MEETING:	**PENSIONS COMMITTEE**
DATE:	**18 JANUARY 2023**
TITLE:	**FUNDING STRATEGY STATEMENT**
PURPOSE:	**To confirm the assumptions and policies in the Funding Strategy Statement**
RECOMMENDATION:	**CONFIRM THE ASSUMPTIONS AND POLICIES**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 We are required to review and publish the triennial Funding Strategy Statement (FSS) by 31 March 2023 following the triennial valuation.

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 26th October 2022 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 The preliminary results which were provided for employers in October 2022 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**
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 employer's assets. The difference is split between employers in proportion to their asset shares at each triennial valuation.

3.4 **DEFICIT RECOVERY PERIODS**

In the 2022 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) – 14 years or future working lifetime, if less
- Transferee Admission Bodies – outstanding contract term

3.5 **COLLECTION OF DEFICIT**

Employers who are in deficit pay additional employer contributions in order to recover the deficit. The policy for the 2022 valuation, as in 2019 will be as a percentage of pay.

3.6 **STABILISED EMPLOYERS**

For these bodies, the Fund sets pre-determined ranges for contribution variations. For the 2022 valuation, it has been agreed that all stabilised employers are subject to rate reductions that are linked to their 2022 primary rates. The extent of the reduction depends on the 2022 funding level (i.e. no reduction if funded below 110%, a 1.0% reduction if funded between 110% and 115%, a 2.0% reduction if funded between 115% and 130%, and a 3.0% reduction if funded above 130%).

3.7 **NON- STABILISED EMPLOYERS**

Increases and reductions to rates for open admitted bodies are subject to a phasing mechanism. For the 2022 valuation, this is determined by calculating the difference in total rates at 2019 and 2022 before application of the mechanism, and then restricting the subsequent increase or reduction 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 of the difference above 5.0%.

Rate reductions for stabilised employers, and those employers that are subject to the phasing mechanism, will apply in full from 2023/24. Any increases in rates will be phased in over a 3-year period.

4. ADDITIONAL POLICIES

In addition to the information presented in the Funding Strategy Statement, there are additional policies that require authorisation which feed into the Funding Strategy Statement. The policies are:

Appendix E – Policy on prepayment of contributions
Appendix F – Policy on contribution reviews

Appendix G – Policy on pass-through
Appendix H – Policy on ill-health risk management
Appendix I – Policy on cessations

5. SUMMARY

Prior to consulting with employers on the Funding Strategy Statement, the Committee is asked to confirm the assumptions and policies outlined in sections 3 and 4 of this report.

Following the consultation process the Committee will receive the final version of the Funding Strategy Statement for adoption by 31 March 2023.