strategy could be used to provide more certainty over an employer's termination position also.
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The principal aim of these risk management techniques is to provide more certainty of real investment returns versus CPI inflation and/or protect against volatility in the termination position. In other words they are designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. The effect of these techniques has been allowed for in the actuarial valuation calculations and could have implications on future actuarial valuations and the assumptions adopted. Further details of the framework have been included in the ISS.

[CLIMATE CHANGE] (this section is subject to finalisation once the guidance has been provided)

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgement made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.]

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the 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 a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL	DEMOGRAPHIC
The financial risks are as follows:- <ul style="list-style-type: none"> Investment markets fail to perform in line with expectations 	The demographic risks are as follows:- <ul style="list-style-type: none"> Future changes in life expectancy (longevity) cannot be predicted with any certainty. Increasing longevity is something which

<ul style="list-style-type: none"> • 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 therefore restricting investment decisions • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. <p>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.</p> <p>In practice the extent to which these risks can be reduced is limited. However, the Fund’s asset allocation (including each separate investment bucket) is kept under regular review and the performance of the investment managers is regularly monitored. In addition, the risk management framework will help to reduce the key financial risks over time.</p>	<p>government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.</p> <ul style="list-style-type: none"> • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers not in the captive arrangement • Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing 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. <p>Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.</p>
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<p>GOVERNANCE</p> <p>Governance risks are as follows:-</p> <ul style="list-style-type: none"> • 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 	<p>REGULATORY</p> <p>The key regulatory risks are as follows:-</p> <ul style="list-style-type: none"> • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme, • 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
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<ul style="list-style-type: none"> • An employer ceasing to exist with insufficient funding or a bond which is not adequate. • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements <p>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 (e.g. iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.</p>	<p>and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.</p>
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PENSIONS COMMITTEE

Wirral Council, as the Administering Authority for the Fund, has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

The Pensions Committee is made up of sixteen voting representatives and Wirral Council, as the Administering Authority, nominates eleven members, each of the other four local councils nominate a member and a representative of the remaining employers is elected by ballot. There are three non-voting members drawn from trade unions representing all actives, deferred members and pensioners. Aside from the trade union and non-council representatives, Member changes to Committee are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4 times a year and has set up an Investment Monitoring Working Party which meets at least 4 times a year to monitor investment performance and developments. A Governance and Risk Working Party has also been established which meets twice a year to discuss current and emerging risks and measures to mitigate and control risk. The Committee has delegated powers to the Director of Pensions for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Director of Pensions and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two-way flow of information.

LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance issued by the Scheme Advisory Board.

The Pension Board is comprised of four voting employer representatives and four voting scheme

member representatives selected from the broad range of employers in the Fund and the different categories of the membership base.

The employer representatives are office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. Member representatives are scheme members of the Fund and have the capacity to represent scheme members of the Fund.

The Pension Board is chaired by an independent non-voting member and all representatives have significant relevant experience either as a Pension Fund trustee or in the running of Pension Funds.

The role of the Pension Board is to assist Wirral Council, as Scheme Manager to:

- comply with the scheme regulations and other legislation relating to the governance and administration of the scheme; and
- any requirements imposed by the regulator.

A member of the Pension Board must be conversant with:

- the rules of the scheme and the law relating to pensions, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

The Council considers that the Pension Board is providing oversight of the administration and governance of the Pension Fund and does not have a decision-making role in the management of the Fund but makes recommendations to assist in ensuring compliance with its statutory responsibilities.

Full details of the operational procedures are set out in the Pension Board's Terms of Reference which can be accessed from the following link:

<http://mpfund.uk/pensionboard>

MONITORING AND REVIEW

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim 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

- have been material changes in the ISS
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted.

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	Higher Risk Investment Strategy Bucket	4.6% p.a. (past) and 5.1% 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 this is based on an assumed return of 1.5% p.a. above CPI inflation (past) and 2.0% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Medium Risk Investment Strategy Bucket	4.35% p.a. (past) and 4.85% p.a. (future)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS and the asset strategy of the medium risk investment bucket, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of [1.25% p.a.] above CPI inflation (past) and [1.75% p.a.] above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Lower Risk Investment Strategy Bucket	2.7% p.a. (past and future for a very mature employer)	Linked directly to the yields available for the assets within the lower risk investment strategy. The typical discount rate is equivalent to a return of 1% p.a. above gilt yields as at 31 March 2022.
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)	Higher Risk Investment Strategy Bucket	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"). This varies for the higher, medium and lower risk strategies, reflecting the degree of inflation hedging inherent in each strategy [and will reflect the duration of an employer's liabilities in the case of a lower risk strategy]. 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.
	Medium Risk Investment Strategy Bucket	3.10% p.a. (includes an adjustment of 0.80% p.a.)	
	Lower Risk Investment Strategy Bucket	3.60% p.a. (includes an adjustment of 0.30% p.a. for a very mature employer)	
Salary increases (long-term)	4.60% p.a. for the higher and medium risk investment buckets. 5.1% p.a. for the lower risk investment bucket.		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 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Salary increases (short-term)	Where applicable this is [3% or 4%] p.a. until 31 March 2026. As set out on individual employer results schedule.		Allowance has been made for expected short term pay restraint for some employers. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.
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).		

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 1.75% 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	[20.8]	[21.3]	[23.9]	[23.8]
Actives aged 45 now	[22.4]	[23.0]	[25.8]	[25.9]
Deferreds aged 45 now	[21.0]	[22.5]	[24.7]	[25.3]

For example, a male pensioner, currently aged 65, would be expected to live to age [86.3]. Whereas a male active member aged 45 would be expected to live until age [88.0]. 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 and updated based on LGPS wide experience.

Life expectancy assumptions

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

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	117% S3PMA_CMI_2021 [1.75%] 107% S3PFA_M_CMI_2021 [1.75%]
	Dependants	140% S3PMA_CMI_2021 [1.75%] 126% S3DFA_CMI_2021 [1.75%]
	Ill Health	142% S3IMA_CMI_2021 [1.75%] 165% S3IFA_CMI_2021 [1.75%]
Active	Normal Health	121% S3PMA_CMI_2021 [1.75%] 107% S3PFA_M_CMI_2021 [1.75%]

	Ill Health	257% S3IMA_CMI_2021 [1.75%] 338% S3IFA_CMI_2021 [1.75%]
Deferred	All	129% S3PMA_CMI_2021 [1.75%] 116% S3PFA_M_CMI_2021 [1.75%]
Future Dependant	Dependant	137% S3PMA_CMI_2021 [1.75%] 125% S3DFA_CMI_2021 [1.75%]

OTHER DEMOGRAPHIC ASSUMPTIONS

Commutation	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.
Proportions Married / civil partnerships assumption	This has been reviewed and updated based on LGPS wide experience.
Other Demographics	Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements and withdrawal rates 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 0.5% 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. An allowance for reasonable expenses will also be included on the termination of an employer's participation in the Fund and will be taken into account as part of the termination valuation.
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 scheme 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, an alternative method is adopted, which makes 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. Employers who move from open to closed may see an increase in contributions as a result of this change.

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 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. In addition, the associated benefits being built up are paid out over a longer time horizon than benefits already accrued; thus it is justifiable to use a slightly higher expected return from the investment strategy.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme 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 (in line with the appropriate investment strategy) as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer in either the higher risk, medium risk or lower risk investment buckets, a pro-rata principle is adopted. This involves applying the appropriate individual employer investment strategy to each

employer unless this is varied by agreement 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 shares maybe restated for changes in data or other policies. The investment return credited will depend on which investment bucket the employers' assets are in.

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.

APPENDIX B – DEFICIT RECOVERY AND SURPLUS OFFSET PLANS

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 such that additional contributions are paid into the Fund to meet the shortfall.

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.

EMPLOYER RECOVERY PLANS– KEY PRINCIPLES

The average recovery period for the Fund as a whole is [xx] years at this valuation which is [x] years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. 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.

Employers may also elect to make lump sum prepayments of deficit contributions (either on an annual basis or a one-off payment) which could result in a cash saving over the valuation certificate period.

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts (flat or increasing year on year).

The Administering Authority retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under exceptional circumstances. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account; the size of the funding shortfall; the business plans of the employer; the assessment of the financial covenant of the Employer, the security of future income streams; and any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The key principles when considering deficit recovery and surplus offsets are as follows:

1. Subject to consideration of affordability, as a general rule, the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit.

The deficit recovery period for closed admission bodies is 6 years (or the future working lifetime of the membership if lower). For employers with a limited participation in the Fund then the recovery period will be based on their length of expected participation in the Fund.

2. The deficit payment schedule will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.

Employers have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

3. [For admitted bodies with a guarantee from the outsourcing scheme employer, the Administering Authority will discuss the appropriate deficit recovery period, where applicable, with the outsourcing scheme employer. Generally the deficit recovery period will be the length of the commercial contract left to expiry (or the average remaining working lifetime of the membership if this is shorter). If the scheme employer is retaining the financial risk, the deficit recovery period applied can be the same as the scheme employer's. The terms of the scheme employer's contract with the admission body may be a factor in these cases where this is made known to the Fund.]
4. For any employers assessed to be in surplus, the recovery period will initially be determined in line with the recovery period from the preceding valuation although this will depend on covenant and basis of participation (subject to a total employer contribution minimum of zero). Where an employer is deemed to have a weaker covenant an alternative recovery period may be agreed at the discretion of the Administering Authority. This will also consider maintaining stability of contribution requirements at future valuations.
5. The applicable investment strategy for each employer will be reflected in the relevant employer's notional asset share, funding basis and contribution requirements. Certain employers will follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.
6. [The Fund's policy is not to allow the prepayment of employee contributions. The prepayment of primary contributions may be allowed at the Fund's discretion, however this applies to a limited number of employers in the Fund, with each employer notified separately. A copy of the primary contribution prepayment policy can be provided by the Fund upon request.]
7. Where increases in total employer contributions are required from 1 April 2023, following completion of the 2022 actuarial valuation, any increase in the primary contribution rate (from the rates of contribution payable in the year 2023/24) may be implemented in steps over a period of 3 years, depending on affordability of contributions as determined by the Administering Authority. The minimum step will be 0.5% of pay per annum (i.e. the increase in primary contribution rate must be at least 1.5% for this facility to apply). However, where total contributions (primary plus secondary) have reduced, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

The secondary contributions may be set with reference to a different funding target, subject to the discretion of the Fund.

8. As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit and we would not expect the recovery period to exceed the average recovery period of the Fund.
9. It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a relatively weak 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.

10. The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes as a result of any benefit costs being insured with a third party or internally within the Fund.
11. Notwithstanding the above principles, the Administering Authority, in consultation with the Actuary, has the discretion to consider whether any exceptional arrangements should apply in particular cases.
12. LEA schools and certain other employers within the Fund have been grouped with the respective Council.
13. Academies are treated as separate employers but at inception any past service deficit / surplus is allocated on an equitable basis consistent with the relevant LEA schools.
14. Any stabilisation methods requested by a contractor will need to be agreed with the original Scheme Employer before being implemented.
15. For admission bodies participating from 1 April 2017 who do not have a guarantor of sufficient financial standing e.g. a public authority based on the assessment of the Administering Authority, the basis of assessment for the contribution schedule, termination calculations and bond requirements will be on a lower risk investment strategy. The employer's assets will then be deemed to be invested in these lower risk assets and be credited with the returns derived

from such assets based on the advice of the Actuary. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.

16. For employers that do not have a financial year end of 31 March 2023 (e.g. if they instead have a 31 July 2023 year-end), the Fund can, at the employer's request allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2023 in this example).

APPENDIX C - TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS (DDAS)

EXITING THE FUND

TERMINATION ASSESSMENT OF AN EMPLOYER'S RESIDUAL PENSION OBLIGATIONS AND METHOD TO CALCULATE BONDS / FINANCIAL GUARANTEES

Unless entering a DDA, an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends and the employer then becomes an “exiting employer” under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s current and former employees, along with a termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

The Fund’s default termination policy is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable). Further detail is set out below.

Depending on the circumstances and characteristics of the terminating employer, the termination assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically, this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer. The Fund will also consider the risk in the context of the potential impact on other employers' contributions. This is because where liabilities are "orphaned" all employers have to cover any deficits (or surpluses) that arise in relation to these liabilities via their contribution rates at each valuation. The policy will always be subject to change in the light of changing economic circumstances and legislation.

In summary, depending on the employer type and covenant there are three alternative approaches to value liabilities on termination and to assess bond requirements for certain admitted bodies or designating bodies:-

1. **Employers with a guarantor** - Assessing the final termination liabilities using assumptions consistent with the most recent valuation basis adjusted as necessary to reflect the expected return outlook in relation to the investment strategy which supports the exiting employer’s liabilities. See further details in the table below.
2. **Employers with no guarantor in the Fund / only a guarantee of last resort (Lower Risk)** - Assessing the final liabilities using the lower risk funding basis and using a discount rate which is linked to the lower risk investment “bucket” but with adjustments as detailed in the table below. The residual liabilities would be “orphaned” within the Fund, although it is possible that a bond would be in place.

3. **Employers with no guarantor in the Fund / only a guarantee of last resort (Minimum Risk)** - Assessing the final liabilities using a discount rate which is based on a “minimum risk” approach as detailed in the table below. The residual liabilities would be “orphaned” within the Fund, although it is possible that a bond would be in place. Typically, this will be applied to an employer who would have a material effect on the Fund on exit by leaving significant residual orphan liabilities and would be highlighted to an employer if applicable using a consistent set of principles.

If a guarantor refuses to take responsibility for the exiting employer, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis (point 2 or 3 above). In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs, the exiting employer would then be treated as if it had no guarantor as per the policy above and the termination assessment will assume that the liabilities are orphaned and the assets will be invested in the lower risk investment strategy bucket.

The assumptions and approach used to assess the amount of a payment/credit payable upon termination will be consistent with the previous valuation assumptions, updated for market yields and inflation applying at the cessation date. With the following exceptions:

	Employers with a guarantor	Employers with no guarantor in the Fund / only a guarantee of last resort (Lower Risk)	Employers with no guarantor in the Fund / only a guarantee of last resort (Minimum Risk)
Financial assumptions	If the employing body has a guarantor within the Fund or a successor body exists either of which would take over the employing body’s liabilities, the Fund’s policy is that the guarantor’s ongoing funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.	The lower risk basis based on the make-up of the lower risk investment “bucket” at the time of assessment. However, an adjustment will be made to the discount rate to reflect a reasonable estimate of any investment expenses, the potential asset default and reinvestment risk associated with the asset strategy, the associated costs of termination and any other reasonable prudential margins that are appropriate based on the advice of the Actuary.	A “minimum risk” approach where the discount rate will be based on government gilt yields of appropriate duration to the liabilities. In addition, the deduction from RPI to arrive at the CPI assumption will be derived as per the lower risk strategy, unless deemed appropriate to vary this by the Actuary and Administering Authority.
		This basis provides some mitigation against financial market risks and protection for the Fund. In the event that the	

		<p>termination basis produces a higher discount rate than the employer’s ongoing valuation funding basis, the ongoing valuation funding basis will be used.</p>
<p>Demographic Assumptions</p>	<p>In line with the assumptions adopted for the 2022 valuation for ongoing funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.</p>	<p>In line with the assumptions adopted for the 2022 valuation with the exception of a higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to 2.25% p.a. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.</p>
<p>McCloud</p>	<p>[A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.]</p>	
<p>Additional Costs</p>	<p>The exit valuation costs and any additional costs incurred will be identified and included within the exit valuation. These costs will be paid by the exiting employer unless the outsourcing scheme employer or guarantor directs otherwise.</p> <p>In the case of employers without a guarantor, there may also be costs associated with a transition of assets into the lower risk strategy. The Administering Authority reserves the right to pass these costs on to the employer usually via a deduction in the notional asset share. Furthermore, if appropriate, a reasonable allowance for expenses will also be made in relation administration and other expenses. This will be allowed for in the final termination assessment.</p>	
<p>Default policy once the termination certificate has been provided</p>	<p>The guarantor or successor body will subsume the assets and liabilities of the employing body within the Fund under the default policy, subject to any deficit being made good by the exiting employer or any surplus being paid to the exiting employer where this is a requirement under the terms of any relevant contract. See further information below for cases where risk sharing applies and / or there is a dispute</p>	<ul style="list-style-type: none"> • In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. • In the case of a deficit -the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process. • The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. Where the approach is modified, a separate schedule will be provided to that employer

	between the interested parties.	setting out the approach to adopt and this will be done using consistent principles.
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The above funding principles will also impact on the bond requirements for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

The Administering Authority can vary the treatment on a case-by-case basis (based on the size and risk of a particular employer) at its sole discretion if circumstances warrant it based on the advice of the Actuary and any representations from the interested parties (where applicable). The employer will be notified of this accordingly.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the exiting employer must be produced by the Actuary at the time when participation in the Fund ends.

DETERMINATION NOTICES (EMPLOYERS WITH A GUARANTOR WHO WILL ACCEPT RESPONSIBILITY FOR RESIDUAL LIABILITIES)

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's default policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. The interested parties involved (i.e. the Fund, the exiting employer and the guarantor) will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor (in particular, whether any deficit or surplus on termination will be the responsibility of the exiting employer or the guarantor). In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

[The Fund will make a determination in all cases whatever the circumstances. Generally, where there is insufficient clarity or ambiguity exists within the contract the Fund's default in these cases is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor. This is because the Fund would assume that, had there been a deficit, this would have been the responsibility of the outsourcing scheme employer. Any determination made by the Fund with regard to the allocation of a surplus can be challenged by one or other of the interested parties who can make representations in accordance with the procedure set out in the Regulations (see below).] In addition, where the outgoing employer is responsible for only part of the residual deficit or surplus as per a separate risk sharing agreement, the Fund's default will also be that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations.

For the avoidance of doubt, where the outgoing employer is not responsible for any termination liability under a risk sharing arrangement, then the default position is that no exit credit will be paid, unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations ([The Local Government Pension Scheme \(Amendment\) Regulations 2020](#)) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be

paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.

- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later)
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or it will be taken into account at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of their determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision-making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

POLICY IN RELATION TO THE FLEXIBILITY FOR DEBT SPREADING AGREEMENTS (DSA) AND DEFERRED DEBT AGREEMENTS (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). Under the Regulations the Fund has complete discretion as to whether it agrees to put a DDA in place provided that it follows the procedure set out in the Regulations.

If an employer requests that an exit debt payment is recovered over a fixed period of time (e.g. via a Debt Spreading Agreement ("DSA")) or that they wish to enter into a Deferred Debt Arrangement (DDA) with the Fund, they must make a request in writing covering the reasons for such a request.

Any deviation from the default position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of the Fund (and therefore ultimately taxpayers) to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer, future business plans and also whether any security is required and available to back the arrangements. Further details regarding covenant monitoring is set out within Appendix E.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period via a DSA.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time, taking into consideration the social impact on the employer's future service demands. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
 - a. The spreading period that will be adopted (this will be subject to a maximum of 5 years except in exceptional circumstances).
 - b. The initial and annual payments due and how these will change over the period
 - c. The interest rates applicable and the costs associated with the payment plan devised
 - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
 - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
 - f. The views of the Actuary, covenant, legal and any other specialists necessary

- g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
 - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

As opposed to paying the exit debt upfront or via a DSA, an employer may participate in the Fund with no contributing members and utilise the “Deferred Debt Agreements” (DDA) at the sole discretion of the Administering Authority. [This will only be considered when there are issues of affordability that risk the financial viability of the employer organisation and the ability of the Fund to recover the debt. Typically this will be relevant to small ‘not for profit’ organisations that constitute a potential risk to the Fund because they may cease operations with insufficient residual assets to meet their pension liabilities. A DDA would be at the request of the employer in writing to the Administering Authority.]

The following process will determine whether the Fund will agree to allow the employer to enter into such an arrangement:

1. The Administering Authority will request updated covenant data from the employer including management accounts, budgets, cashflow forecasts and any other relevant information showing the expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the employer could afford the exit debt (either immediately or via a debt spreading agreement) at that time (based on advice from the Actuary, covenant and legal advisor where necessary). [If the exit debt is deemed to be affordable then a Deferred Debt Agreement will not apply to the employer.]
3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority’s assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA which will be based on the principles set out in the Scheme Advisory Board’s separate guide. As part of this, the following will be considered and agreed:
 - a. What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority will not enter into such an arrangement unless they

are confident that the employer can support the arrangement in future. Provision of security may also result in a review of the recovery period and other funding arrangements.

- b. The investment strategy that would be applied to the employer e.g. the higher, medium or lower risk bucket which could support the arrangement.
- c. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
- d. What the updated secondary rate of contributions would be required up to the next valuation.
- e. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- f. The advice of the Actuary, covenant, legal and any other specialists necessary.
- g. The responsibilities that would apply to the employer while they remain in the Fund.
- h. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
- i. The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- j. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer, and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the triggers are met.
6. The costs associated with the advice sought and drafting of the DDA will be passed onto the employer and will be charged as an upfront payment to the Fund.

APPENDIX D - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the overarching policy intent is that contribution reviews are not permitted outside of a full valuation cycle. However, changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date, unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1. Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
 - i. Restructuring of an employer
 - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
 - iii. A bulk transfer into or out of the employer
 - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals
 - v. Where the aggregation of member movements materially shortens the expected time horizon for continued participation in the Fund
- b) Two or more employers merging including insourcing and transferring of services
- c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under 1 above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2. Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

- a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement or creditor (e.g. banks), which may impair the security provided to the Fund.
- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
- c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances, employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements (an example of the notifiable events framework is set out in Appendix F).

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any

specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

Where a contribution review is triggered by a significant change in employer covenant, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- If appropriate, a change in the investment strategy via the employer investment buckets.

In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions if a contribution review is deemed necessary. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisor.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the employer's liabilities in the Fund) and whether any supporting information is required from the employer.

As well as revisiting the employer's funding plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the higher risk, medium risk or lower risk bucket) in line with this FSS.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. At the absolute discretion of the Administering Authority this may result in an increase to the recovery period where the evidence gathered demonstrates that the existing time horizon is no longer achievable and the extension is in the best interests of the tax payer, taking into account any security that may be available.

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

APPENDIX E – COVENANT ASSESSMENT AND MONITORING POLICY

Covenant is the employer's legal obligation and financial ability to meet their defined benefit obligations in the Fund now and in the future. Regular assessment and monitoring of employer covenant is undertaken to understand the current strength of the employer's covenant and how they could change in the future. This is important to assist the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and, where necessary, employer recovery plans. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer's covenant can change quickly and therefore assessing the covenant of employers from a legal and financial perspective is an ongoing activity. The Fund has a well-developed and proportionate framework to monitor employer covenant and identify changes in covenant. The Fund can also draw on the expertise of external covenant advisers when necessary.

RISK CRITERIA

The assessment criteria upon which the affordability and recovery of employer contributions should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial ability to meet contributions (both ongoing and on exit)
- Employer's credit rating
- Position of the economy as a whole
- Legal aspects

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is may be undertaken. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

An assessment of employer covenant includes determining the following:

- Type of employer body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Whether there is a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation

[The employer covenant will be assessed based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure. In addition, employers may be contacted to gather further information. The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.]

FREQUENCY OF MONITORING

It is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position and contribution rate for each employer participating in the Fund will be reviewed in detail at each triennial actuarial valuation as a matter of course. The Funding position will continue to be monitored between valuations (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months.

In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately. The notifiable event requirements are set out in Appendix F.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent funding/investment approach (e.g. the lower risk basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX F - NOTIFIABLE EVENTS FRAMEWORK

The Fund regularly monitors the covenant of its employers. Whilst in most cases the regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to notify the Administering Authority of any material changes. This is in keeping with the guide that The Scheme Advisory Board recently published ('A Guide for Administering Authorities') in which is recommended that Administering Authorities should include a notifiable events process within its policies.

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress and keep the interests of the employer, the Fund, the members and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgement of the Fund, could materially affect one or more of the following:

- the employer's basis for continued participation in the Fund
- the employer's ability to pay its ongoing contributions to the Fund*
- the employer's ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund*

* These conditions would also apply where an employer and the Fund has entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

EVENTS THAT MUST BE NOTIFIED TO THE FUND

The Fund considers any change that would be detrimental to either the employer's ability to finance their pension obligations or the ongoing viability of the employer to be 'material' and 'significant'.

Typical events that must be notified to the Fund include the following:

1) Significant changes in the employer's membership / liabilities

This includes but is not limited to the following scenarios, where applicable:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
 - i. Restructuring of the employer involving significant changes in staffing
 - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)*
 - iii. A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
 - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals*
 - v. A decision which will restrict the employer's active membership in the future*
- b) Two or more employers merging including insourcing and transferring of services*
- c) The separation of an employer into two or more individual employers*
- d) Concerns of fraudulent activity that may include pensions aspects

*In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.

2) Significant changes to the employer covenant

i. Significant changes in the employer's financial strength / security

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

- a. An employer's forecasts indicate reduced affordability of contributions.
- b. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)
- c. Provision of security to any other party including lenders and alternative pension arrangements
- d. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
- e. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
- f. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
- g. The employer has defaulted on payments
- h. There has been a breach of banking (or other) covenant or the employer has agreed a waiver with the lender
- i. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
- j. An employer becomes insolvent

ii. A change in the employer's circumstances

This includes but is not limited to the following scenarios, where applicable:

- a. A merger of the employer with another organisation
- b. An acquisition by the employer of another organisation or relinquishing control
- c. An employer commences the wind down of its operations or ceases to trade
- d. A material change in the employer's business model
- e. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
- f. The employer becoming aware of material suspected / actual fraud or financial irregularity
- g. The employer becoming aware of material legal or court action against them
- h. There has been suspension or conviction of senior personnel
- i. Regulatory investigation and/or sanction by other regulators
- j. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g. at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or a covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

- a. No further action required
- b. More detailed request for further information and ongoing monitoring
- c. The Fund will review the documentation provided and respond on next steps
- d. A review of employer contributions
- e. A review of the recovery period used to calculate secondary contributions
- f. A review of the employer's investment bucket
- g. A review of the termination position and discussions with the employer as to how this may be addressed
- h. A review of any deferred debt agreements if applicable

Employers will kept informed of all steps throughout the process.

APPENDIX G – 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 them well above the “average” implied by the valuation assumptions.

For certain employers in the Fund (following discussions with the Fund Actuary and after considering potential alternative insurance arrangements) a captive insurance arrangement was established by the Administering Authority to cover ill-health retirement costs. This has applied to all ill-health retirements since 1 April 2017. 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. The premium for 2023/26 is 0.3% of pensionable pay per annum
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e. so there is no initial impact on the deficit position for employers within the captive.
- 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 other employers within 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

Those employers (both existing and new) that will generally be included in the captive are:

- Academies
- Community related Admitted Bodies
- Contract related Admitted Bodies (where the guarantor is also in the captive arrangement)
- Designating/Resolution Bodies.

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. [At the discretion of the Administering Authority and where it is felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.]

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs are recovered from the employer, either at the next valuation or at an earlier review of the contributions due, including on termination of participation.

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. Where an employer provides notice to exit the Fund, an automatic review will take place of any ill health retirements that have been awarded to ensure that employers within the captive arrangement are not disadvantaged. This may mean that the expected future premiums will be deducted as part of the termination assessment.

APPENDIX H - 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.

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 and the method of calculation is different. The CPI is 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 i.e. the liabilities. A higher discount rate means lower liabilities and vice versa.

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) which is set at a level which should be 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.

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.

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 which the Administering Authority is obliged to prepare and publish 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.

HEDGING: a strategy that aims to reduce funding volatility using Liability Driven Investment (LDI) or other techniques. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

HEDGE RATIO: The level of hedging in place as a percentage of the liabilities and can be 0% to 100%. This can be in relation to interest rates, inflation rates or real rates of return.

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 BUCKET: this describes a bespoke investment strategy which applies to one or more employers and is dependent on the liability and risk profile. Dictates the financial assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the investment strategy for the relevant investment bucket. For the higher and medium risk investment bucket, this is expressed as an expected return over CPI.

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 those employing bodies which are eligible to participate, members' contribution rates, benefit calculations and certain governance requirements.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, accumulated 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.

LOWER RISK FUNDING BASIS: an approach where the discount rate used to assess the liabilities is determined based on the expected long term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, are planning to exit the Fund or would like to target a lower risk strategy. This basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment bucket.

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 FUNDING 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 can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy.

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.

PAST SERVICE LIABILITIES: this is the present value of all the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

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.

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 RATE OF THE EMPLOYERS' CONTRIBUTION: 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 compared to 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 sufficiently 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 calculate the Fund's solvency funding position and contribution outcomes for employers.

SCHEME EMPLOYERS: organisations that participate in the Merseyside Pension Fund.

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 Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2022 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

SECONDARY RATE OF THE EMPLOYERS' 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 (subject to an overall minimum of zero).

SOLVENCY/FUNDING LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

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 a 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. The costs are calculated by the Actuary.

SWAPS: a generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks where financial obligations on one basis are "swapped" for financial obligations on another basis.

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.