

1. Introduction

This is the Funding Strategy Statement (FSS) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2014.

1.1 Regulatory Framework

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2017. More frequently, **Annex A** is updated to reflect any changes to employers.

The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Mrs Caroline Roberts, in the first instance at carolineroberts@gwynedd.gov.uk or on 01286 679128.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) (now the Department of Communities and Local Government (CLG)) has stated that the purpose of the FSS is:

- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*
- *to support the desirability of maintaining **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled.

This statement focuses on the best long-term interests of the fund and sets out how the Administering Authority has balanced the conflicting objectives of affordability of contributions, transparency of processes, stability of employers’ contributions, and prudence in the funding basis.

2.2 Aims and Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered.

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency, which is assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers;
- Manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- See returns on investment within reasonable parameters.

The purpose of the Fund is to:

- receive contributions, transfer payments and investment income;

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- pay scheme benefits, transfer values and administration costs.

2.3 Responsibilities of Key Parties

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.4 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund [and of the share of the Fund attributable to individual employers];
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “*future service rate*”; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years – the maximum deficit recovery period applicable to the largest employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.4.

Annex A, contains a breakdown of each employer’s contributions following the 2013 valuation for the financial years 2014/15, 2015/16 and 2016/17. It also identifies which employers’ contributions have been pooled with others.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer’s decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers’ contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

¹ See Regulation 77(4)

² See Regulation 77(6)

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If an employer is in a surplus position (where their assets are greater than their liabilities), then the minimum contribution they will pay is the future service rate subject to the rate payable being no higher than the rate in payment during 2013/14.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data we have provided the Actuary with for the purposes of this valuation. There is a consensus amongst actuaries that life expectancy will continue to improve in the future. However, there is no clear consensus about the pace of this improvement (and how long it will persist). The view of the actuarial profession is that the allowance for future longevity improvements should be at the discretion of each individual pension fund, after taking advice from their actuary.

Contributions may increase in future if life expectancy exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

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It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than the return available from investing in index-linked government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset outperformance assumption (AOA) of 1.7% per annum is within a range that would be considered acceptable for the purposes of the funding valuation. The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

The Projected Unit Method is described in the Actuary's report on the valuation.

3.4.2 Employers that do not admit new entrants

Currently one Admission Body has closed the scheme to new entrants. It is expected that the closure will lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate would be expected to increase as the membership ages. In such cases the

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Attained Age funding method is adopted. This limits the degree of future contribution rises by paying higher rates at the outset.

Future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position. The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

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- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority targets the recovery of any deficit over a period which takes into account the risk status of employers and to a lesser extent the wider resource implications. The general principles followed are as follows:

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| Type of Employer | <i>Maximum</i> Length of Deficit Recovery Period |
|--|--|
| Statutory bodies with tax raising powers. | a period not exceeding 20 years. |
| Community Admission Bodies with funding guarantees. | a period not exceeding 20 years. |
| Further Education Colleges which are scheduled bodies and not admitted bodies. | a period not exceeding 15 years. |
| Best Value Admission Bodies. | the period from the start of the revised contributions to the end of the employer's contract. |
| Community Admission Bodies that are closed to new entrants | a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers, subject to not less than 9 years. |
| All other types of employer. | a period equivalent to the expected future working lifetime of the remaining scheme members |

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

The deficit recovery will be expressed as a monetary value to be paid over the relevant period and a fixed amount will be paid each month.

3.7.2 Phasing in of Contribution Increases and Decreases

Best Value Admission Bodies are not eligible for phasing in of contribution rises. For employers facing an increase in their contributions this will be phased in over period of 6 years subject to the Administering Authority's overall satisfaction relating to the security of the Fund.

Major bodies with tax raising powers will continue to pay the same contribution rate as their 2013/14 rate.

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3.7.3 The Effect of Opting for Longer Spreading or Phasing-In

Employers who are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.4 Pooled Contributions

3.7.4.1 Smaller Employers

The Administering Authority has allowed smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service in the past. For the 2013 valuation these pools have been discontinued and each employer will receive their own individual contribution rate.

Smaller employers who were in the pools at the 2010 valuation and smaller employers who are closed to new entrants will be required to participate in ill-health retirement insurance. This will be arranged by the Pension Fund and the cost of the premium will be deducted from the employers' future service contributions to pay for the cover.

3.7.4.2 Other Contribution Pools

Schools are also pooled with their funding Council.

Those employers that have been pooled are identified in **Annex A**.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

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The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- (a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- (b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.
- (c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

4. Links to Investment Strategy

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

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2013, the asset allocation of the fund was as follows:

| Asset Allocation | Benchmark % | Actual % |
|-------------------------|------------------------|---------------------|
| Equities | 72.5 | 76.0 |
| Property | 10.0 | 8.9 |
| Absolute Return Bonds | 15.0 | 13.3 |
| Infrastructure | 2.5 | 0.3 |
| Cash | 0.0 | 1.5 |
| TOTAL | 100.0 | 100.0 |

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from fixed interest bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

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4.2 Consistency with Funding Basis

The current funding policy for the purpose of placing a value on liabilities at the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, is to assume that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than the redemption yield on index-linked government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. Due to the very low level of bond yields at 31 March 2013 the asset outperformance assumption has been increased from 1.4% to 1.7% in order to stabilise employer contributions. When the bond yields recover the asset outperformance assumption will be reduced to 1.4%.

Based on the asset allocation of the Fund at 31 March 2013, this would be equivalent to anticipating excess returns relative to fixed interest gilts of 1.8% per annum from equities and 0.9% per annum from property and little or no outperformance from other non-equity assets.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a “prudent longer-term view” of the funding of liabilities (see para 3.1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers’ contributions. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index-linked bonds.

5. Key Risks & Countermeasures

5.1 Types of Risk

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

- investment;
- employer;
- liquidity / maturity;
- liability
- regulatory and compliance.

5.2 Investment Risk

| Number | Risk | Summary of Control Mechanisms |
|---------------|---|--|
| I1 | Fund assets fail to deliver the required returns. Active investment manager under-performance relative to benchmark. | <i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i> <i>Analyse progress at three yearly valuations for all employers.</i> <i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their benchmark. This is now supplemented with an analysis of absolute returns against those under-pinning the valuation.</i> <i>This gives an early warning of contribution rises ahead. In the short term, volatility damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more</i> |
| I2 | Systemic risk with the possibility of interlinked and simultaneous financial market | <i>The Fund has an investment strategy with risk spread over a number of asset categories.</i> |

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| | volatility | |
| I3 | Inappropriate long-term investment strategy. | <i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</i> <i>Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</i> |
| I4 | Counterparty failure | <i>The Fund uses independent custodians for the safe-keeping of investment assets to protect against failure of an investment manager.</i> <i>Cash balances are invested in accordance with the Pension Fund Treasury Management Strategy Statement which prescribes the size and length of deposits with permitted counterparties.</i> |
| I5 | Specific risks associated with assets and asset classes | <i>The Fund holds a diversified portfolio of investments over asset classes, countries, currencies and individual stocks to mitigate these risks.</i> |

5.3 Employer Risk

| Number | Risk | Summary of Control Mechanisms |
|---------------|---|---|
| E1 | The mix of employers changes significantly | <i>The five major scheduled bodies comprise xx% of the funds members.</i> <i>The Administering Authority monitors membership movements on an annual basis.</i> |
| E2 | Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies. | <i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i> |
| E3 | Deteriorating patterns of early retirements. | <i>Employers are charged the extra capital cost of non ill health retirements following each</i> |

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| | | <i>individual decision.</i> |
| E4 | <p>1) Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</p> <p>2) Administering Authority not advised of an employer closing to new entrants.</p> | <p><i>The Administering Authority monitors membership movements on an annual basis.</i></p> <p><i>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations</i></p> <p><i>Deficit contributions are expressed as monetary amounts and will be collected as monetary amounts from 1 April 2014.</i></p> |
| E5 | Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt. | <p><i>In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers with Best Value contractors to inform it of forthcoming changes.</i></p> <p><i>It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</i></p> |
| E6 | An employer ceasing to exist with insufficient funding or adequacy of a bond. | <p><i>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:</i></p> <ul style="list-style-type: none"> <i>• Seeking a funding guarantee from another scheme employer, or external body, wherever possible.</i> <i>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i> <i>• Vetting prospective employers before admission</i> <i>• Setting a minimum limit of 20 employees for prospective employers.</i> <i>• The Administering Authority will consider where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i> |

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5.4 Liquidity / Maturity Risk

| Number | Risk | Summary of Control Mechanisms |
|---------------|--|---|
| M1 | Insufficient funds to meet liabilities as they fall due | <i>The Fund currently has a positive cash flow and monitors the position regularly to ensure that sufficient funds are available to pay pensions and other costs.</i> |
| M2 | Changes to the scheme which impact on the maturity profile and future opt-out rates | <i>The actuarial valuation takes account of the planned changes to the scheme.</i> <i>Actual changes in the maturity profiles and opt-out rates will be monitored against the assumptions.</i> |
| M3 | Implications of spending cuts which will result in <ul style="list-style-type: none"> • reduced membership, • reduced contributions • increased early retirements | <i>The Fund will collect the deficit element of employer contributions as a cash sum rather than a percentage of pay from 1 April 2014 onwards.</i> <i>The Fund continually monitors employer contributions for major changes and assesses the impact of and reductions.</i> <i>Additional costs of early retirements will be payable by employers.</i> |

5.5 Liability Risk

| Number | Risk | Summary of Control Mechanisms |
|---------------|--|--|
| L1 | Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. | <i>Some investment in bonds helps to mitigate this risk.</i> |
| L2 | Pay and price inflation significantly more than anticipated. | <i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds also helps to mitigate this risk.</i> |

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| | | <i>Employers pay for their own salary awards.</i> |
| L3 | Pensioners living longer. | <p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>At the most recent valuation at 31 March 2013, analysis of current longevity specific to the Gwynedd Pension Fund was provided by Club Vita. In addition the actuary has made a separate allowance for future improvements. The allowance made at the March 2013 valuation was greater than allowed for at the last valuation in 2010. The actuary will continue to monitor emerging evidence of improvements from Club Vita and other sources and will advise at the next valuation (2017) what further allowance for future improvements is needed.</i></p> |

5.6 Regulatory and Compliance Risk

| Number | Risk | Summary of Control Mechanisms |
|---------------|--|---|
| R1 | Changes to regulations, e.g. introduction of the new scheme in 2014 | <i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i> |
| R2 | Changes to national pension requirements and/or HMRC rules e.g. annual pensions accrual rules for tax purposes | <p><i>It considers all consultation papers issued by the DCLG and comments where appropriate.</i></p> <p><i>The Administering Authority consults employers where it considers that it is appropriate.</i></p> |

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Annex A – Employers’ Contributions, Spreading and Phasing Periods

Following the 2013 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2013 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer’s contributions from the ‘Common Contribution Rate’.

Some employers have indicated that they are considering their future membership of the Pension Fund. It will be necessary to amend the table below if individual employers decide to change or terminate their membership.

| CODE | Employer Name or Pool | Proposed Maximum Deficit Recovery Period (In years) | Spreading Period (In years) | Contribution Rates and Sums for the year ending | | | | | |
|-------------------------------|---|---|-----------------------------|---|------------------------|----------------|------------------------|----------------|------------------------|
| | | | | FSR 31.03.15 % | Deficit 31.03.15 £'000 | FSR 31.03.16 % | Deficit 31.03.16 £'000 | FSR 31.03.17 % | Deficit 31.03.17 £'000 |
| Major Schedule Bodies | | | | | | | | | |
| 100 | Gwynedd | 20 | S | 18.3 | 2,985 | 18.3 | 3,015 | 18.3 | 3,045 |
| 200 | Isle of Anglesey | 20 | S | 18.6 | 1,269 | 18.6 | 1,282 | 18.6 | 1,294 |
| Pool | Conwy Pool | | | | | | | | |
| 300 | - Conwy County Borough Council | 20 | S | 19.1 | 1,320 | 19.1 | 1,334 | 19.1 | 1,347 |
| 55 | - Ysgol Emrys ap Iwan | 20 | S | 19.1 | | 19.1 | | 19.1 | |
| 56 | - Eirias High School | 20 | S | 19.1 | | 19.1 | | 19.1 | |
| 57 | - Ysgol Bryn Elian | 20 | S | 19.1 | | 19.1 | | 19.1 | |
| 58 | - Ysgol Pen y Bryn | 20 | S | 19.1 | | 19.1 | | 19.1 | |
| Major Admission Bodies | | | | | | | | | |
| 37 | Careers Wales North West | RWL | 6 | 17.2 | 43 | 19.4 | 48 | 19.8 | 50 |
| 38 | Cwmni Cynnal | RWL | 3 | 17.0 | 0 | 17.0 | 0 | 17.0 | 0 |
| 43 | Snowdonia National Park | 20 | S | 19.5 | 70 | 19.5 | 70 | 19.5 | 71 |
| 76 | Cartrefi Conwy | RWL | 0 | 17.0 | 0 | 17.0 | 0 | 17.0 | 0 |
| 77 | Cartrefi Cymunedol Gwynedd | RWL | 0 | 16.4 | 0 | 16.4 | 0 | 16.4 | 0 |
| 78 | Grwp Llandrillo Menai | 15 | 6 | 18.8 | 118 | 18.8 | 159 | 18.8 | 200 |
| 81 | Police and Crime Commissioner North Wales | 20 | S | 16.3 | 827 | 16.3 | 835 | 16.3 | 844 |
| Other Scheduled Bodies | | | | | | | | | |
| 13 | Caernarfon T.C. | 20 | 3 | 15.4 | 1.1 | 15.4 | 0.7 | 15.4 | 0.2 |
| 14 | Menai Bridge T.C. | 20 | 6 | 20.7 | 0.2 | 20.7 | 0.4 | 20.7 | 0.5 |
| 16 | Bangor C.C. | 20 | 6 | 19.3 | 1.8 | 19.3 | 2.6 | 19.3 | 3.3 |
| 17 | Llangefni T.C. | 20 | 6 | 21.6 | 0 | 21.6 | 0 | 21.6 | 0 |
| 22 | Beaumaris T.C. | 20 | 6 | 23.0 | 0 | 24.8 | 0 | 26.6 | 0 |
| 27 | Holyhead T.C. | 20 | 6 | 20.2 | 1.3 | 20.2 | 1.5 | 20.2 | 1.6 |
| 28 | Llandudno T.C. | 20 | 3 | 16.3 | 1.3 | 16.3 | 0.9 | 16.3 | 0.6 |
| 66 | Tywyn T.C. | 20 | 6 | 22.8 | 0 | 24.5 | 0 | 26.1 | 0 |
| 68 | Llanllfni C.C. | 20 | 6 | 21.7 | 0 | 22.3 | 0 | 22.8 | 0 |

APPENDIX A Gwynedd Pension Fund Funding Strategy Statement

| | | Proposed Maximum Deficit | | Contribution Rates and Sums for the year ending | | | | | |
|-------------------------------|--|----------------------------------|-----------------------------------|---|------------------------------|----------------------|------------------------------|----------------------|------------------------------|
| CODE | Employer Name or Pool | Recovery Period (In years) | Spreading Period (In years) | FSR 31.03.15 % | Deficit 31.03.15 £'000 | FSR 31.03.16 % | Deficit 31.03.16 £'000 | FSR 31.03.17 % | Deficit 31.03.17 £'000 |
| 70 | Towyn a Kinmel Bay T.C. | 20 | 3 | 14.2 | 1.8 | 14.2 | 1.0 | 14.2 | 0.2 |
| 72 | Abergele T.C. | 20 | 6 | 19.5 | 0.5 | 19.5 | 0.6 | 19.5 | 0.6 |
| 73 | Colwyn Bay T.C. | 20 | 3 | 17.4 | 1.7 | 17.4 | 1.3 | 17.4 | 0.9 |
| 74 | Blaenau Ffestiniog T.C. | 20 | 6 | 22.2 | 0 | 23.2% | 0 | 24.2% | 0 |
| Small Admission Bodies | | | | | | | | | |
| 11 | North Wales Society for the Blind | RWL | 6 | 18.3 | 6.4 | 18.3 | 8.2 | 18.3 | 10.1 |
| 25 | Cyd-Bwyllgor Claddu Caergybi | RWL | 6 | 24.1 | 0 | 25.0 | 0.5 | 25.0 | 1.3 |
| 34 | Coleg Harlech | RWL | 6 | 19.1 | 21.3 | 19.1 | 30.3 | 19.1 | 38.9 |
| 41 | Cwmni'r Fran Wen | RWL | 3 | 13.7 | 6.9 | 13.7 | 5.4 | 13.7 | 3.8 |
| 61 | Conwy Voluntary Services | RWL | 6 | 20.8 | 3.5 | 20.8 | 5.1 | 20.8 | 7.1 |
| 62 | Medrwn Môn | RWL | 6 | 19.7 | 6.3 | 19.7 | 7.9 | 19.7 | 9.6 |
| 63 | Mantell Gwynedd | RWL | 0 | 22.6 | 0 | 22.6 | 0 | 22.6 | 0 |
| 64 | Canolfan Cyngori Ynys Môn Citizens Advice Bureau | RWL | 6 | 18.0 | 3.1 | 18.0 | 4.3 | 18.0 | 5.5 |
| 67 | Menter Môn | RWL | 3 | 15.9 | 39.1 | 15.9 | 31.9 | 15.9 | 25.4 |
| 69 | Conwy Citizens Advice Bureau | RWL | 6 | 22.5 | 0.5 | 22.5 | 1.3 | 22.5 | 2.1 |
| 71 | CAIS | RWL | 6 | 23.9 | 0 | 24.1 | 6.7 | 24.1 | 13.7 |
| 80 | Jewsons Ltd | RWL | 0 | 18.0 | 0 | 18.0 | 0 | 18.0 | 0 |

*RWL = Remaining Working Lifetime

*S = Statutory tax raising body – no increase in contribution rate

*FSR = Future Service Rate

Annex B – Responsibilities of Key Parties

The Administering Authority is required to:

- operate a pension fund;
- collect employer and employee contributions, investment income and other amounts due;
- pay the relevant entitlements in accordance with the regulations;
- invest surplus monies in accordance with 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 a SIP, both after proper consultation with interested parties where appropriate;
- monitor all aspects of the fund's performance and funding and amend FSS/SIP as appropriate;
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer.

The Individual Employer is required to:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- develop a policy 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, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or proposed changes, which affect future funding.

APPENDIX A

Gwynedd Pension Fund Funding Strategy Statement

The Fund actuary should:-

- 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 the FSS and LGPS Regulations;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs and compensatory added years costs;
- provide advice and valuations on the termination of admission agreements;
- provide advice to the actuary on bonds or 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;
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the fund.