MEETING:	**PENSIONS COMMITTEE**
DATE:	**16 JANUARY 2020**
TITLE:	**FUNDING STRATEGY STATEMENT 2020/21-2023/24**
PURPOSE:	**To confirm the assumptions in the Funding Strategy Statement**
RECOMMENDATION:	**CONFIRM THE ASSUMPTIONS**
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1. INTRODUCTION

1.1 We are required to review and publish the triennial Funding Strategy Statement (FSS) by 31 March 2020. Gwynedd's current FSS was approved by the Pensions Committee on 16 March 2017.

1.2 As part of the review the administering authority will have to consult with the scheme employers, the fund actuary and adviser, and any other persons we consider appropriate.

2. ACTUARIAL VALUATION

2.1 The triennial actuarial valuation of the Fund is currently being undertaken. An employers' meeting was held on 24th October 2019 when the preliminary actuarial results were presented and discussed. Final reports are currently being prepared for each employer.

2.2 The actuarial valuation has been prepared using assumptions agreed with the actuary. The deficit recovery periods applied to the different categories of employer are prudent and consistent with the previous valuation.

2.3 As part of the 2013 and 2016 valuation the committee decided to disband the two pools for smaller employers and that ill-health insurance be compulsory for the employers concerned. This will continue following the 2019 valuation.

2.4 The preliminary results which were provided for employers in October 2019 showed that a number of employers are now in surplus and therefore do not have any deficit payments to make over there next three years. The employers in this position will see a reduction in contributions through a negative secondary rate. Some employers are not in this position and therefore will be required to pay a deficit contribution element each month.

3. DRAFT FUNDING STRATEGY STATEMENT (FSS)

3.1 A draft FSS is attached in Appendix A.

3.2 The Committee now needs to confirm the policies in the draft FSS prior to the consultation with all the Fund's employers. The Committee is asked to decide on the following issues.

3.3 **CALCULATION OF ASSET SHARE**
Until 31 March 2016 the administering authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers. Since then, the Fund has adopted a cashflow approach for tracking individual employer assets. A 'cashflow approach' is when an employer's assets are tracked over time allowing for cashflows paid in, cashflows paid out and investments returns on the employers assets. The difference is split between employers in proportion to their asset shares at each triennial valuation.

3.4 **EQUITY RISK PREMIUM**
This is the anticipated excess return from equities compared to the return from gilts. This refers to the difference between the expected return achieved by equities and the expected return from gilts. As the assumed difference between the expected returns becomes greater, the risk increases and the funding basis becomes less prudent. The anticipated excess return from equities assumption used in the 2019 valuation is 1.7% which is the same as the 2016 valuation.

3.5 **DEFICIT RECOVERY PERIODS**
In the 2019 valuation the administering authority introduced the following deficit recovery periods:

- Scheduled bodies – 17 years
- College, Community Admission Bodies and Designated Employers (open to new entrants) – 14 years
- College, Community Admission Bodies and Designated Employers (closed to new entrants) – future working lifetime
- Transferee Admission Bodies – outstanding contract term

3.6 **COLLECTION OF DEFICIT**
Employers who are in deficit pay additional employer contributions in order to recover the deficit. The policy adopted for the 2013 and 2016 valuation was that deficit payments would be expressed as an annual lump sum to be paid in 12 monthly instalments as part of their employer contributions. The policy for the 2019 valuation is that this will be as a percentage of pay.

3.7 **STABILISED EMPLOYERS**
On the basis of extensive modelling carried out for the 2019 valuation exercise, it has been agreed all stabilised employers must pay their primary rate as a minimum over the next three years. A reduction in total rate may be applied subject to a limit that depends on the 2019 funding level (i.e. a limit of 1.0% of pay if between 100% and 104%, 1.5% of pay if between 105% and 119%, and 2.0% of pay if 120% or above).

3.8 **NON- STABILISED EMPLOYERS**

Non- stabilised open employers (other than Transferee Adminssion Bodies) are subject to a phasing mechanism. This works by calculating the difference in total rates at 2016 and 2019 before application of the mechanism, and then restricting the subsequent increase or decrease as follows:

a) If the difference is 5.0% or less of pay, the rate will change by the full difference, or
b) If the difference is more than 5.0% of pay, then the rate will change by 5.0% plus half the difference above 5.0%.

The contribution rates for employers that are closed to new entrants, and are heading towards cessation, have been set equal to the employers' primary rates.

3.9 **PHASING IN OF CONTRIBUTION INCREASES**

Apart from the Admission Bodies, regulations permit all other employers to phase in contribution rises. For the 2019 valuation increases may be spread over 3 years. Employers who have a reduction in their contribution rate will move immediately to that rate at 1 April 2020.

4. SUMMARY

Prior to consulting with employers on the Funding Strategy Statement the Committee is asked to confirm the assumptions and policies outlined in section 3 of this report.

Following the consultation process the committee will receive the final version of the Funding Strategy Statement for adoption by 31 March 2020.