Complete Agenda

Democratic Service
Swyddfa'r Cygor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSION BOARD

Date and Time

1.30 pm, MONDAY, 7TH MARCH, 2022

Location

Virtual Meeting

Contact Point

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(DISTRIBUTED 25/02/22)

PENSION BOARD

MEMBERSHIP

Councillor Aled Ll. Evans Cyngor Gwynedd Council

Huw Trainor North Wales Police

Sioned Parry Conwy Borough County Council

MEMBER REPRESENTATIVES

Hywel Eifion Jones (retired – formerly Anglesey Council)

Osian Richards Members Representative

Sharon Warnes (retired - formerly Gwynedd Council)

A G E N D A

PENSION BOARD 06-12-21

Present:

Employer Representatives: Cllr Aled Evans (Chair) and Sioned Parry

Member Representatives: H. Eifion Jones, Osian Richards and Sharon Warnes

Officers: Dafydd Edwards (Head of Finance Department), Delyth Jones Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer)

1. APOLOGIES

Apologies were received from Huw Trainor (Employer Representative)

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

None to note

4. MINUTES

The Chair signed the minutes of the previous meeting of this committee, held on 12 July 2021, as a true record.

5. PENSIONS COMMITTEE MINUTES

Submitted, for information, the minutes of meetings of the Pensions Committees held on 21 October and 17 November 2021.

It was noted that two meetings were held because the audit of the Pension Fund's final accounts had not been released by Audit Wales until mid-November. Consequently, an additional meeting had to be arranged on 17-11-21 to approve the final post-audit accounts.

Reference was made to the minutes of 21 October 2021 - item 6: Timetable for the 2022 Valuation for the attention of the Board. It was noted that the Committee had approved the timetable and that plans were in the pipeline to seek to include the employer in the process. It was reiterated that there was an intention to draw up a questionnaire for employers to obtain a suggestion of what they sought from the valuation.

In response to the suggestion of drawing up a questionnaire, it was noted that including the employer in the process was a good idea but there was a need to clearly highlight the implications of the valuation.

6. FINAL ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2021 AND RELEVANT AUDIT

Submitted - a report regarding the Gwynedd Pension Fund Statement of Account 2020/21 (post-audit) from the Head of Finance, detailing the financial activities of the Pension Fund during the year ending 31 March 2021. Members were reminded that a draft of the accounts had been submitted to the 12 July 2021 meeting, and that minor alterations had been made to the narrative only, and not to the figures. It was noted that the Pensions Committee, which was responsible for formally accepting the accounts, had approved the accounts on 17 November 2021.

Thanks were expressed for the report

The officers were thanked for their work and for the presentation received at the Annual Meeting. Considering that the value of the Fund had increased annually over the past 20 years, this was a good measure of the success and work of the Finance Department.

Gratitude was expressed to the Head of Finance, the Investment Manager and the team for completing the work - their commitment and the accuracy of the work was appreciated.

RESOLVED to accept for information

- **Statement of Accounts 2020/21 (post audit)**
- **'ISA260' report by Audit Wales in respect of Gwynedd Pension Fund**
- **The Letter of Representation**

7. WALES PENSION PARTNERSHIP (WPP) UPDATE

Submitted, for information, a report from the Investment Manager, updating Members on the Partnership's work, the performance of the Fund, and ongoing developments since its establishment in 2017. It was reported that the collaboration continued to go from strength to strength and by December 2021, 83% of Gwynedd's Fund had been pooled with the WPP (56% through the main funds and 27% through passive investments). As the WPP played a prominent role in the performance of the Gwynedd Fund, the importance of providing a regular update on the Partnership's work was considered.

In the context of Equity Funds, which had been established in 2019, it was noted that although the performance of the last quarter had been lower than the benchmark, the performance in general had been very good and had made a good contribution to the fund's performance. It was reiterated that the last quarter had been challenging, with concerns about the economic recovery expected following such a strong period.

In the context of Fixed Income Funds, which had been established 12 months ago, it was suggested that the general performance appeared to be good, yet again, the performance of the last quarter had been lower than the benchmark due to concerns about inflation and various other factors.

It was reported that the Fund's proportion of Emerging Markets had moved from Fidelity to the WPP Fund on 21 October 2021 and that the new Fund Managers were Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree. It was reiterated, in line with the advice from Russell Investments, that Bin Yuan had been selected due to their location in China and thus they were experts on the country's character and its markets.

It was expressed that the Partnership's latest work was to establish Private Markets with BFinance, a specialist search advisor, assisting the Partnership with the process of appointing Investment Managers for Infrastructure and Private Credit. It was reiterated that the intention was to launch these funds in 2022 with the Gwynedd Fund investing any new private markets money in them.

In the context of a member representative on the Joint Governance Committee, it was noted that Gwynedd Council had approved the modifications to the Inter-Authority Agreement on 7 October 2021. All WPP Authorities will be expected to approve the modifications before proceeding to the next step of nominating Member representatives. In accordance with the agreed procedure, in January 2022, a period of three weeks would be available for each Pension Board to nominate one Member Representative to undertake this role. In February, a short-list would be drawn up and a member representative would be formally appointed at the Joint Committee meeting on 23 March 2022.

The Head of Finance expressed that he would support the application of Osian Richards as a member representative on the Joint Governance Committee (as an observer for a period of two years). It was confirmed that one individual across the 8 Wales Pension Boards would be appointed.

Gratitude was expressed for the report.

Osian Richards was proposed and seconded as a member representative on the Joint Governance Committee.

In response to a question regarding the percentage invested in the Emerging Markets, it was noted that there were no separate percentages available for the sub-funds, but that 5% of the Fund was to be invested with Bin Yuan. It was noted that it was impossible to ignore the fact that the Chinese Market was seeing the biggest growth at present, and with Bin Yuan located in the country, current information could be guaranteed - WPP was eager not to miss the opportunity and take a risk.

In response to a question regarding the Partnership's costs (costs for 2020/21 - £706,000), and how the amount was divided between the Authorities, it was noted that the Partnership's day-to-day administrative arrangements were split equally between the eight authorities. It was reiterated that the investment costs were subject to each Authority's investments, with a pro-rata fee for shared funds and Hymans provided a separate bill for each Authority. Although it was accepted that substantial costs could mount, it was noted that the returns were good.

A comment was made that as 83% of the Fund had transferred to the WPP, this was proof of the good collaboration and that the Partnership should be congratulated on its success, as it was one of the best in Britain. This was something to be proud of.

The information was ACCEPTED.

8. THE PENSION FUND'S INVESTMENT PERFORMANCE UP TO 30 SEPTEMBER 2021

A report was submitted by the Investment Manager, providing an update on the fund's performance. It was explained that the Fund had performed very well and had seen gradual progress over the past 20 years. By 30 September 2021, the fund was in a very healthy situation and was worth £2.7 billion.

Reference was made to the Fund's investment performance and it was highlighted that although the fund had underperformed during the past quarter due to very challenging conditions, that the performance over the year remained above the benchmark. In relation to the performance of the Equity Investment Managers, it was reported that the performance was very good, as was the performance of the Fixed Income investments, which were above the benchmark over the year.

In respect of the performance of Property Managers, it was highlighted that the year had been very challenging, with uncertainty in some sectors such as offices and retail. It was reiterated that the retail sector was starting to stabilise but the uncertainty remained in relation to the future of offices at this point in time. It was reported that growth had continued in the industrial and logistics field, with the impact of e-commerce on the supply chain. It was noted that it would be interesting to see how property would stabilise in future. It was also expressed that the Property Managers had a very good GRESB (Global Real Estate Sustainability Benchmark) score, which was a very important factor these days.

Details were presented on the Partners Group, explaining that it was not possible to see the actual profit and returns on these investments until the individual assets were sold. It was reiterated that the situation was continually monitored by Hymans Robertson and that there were no concerns to report.

Gratitude was expressed for the report

During the ensuing discussion, the following observations were made by members:

- That the figures were good and encouraging
- There were no negatives in the report, despite the need to keep an eye on property investments
- The Department was congratulated for its work - the Fund was in good hands

In response to the news that Mr Dafydd Edwards, the Head of Finance, would be starting his flexible retirement from January 2022 and the succession plan, it was noted that Mr Dewi Morgan had been appointed as Gwynedd Council Head of Finance. Consequently, Mr Dafydd Edwards would take on the role of Director of Gwynedd Pension Fund for an 18 month period, which would ensure consistency and a smooth transition for the future. It was reiterated that Mr Dewi Morgan would be invited to the investment discussions and the Investment Manager and Pensions Manager would evolve into their roles. In response, it was noted that the succession plan reassured Members.

In response to a question regarding the Investment Strategy, it was noted that the Strategy was updated every 3 years, and the new Strategy was to be published in March 2023, following the valuation in October 2022.

The meeting commenced at 2:00pm and concluded at 3:05pm.

PENSIONS COMMITTEE 17-01-22

Present:

Councillors: Stephen Churchman, Goronwy Edwards (Conwy County Borough Council) John Brynmor Hughes, Peredur Jenkins (Chair), Ioan Thomas and Robin Williams (Isle of Anglesey County Council)

Officers:

Dafydd Edwards (Fund Director), Delyth Jones Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

Others invited:

H Eifion Jones (observing – Member of Pensions Board)

1. APOLOGIES

Apologies were received from Councillors Aled Wyn Jones and Simon Glyn.

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

It was highlighted that questions had been received from members of the public who were present at the meeting, that did not reach the urgent item threshold of the Committee, but aspects of responsible investment would be discussed at the next meeting of the Committee held on 17 March 2022.

4. MINUTES

The Chair accepted the minutes of the meeting held on 17 November 2021 as a true record.

5. STAFFING OF PENSIONS ADMINISTRATION UNIT

Submitted – the report of the Pensions Manager seeking the Pensions Committee's approval for additional resources that would enable the Pensions Administration Unit to respond to increasing work pressures and cope effectively with the level of work now required. To improve the efficiency of the Pensions Administration Unit, adjustments were proposed to the existing structure and it was highlighted that it was the Pensions Committee's responsibility to determine the budget to ensure sufficient resources to implement this.

It was explained there had been an increase in the need for a deeper understanding of the pension fund's complex regulations, and the Pension Assistant posts had been evaluated and the grade increased from GS3 (£19,312 - £19,698 salary range) to grade GS4 (£20,092 - £21,748). When added to the employer overheads this would be an increase of £2,799 for each of the 6 posts (at the top of the scale) and the cost of funding the increase would be £16,794 per year.

It was noted that Gwynedd Council and Conwy County Borough Council had submitted an attractive option for Salary Sacrifice Voluntary Contributions (AVCs) and consequently a major increase in the use of this scheme was anticipated, as the Councils promoted the scheme. To address the increase in work administrating the scheme, it was proposed to employ a new S2 grade Pensions Officer (£24,982 - £27, 041). When added to the employer overheads, at the top of the scale, the cost of funding the new post would be £35,704. It was reiterated that the Fund's major employers were realising significant savings by reducing national insurance contributions with the AVCs Scheme - savings that were much greater than the cost of funding the Pensions Officer post. Therefore, in principle, given the employers' budgets and the budget of the Pensions Fund, there would be no increase in the net budget.

Additionally, in response to the Court of Appeal's ruling in the 'McCloud' case against the UK Government, it was reported that the Government had now confirmed that there would be changes to all major public sector schemes, including the Local Government Pension Scheme, to eliminate age discrimination. In response to implementing the changes (known as the McCloud Project), there was a need to collect information on hours worked, and details of service breaks for all eligible employees covering the period 1 April 2014 to 31 March 2022. In addition to updating the records, there was a need to recalculate the death benefits, retirement benefits, and deferred benefits of the members who had left during the past 8 years. This would involve revisiting facts and recalculating thousands of member records. Although the McCloud project would involve significant work for the Unit, it was likely that only a very small number of members would see the value of their benefits increase at the end of the project.

It was reported that a number of other pension funds of a similar size to us had commissioned external companies to undertake this work, but this was an expensive option as opposed to keeping the work in-house. Several members agreed that the Fund would minimise costs by employing three additional temporary Pensions Assistants for a two-year period (with the possibility of extending the contract should the work continue beyond two years) to carry out the McCloud Project work.

The Fund Director reiterated that the recommendations had been challenged by the Finance Department and that they were reasonable and unavoidable recommendations. He also noted that although the Fund's major employers would realise significant savings by reducing national insurance contributions with the AVCs scheme, these would be savings for the employers and not savings for the Fund.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were noted:

- That staff efficiency was crucial to the scheme.
- That the option of keeping the work in-house was to be welcomed.
- That the £85k (McCloud Project) was a one-off amount - we had to accept there were costs to ensure that the work could be done correctly.
- It was not possible to avoid the additional work - the recommendations were a means to move on in a realistic manner.
- The recommendations were cost effective and offered opportunities to staff.

A member of the Pensions Board reiterated that the Fund's administration was a priority area that required expertise and professionalism. He was confident that the Pensions Board would support the recommendations.

RESOLVED:

- **To accept and note the information**
- **To approve the £137,929 increase in expenditure on Pension Unit staff by 2022/23:**
  - **Create four new posts**

    Pensions Officer (to support the AVCs work) and three Pensions Assistants (two-year contract for the McCloud project - with a possibility of an extension should the work last more than two years) (total annual costs £121,135)

  - **Increase the salary of six Pensions Assistants from GS3 to GS4 (total annual costs £16,794)**

6. APPROVE THE 2022/23 BUDGET

The Investment Manager submitted a report seeking the Committee's approval of a budget for the Pensions Administration Unit and the Investment Unit for the 2021-2022 financial year.

It was reported that the budget was now approved on an annual basis by the Pensions Committee and it was explained that the 2022/23 budget included the adjustments to the Pensions Administration Unit staffing structure approved in item 5 above.

It was noted that the budget did not include Investment Manager or Consultant fees, as they varied significantly. Nevertheless, it was noted that the expenditure would be reported in full within the final accounts and the Fund's Annual Report. It was reiterated that the officers reviewed the budget every month with support from Hymans, along with monitoring Wales Pension Partnership expenditure continuously to ensure value for money.

The members expressed their thanks for the report that was self-explanatory and concise.

RESOLVED

- **To accept and note the information.**
- **To approve the 2022/23 financial year budget for the Pensions Administration and Investment sections.**

7. 2022 VALUATION: ACTUARIAL ASSUMPTIONS

A report was submitted by the Fund Director asking the Committee to approve actuarial assumptions suggested by Hymans, the Fund's Actuary, to be used in the 2022 valuation. It was explained that the underlying actuarial assumptions were a key element of the funding strategy and they should seek to reflect the Fund's future expectations along with the risk level appetite. As more information became available, the environment in which the Fund operated evolved and the balance between prudence and affordability shifted in light of external factors. Therefore, it was both necessary and good practice to review the actuarial assumptions adopted by the Fund as part of every triennial valuation.

It was reported that the purpose of the valuation was to review the current funding strategy in light of changes to the economic, regulatory and social environment and to set a contribution rate for every employer that would be paid (in this case) from 1 April 2023 to 31 March 2026, at which point rates would be re-assessed at the 2025 valuation; and check the current funding position.

To determine the required level of future employer contributions we were required to carry out a benefits projection and an assets projection. The contribution rates were then set such that, at the end of an agreed period there were enough assets to meet the future benefit payments.

All the financial and demographic assumptions were discussed in turn, explaining the reasoning behind the proposal for 2022 along with the reasons for any change. It was reiterated that the meeting held on 17 January 2022 with the Members, the officers and the Actuary detailing the assumptions had been very beneficial.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were noted:

- That the few adjustments to the assumptions since the 2019 valuation had all been reasonable.
- That the field was a very technical and specialist one and therefore they needed to place their trust in the experts' work and advice.
- Needed to be cautious and wise.

RESOLVED

- **To accept and note the information.**
- **To approve the actuarial assumptions proposed by Hymans Robertson, Fund Actuary, to be used in the 2022 Valuation**

  (Subject to a possible review in October 2022, these will be formalised in an updated version of the Funding Strategy Statement in 2023)

The meeting commenced at 14:00 and ended at 14:50.

Meeting:	Pension Board
Date:	07/03/2021
Title:	Pension Administration Strategy
Purpose:	To receive feedback from the Board on the new Pension Administration Strategy
Author:	Meirion Jones, Pensions Manager

1. Introduction

In response to the Good Governance Review the fund has been reviewing it's governance arrangements, with reference to the recommendations laid out in the review.

Currently the scheme does not have an Administration Strategy. The recommendation from the Good Governance report was that:

"Each administering authority must publish an administration strategy.".

Until now it has been a matter of fund discretion as to whether it put a strategy in place. While the LGPS Regulations themselves set out what must be included within any such Strategy, should a fund choose to have one, the depth and quality of the information contained within the documents can vary significantly.

In addition to the production of an Administration Strategy, is the need to ensure it is published and accessible and delivers on the requirements of the Regulations.

2. What are the key objectives of the administration strategy?

The key objectives of this strategy are to ensure that:

- The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions
- The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance.
- Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other partners.
- Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner
- The Fund and scheme employers have appropriate skills and that guidance/training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations.

3. What needs to be included in the administration strategy?

The regulations set out that the following items should be included in the administration strategy:

- procedures for liaison and communication between the administering authority and Scheme employers
- the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions,
- the setting of performance targets,
- the making of agreements about levels of performance and associated matters, or such other means as the administering authority considers appropriate;
- procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
- such other matters arising from its pension administration strategy as it considers appropriate; and
- such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

4. Gwynedd Pension Fund's Administration Strategy

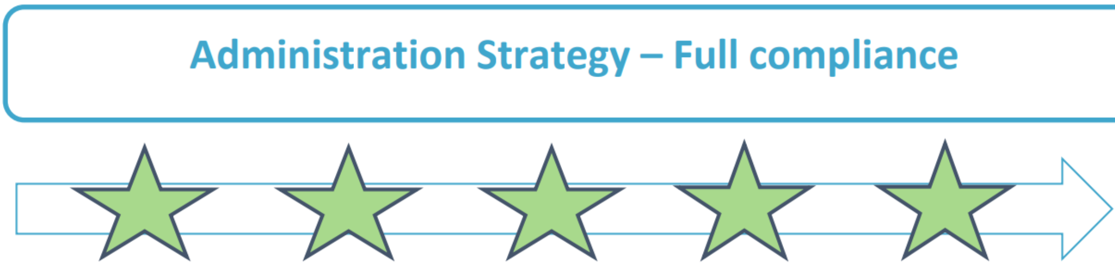
A copy of Gwynedd's proposed Strategy can be seen in **appendix A**.

As part of preparing for the good governance project, a draft copy of the strategy was shared with Hymans Robertson in order to receive feedback.

They confirmed that in line with the Good Governance recommendation, the Administration Strategy touches on the following areas:

- Service standards/SLAs
- Engagement and communication
- Customer (member and employer) satisfaction
- Employer performance

They were of the view that the Administration Strategy meets all current requirements and those additional requirements resulting from the Good Governance review.



We would appreciate feedback on the Strategy from the Board before the policy is shared with the Employers and presented at the Pension Committee for approval.

Appendix A

Pensions Administration Strategy

1. Introduction

This is the Pension Administration Strategy (PAS) of Gwynedd Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by Gwynedd Council (the Administering Authority).

The LGPS is a statutory scheme and governed by regulations. The current regulations relating to administration are The Local Government Pension Scheme Regulations 2013 (as amended).
The following link to the Local Government Association's (LGA) "LGPS Regulations and Guidance" website provides an up to date version of the LGPS Regulations 2013, including changes made subsequently through amending statutory instruments:

lgpsregs.org/schemeregs/lgpsregs2013.php

The Administering Authority and the Fund's employers are required to comply with any relevant overriding legislation and follow any regulatory guidance or Code of Practice issued by The Pensions Regulator in discharging their roles and responsibilities under these regulations with regard to data quality, completeness and timeliness.

2. Regulatory requirements

The legal context for this Strategy is Regulation 59 of The Local Government Pension Scheme Regulations 2013, which allows Administering Authorities the opportunity to prepare a Pension Administration Strategy.

These regulatory requirements are detailed below:

59. -(1) An **administering authority** may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are-

(a) procedures for liaison and communication with Scheme employers in relation to which it is the **administering authority** ("its Scheme employers");

(b) the establishment of levels of performance which the **administering authority** and its Scheme employers are expected to achieve in carrying out their Scheme functions by-

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the **administering authority** considers appropriate;

(c) procedures which aim to secure that the **administering authority** and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the **administering authority** and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the **administering authority** may consider giving written notice to any of its Scheme employers under **regulation 70 (additional costs arising from Scheme employer's level of performance)** on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the **administering authority** of annual reports dealing with-

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(i) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the **administering authority** after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An **administering authority** must-

(a) keep its pension administration strategy under review; and

(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an **administering authority** must consult its Scheme employers and such other persons as it considers appropriate.

(5) An **administering authority** must publish-

(a) its pension administration strategy; and
(b) where revisions are made to it, the strategy as revised.

6) Where an **administering authority** publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An **administering authority** and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an **administering authority** include, where applicable, its functions as a Scheme employer.

This strategy sets out the standards of performance and best practice that the Administering Authority and the Fund's employers should aim to meet when carrying out their scheme functions. It is reviewed annually and will be revised to reflect changes to:

- LGPS regulations
- Policies determined by the Administering Authority
- Administrative practices executed by the Fund and its employers in fulfilling its functions

It also includes a schedule of additional administration costs in accordance with Regulation 70 of the LGPS Regulations 2013, which provides scope for pension funds to recover costs where additional costs are being incurred due to an employer's level of performance. Levels of performance achieved by both the Fund and scheme employers are reported;

- as part of a Pension Administration Report at the Administering Authority's Pensions and Investments Committee
- at Gwynedd's Pension Board meetings
- in the Fund's Annual Report

70. -(1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a **Scheme employer** because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The **administering authority** may give written notice to **the Scheme** employer stating-

(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);
(b) the amount the authority has determined **the Scheme** employer should pay under **regulation 69(1)(d) (payments by Scheme employers to administering authorities)** in respect of those costs and the basis on which the specified amount is calculated; and
(c) where the **administering authority** has prepared a pension administration strategy under **regulation 59**, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

This strategy is published on the Fund's website (www.gwyneddpensionfund.wales) This is following its formal approval by the Pensions Committee and Pension Board in their role as the Administering

Authority of the Fund. A copy will also be submitted to the Secretary of State as required in Regulation 59.

3. Aims of the Strategy

The aims of this Pension Administration Strategy are to:

- Support the provision of a high-quality pension service to Fund members delivered through efficient working practices
- Clearly set out the respective roles and responsibilities of the Administering Authority and scheme employers
- Ensure that the Fund operates in accordance with LGPS regulations and Codes of Practice issued by The Pensions Regulator
- Set out the quality and performance standards expected of the Administering Authority and its scheme employers in relation to each other
- Promote good working relationships and improve efficiency between the Administering Authority and its scheme employers for the benefit of Fund members
- Provide a framework to enable administration costs relating to significant employer underperformance to be met directly by the employer responsible, rather than shared across all the employers in the Fund

The efficient delivery of the benefits of the scheme is dependent upon effective administrative procedures being in place between the Administering Authority and scheme employers, principally the timely exchange of accurate information in relation to scheme members.

This strategy sets out the expected levels of performance of the Administering Authority and the scheme employers and provides details about the monitoring of performance levels.

The strategy is implemented from 1 January 2022 following consultation with the Fund's employers and will be kept under review and updated as required to reflect changes in scheme regulations and Fund working practices.

Gwynedd Pension Board, in its role of assisting the administering authority to ensure the effective and efficient administration and governance of the Scheme, will also monitor the operation of this strategy.

4. Record Keeping

Record keeping is an essential part of running a scheme such as the LGPS. Funds and their employers have a legal obligation to collate and maintain certain data which is key to managing the scheme.

Gwynedd Pension Fund must keep accurate, up-to-date and long-term records, within the parameters of data protection legislation to ensure it can govern and administer the Fund efficiently for all scheme members.

Employers provide the data needed by the Fund and must ensure that they are meeting their legal obligations to the scheme.

The Fund has a legal duty to provide its members with accurate and timely information about their benefits, which cannot be issued without data from employers.

5. Development of the Fund's administration

i-Connect

Since 2019, the Fund has been working towards the full implementation of i-Connect. This is an additional module of the Aquila Heywood pension administration platform. The i-Connect module allows the Fund's scheme employers to automate the transfer of member data from their payroll systems to the Fund's pension administration system (Altair) on a monthly basis.

By onboarding the Fund's scheme employers onto i-Connect, this efficient solution will:

- reduce the need for manual inputting of pension related data
- allow ongoing data validation and a more timely resolution of queries
- reduce the workload of year-end reconciliation and reporting
- ensure the maintenance of a stable and accurate membership database
- receive data in line with statutory rules thus avoiding the risk of enforcement action and financial penalties by The Pensions Regulator for breaching legislative time limits and other requirements

Maintaining up to date member records ensures the accurate calculation of employers' pension contribution rates and the provision of a better service for fund members.

This strategy applies a deadline of 31 December 2021 for all the scheme employers to have commenced the implementation of i-Connect and the monthly transfer of its data submissions.

Member Self Service: My Pension Online

The Fund has introduced a secure, online portal to allow active, deferred and pensioner members to view their pension information, to undertake a number of data amendments and to carry out benefit projections on-line.

This online service is known as "My Pension Online", and it is expected that that this online portal will become the Fund's default method of communication with members.

The Fund will promote this service to scheme members and reflect it in the Fund's Communication Strategy. Employers will be expected to assist in the promotion of the "My Pension Online" service and encourage their employees who contribute to the LGPS to register for the service.

6. Roles and responsibilities

The aims of this strategy will be achieved by:

- clearly defining the respective roles of scheme employers and the Administering Authority
- setting clear and achievable standards of service levels for the functions carried out by scheme employers and the Administering Authority
- setting out clear procedural guidance for the secure and effective exchange of information between scheme employers and the Administering Authority
- monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required

7. Employer roles and responsibilities

The primary responsibilities for the employer are to:

- **Communicate** the LGPS to eligible staff
- **Apply** the scheme via the collection and payment of the correct levels of pension contributions
- **Report** information and data to the Pension Fund as set out in this strategy

The delivery of an efficient and cost-effective administration is dependent upon a successful joint working partnership between the Pension Fund and key individuals within or representing the scheme employer.

To support and develop the joint working partnership with the Fund, each employer is asked to designate a primary contact to liaise with the Fund about their employer responsibilities in the administration of the scheme.

The employer responsibilities are to ensure that the standards and levels of service set out in this Administration Strategy are delivered and regulatory responsibility is complied with. This section outlines a brief summary of key employer's responsibilities, along with a more detailed listing of the responsibilities of each participating scheme employer in the Fund and the performance standards employers are expected to achieve to enable the Fund to deliver an efficient service.

Summary of key employer responsibilities

- Ensure that the standards and levels of service set out in this Administration Strategy are delivered and regulatory responsibility is complied with. In brief summary, the main elements are:
    - Monthly payment and reporting of pension contributions
    - Monthly submission of i-Connect data transmissions
    - Accurate submission of a Year-End Return where required
    - Notification of new starter / joiner information
    - Changes to personal details
    - Changes to employment details
    - Unpaid absence details
    - Leaver notifications
    - Provision of evidence supporting employer's pension-related decisions (For example ill-health retirements, flexible retirement, redundancy, the early release of benefits to deferred members on compassionate or ill-health grounds)

- Channel communications to appropriate staff within the employer (For example, Human Resources, Payroll teams, Director of Finance)
- Arrange distribution of LGPS related communications to scheme members, as and when required.
- Assist and liaise with the Fund on promotional activities, including encouraging registration for the "My Pension Online" service.
- Inform the Fund of any outsourcings of service which involve the transfer via TUPE of LGPS eligible staff as soon as possible to ensure that appropriate pensions information can be included in tender documentation, and employees' eligibility for, and membership of the LGPS is protected.
- Inform the Fund of changes to service delivery arrangements (for example changing payroll provider)
- Liaise with, and assist the Administering Authority in the identification, explanation, reporting and resolution of statutory breaches, as required by the Pensions Regulator's Code of Practice for public service pension schemes (code of practice 14)

Employer responsibilities – Roles, Functions and Performance Targets

The following tables set out in more details each employer's roles in respect of the administration of the scheme.

The performance standards expected are expressed as targets expected in normal circumstances. On an exceptional basis, it is accepted that it may not be possible to achieve the target indicated and a pragmatic approach will be adopted. This is subject to employers using their best endeavours to meet expected standards wherever possible.

The Employer Role and Responsibility

Function/Task	Performance Target
Employer Contacts	
Designate and confirm nominated representative(s) (Payroll, HR. Finance) to act on behalf of the employer in respect of administering the LGPS.	Within 1 month of becoming a scheme employer or within 1 month of a change in nominated representative(s). Details to be submitted via email to pensions@gwynedd.llyw.cymru
Appoint a person (the adjudicator) to consider disputes under stage 1 of the pension internal dispute resolution process (IDRP) and provide full up to date contact details to the Fund	Notify the Fund within 30 days of becoming a scheme employer or following the resignation of the current adjudicator
Appoint an Independent Registered Medical Practitioner(s) (IRMP) qualified in occupational health medicine, or arrange with a third party, and seek approval of the appointment from the Fund, for the consideration of all ill-health retirement applications from active and deferred members.	Within **1 month** of becoming a scheme employer or within 1 month of a change in IRMP(s).
Employer Discretions Policy	
Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	Policies to be kept under review and a revised statement published within 1 month of any changes and no later than 6 months after being informed by the Fund of any relevant change in regulations
New Starters	
To ensure that pensions information is included as part of any new employment induction process, including in contracts of employment and appointment letters including signposting to LGPS guide on the Fund's website: www.gwyneddpensionfund.wales	As part of standard contract/appointment templates
Ensure that the correct contribution percentage and banding for member's LGPS contributions is applied to their payroll record and notify the member of initial contribution rate and any subsequent changes. The notification must also notify the employee of the right to appeal, including the processes and timescales involved.	From date of commencement or joining the scheme.
Notify the Fund of new scheme joiners via the monthly i-Connect submission	Within **1 month** of member's entry into the scheme via contractual enrolment, auto-

	enrolment, re-enrolment date or election to join.
Where the member has more than one employment with the same Employer, each membership shall be maintained and reported upon separately (via i-Connect)	From date of commencement or joining the LGPS or starting or ceasing additional employments.
Advise the Fund of any opt outs that take place within first three months (when contributions are refunded through payroll)	As part of next i-Connect submission following receipt of the opting out notification
Appeals	
The Employer's Adjudicator to notify the Fund of the **receipt** of a Stage 1 appeal	Within **2 week** of receipt of the appeal.
The Employer's Adjudicator to notify the Fund of the decision in respect of a Stage 1 appeal	Within **1 week** of the decision.
The Employer's Adjudicator to provide the Fund with all documentation considered in the determination of the Stage 1 appeal for consideration in the adjudication of the appeal at Stage 2	Within **1 week** of the receipt of the request from the Fund.
Changes in Circumstances	
Provide the Fund with the following member information: • new joiners • changes in member's circumstances which may impact pension benefits (eg, movement in and out of the 50/50 scheme, marital or civil partnership status, maternity, paternity, career break, etc.) • correction of date of birth / NI Number • employee and employer contributions and earnings • hours • Unpaid absence not covered by Assumed Pensionable Pay (APP)	To ensure that the Fund is informed of any relevant changes in the circumstances of members via i-Connect within four weeks of the event
Ensure members are notified of the option to pay Additional Pension Contributions following applicable unpaid absences.	Within 2 weeks of the return to work
Ensure the correct application of Assumed Pensionable Pay (APP) during periods of reduced or nil pay in accordance with the LGA's HR and Payroll Guides. Information available at https://www.lgpsregs.org/employer-resources/index.php	Review of eligibility for APP immediately upon a member moving to reduced / nil pay.
In view of potential changes to the LGPS due to the "McCloud judgement", we ask Employers to keep service records for all members (including leavers) from 1 April 2014: The service details should include: • Marital Status • Contractual Hours • Variable Hours • Remuneration changes • Contribution Rate • Employee Number and/or Post Number	As part of Employer data retention policy

• Absence: Maternity, Paternity and Adoption and Unpaid leave of absence and Industrial Action Each employer must ensure that this information is available to the Fund, if required.	
Contributions	
Remit employer and employee contributions to the Pension Fund Bank Accounts – monitored by the Fund	By **19th** of the following month following deduction
Implement changes to employer contribution rates as the instructed by the Fund from the date specified by the Fund's actuary	In line with the Rates Adjustment Certificate issued by the Fund's actuary, following each triennial valuation or other relevant event as notified in writing
Arrange for the deduction of AVCs and payment over to the AVC provider(s) and then schedule to be sent to the AVC provider	Payment by **19th** of the following month following deduction
Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member receives benefits early with Employer's consent and a funding strain cost arises	Within **30 days** of receipt of invoice from the Fund
Monthly i-Connect Returns	
To provide a monthly return in accordance with the Fund's specification that reconciles the employee, employer and any additional contributions paid to the Fund.	Via the i-Connect submission no later than the **19th** of the month following that in which the contributions were deducted.
To ensure optimum accuracy of monthly i-Connect files received.	Less than 5% of the active member count as at 1 April to error on import into the pension administration system
The rectification of an accurate monthly data file where it has been necessary to return the file due to data inaccuracies	Within **15 days** of receipt of file
Members Leaving Employment – Early leavers	
To notify the Fund of the member's leaving date and reason for cessation of membership and all other relevant information via the Leavers Form. To ensure that all i-Connect submissions are up to date.	Within 20 days of leaving date. The leaver event is also to be reported via the iConnect submission by the 19th of the following month. The i-Connect submission must clearly state the reason for leaving.
Death in Service and Terminal Illness	
To inform the Fund immediately of the death of a member via the Leavers Form, or when a member is suffering from a potentially terminal illness and to provide details of the next of kin.	Within 1 working day of contact from next of kin.
Actual Retirement	
To submit the appropriate leavers form to the Fund.	At least one month before retirement where possible but in all cases no later than 15 working days after retirement date.
Ill Health Retirement	
To determine based on medical evidence and the advice of one of the Administering Authorities approved Independent Medical	Submit the appropriate form to the Fund at least one month before retirement where

Registered Practitioners (IMRP) whether an ill health award is to be made and determine which tier 1, 2 or 3	possible but in all cases no later than 15 working days after retirement date.
To keep a record of all Tier 3 ill health retirements, particularly in regard to the 18 month review of their scope for gainful employment and any subsequent appointment with an IMRP for a further medical certificate. To inform the Fund if and when the pension should cease.	As soon as a decision is made.
Contracting out of services and functions	
Notify the Fund of the contracting out of services which will involve a TUPE transfer of staff to another organisation	Inform the Fund within five working days of the decision to contract out a service or function.
Ensure that bidders have access to relevant guidance including but not limited to the PLSA guidance "Navigating entry into the LGPS: For Local Government Contractors" available from the Pensions and Lifetime Savings Association website: www.plsa.co.uk	At the point of decision to contract out.
Notify the Fund of lead strategic and operational officers in respect of outsourcing of service provision where a prospective contractor may request to join the Fund as a result of re-organisation or TUPE transfer.	At determination of successful tender.
Work with Fund Officers to arrange for the Admission Agreement to be completed before the commencement date of the contract.	A minimum of **2 months** in advance of the date of contract.
Notify the Fund of changes / extension / cessation of arrangements with a contractor.	As soon as decision is agreed.
Assist the Fund in ensuring that the terms of the contractor's admission as a scheme employer (Admission Agreement) are complied with.	Notify the Pension Fund if the terms of the Admission Agreement have been breached.
Change of payroll provider	
To confirm the decision to change to a new payroll provider along with the contact details of the new provider.	As soon as possible and no later than **6 weeks** prior to the transfer of duties and functions
Ensure that a new payroll contract requires the provider to supply data via i-Connect. Ensure that all i-Connect submissions up to the transfer of responsibilities are made by the outgoing provider in accordance with the PAS. Ensure that the new supplier provides payroll references (specific to post) to the Fund	As soon as possible but no later than 20 working days before the first i-Connect submission.
Communication	
Ensure content approved by the Fund is included in all contract / appointment / adjustment communications for LGPS-eligible positions including direction to gwyneddpensionfund.wales	Review LGPS content annually or within **2 weeks** of receipt of information about adjustment to Fund approved wording.
Distribute any information provided by the Fund to scheme members / potential scheme members. Refer new or prospective scheme	Within **2 weeks** of its receipt.

members to the Fund's website: gwyneddpensionfund.wales	Within **2 weeks** of commencement of employment or change in contractual conditions.
Respond to queries from the Fund	Within **10 working days** from receipt of enquiry unless stated otherwise.
Miscellaneous	
Payments in respect of FRS102 and IAS19 work carried out on behalf of Employers by the Fund and the Fund Actuary.	**Immediate** payment upon receipt of invoice from the Fund.
Payments in respect of all other work carried out on behalf of the Employer by the Fund's Actuary and connected data quality assurance undertaken by the Fund.	**Immediate** payment upon receipt of invoice from the Fund.
Prompt payment of invoices issued by the Fund for specific services provided.	**Immediate** payment upon receipt of invoice from the Fund.
Respond to non-standard enquiries from the Fund.	Within **10 working days** from receipt of enquiry unless stated otherwise.
Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	**Immediate** payment upon receipt of invoice from the Fund.
Respond to enquiries from the Fund relating to Breaches of the Law.	Within **1 week** of the request.

8. The Pension Fund's Roles and Responsibilities

What is the Pension Fund's main responsibilities?

The Pension Fund's main responsibility is to calculate and pay benefits in line with LGPS regulations. Other key responsibilities include:

- keeping accurate pension records and data
- providing annual benefit statements to all contributing and deferred members
- providing P60s to pensioner members
- providing pension savings statements to those members who exceed the annual allowance limit
- preparing and publishing a discretions policy and keeping it up to date
- appointing a nominated adjudicator for stage 1 and stage 2 appeals made under the IDRP

To do these successfully, the Administering Authrity expects to:

- provide employers with a point of contact through its Employer Support team and Employer Helpline service
- keep employers informed of any matters that might affect them through its communication methods and strategy
- provide or facilitate training to all new employers or those authorised officers that are new to the LGPS or GMPF
- maintain a section of the GMPF website that contains information to support employers
- hold an annual update meeting where employers can find out about GMPF's performance and learn about work being undertaken
- issue regular surveys and hold feedback sessions to get employer views and make improvements
- let employers know if there are any proposed scheme changes, administration challenges or anything similar that they may need to be aware of
- carry out certain tasks on an employers' behalf where it is reasonable and acceptable to do so
- audit employers from time to time, carrying out spot checks and asking for evidence to support effective pension administration

Who manages the Gwynedd Pension Fund and how?

Gwynedd Pension Fund's Committee is responsible for ensuring the Fund complies with its statutory responsibilities. It also sets expectations regarding administration performance. The Local Pensions Board carries out a scrutiny role and reviews compliance with the rules.

When assessing administration performance, the committee will consider:

- performance against statutory targets and key service delivery indicators
- the cost of administration
- benchmarking reports to assess the Fund's performance compared to that of other pension funds
- ability to recruit to key posts
- the numbers of complaints and formal disputes received and their outcomes
- audit outcomes
- ability to deliver projects on time and to budget
- feedback received from stakeholders through surveys, the website and other channels
- feedback received from staff

The key performance indicators used to help measure service delivery

The LGPS regulations and other overriding pension legislation contain statutory targets that the Fund must meet. Additionally, the Fund's Committee has set some performance standards based on the level of service that it expects to be delivered to members.

Details of these standards and our performance against them are published in the annual report.

How is the performance monitered?

The Fund's Committee will monitor the Fund's performance and that of its employers in the following ways:

- Through regular reports to the Pension Committee, relevant Working Groups and the Local Pensions Board
- Through reporting and general day to day monitoring by the Fund's managers and officers
- Through reports provided to employers highlighting performance levels
- By using the Internal Audit team to review processes and controls
- By comparing performance against other LGPS pension funds, benchmarking key data and workloads
- By following escalation procedures where there is non-compliance
- By reviewing the Fund's breaches of the law log each quarter
- By holding focus groups and forums when appropriate

The Fund will monitor employer performance across the following key areas:

- The submission of monthly data returns
- The payment of contributions and other payments due
- The number of queries, along with the rate and quality of responses
- The number of complaints received and IDRP cases upheld against the employer
- Whether or not the Fund have received a copy of the employer's current discretions policy
- Whether or not an employer has failed to notify the Fund of key changes or events within a reasonable timeframe

This table sets out the Administering Authority's roles and responsibilities:

Function/Task	Performance Target
Governance	
Regularly review the PAS and consult with all scheme employers	Triennially review the PAS and in addition review it following any material changes in service delivery or regulations relating to the PAS and consult with all Employers on any changes
The Funds will review their respective Funding Strategy Statements at each valuation (or material event), following consultation with Employers and their Fund Actuary	Publish by 31 March following the valuation date, or as required
Review the respective Fund's Communications Policy	Annually review and publish within 30 days of any revision to the policy being agreed by the respective Pension Fund Committees
Review the Fund's Governance and Compliance Statement	Annually review and publish within 30 days of any revision to the policy being agreed by the respective Pension Fund Committees

The Fund should formulate and publish policies in relation to all areas where the Administering Authority may exercise a discretion within the LGPS	Annually review and publish within 30 days of any revision to the policy being agreed by the respective Pension Fund Committees
Notify the Employer of issues relating to the Employer's unsatisfactory performance	If no response to Gwynedd Pension Fund's request for action is received within 10 days; second request marked "escalation" to be issued; if no response within 10 days matter referred for cost recovery
Notify the Employer in writing of decision to recover additional costs associated with the Employer's unsatisfactory performance	After 10 working days of second request for action and continued failure to improve performance as requested
Member Information/Data Quality and General Administration	
Provide support for Employers through a dedicated page on website; quarterly newsletter; forums; quarterly meetings; quarterly training sessions and ad hoc bulletins and alerts	Information given quarterly to nominated representative
Notify Employers and members of changes to LGPS regulations	Within 90 days of regulatory change
Produce Annual Benefit Statements (ABS) to active and deferred Scheme Members as at 31 March each year	By 31 August following end of year
Produce and issue Pension Saving Statements (PSS) to members who have exceeded their annual allowance	By 6 October following end of year (subject to receipt of all relevant information from the Employer)
Key Performance Indicators	
To accurately create member records on the pensions administration system following notification from an employer of a new entrant to the LGPS.	Within 40 days of the i-Connect notification
Gwynedd Pension Fund will contact all new members, providing them with an activation key for 'Member Self Service' and respond to member requests for an activation key.	Within 30 days of the i-Connect notification of a new starter / member's request
Initial letter/acknowledgement of death of active/deferred/pensioner member	Within 5 days of notification
Deaths – Letter notifying amount of dependant's benefit	Within 10 days of completed forms and documents
Retirements – Letter notifying estimate of retirement benefits	Within 15 days of request (where practicable the Gwynedd Pension Fund will deliver immediate retirement estimates to members via Member Self Service)
Retirements – Letter notifying actual retirement benefits	Within 15 days of (the latest of) the member's retirement date or the Gwynedd Pension Fund receiving all completed forms/documents
Retirements – process and pay lump sum retirement grant	Within 15 days of (the latest of) either receipt completed forms and documents or the retirement date
Deferment – Calculate and notify deferred benefits	Within 30 days of date of Employer Notification
Transfer out – Letter detailing transfer out quote	Within 10 days of completed request form
Transfer in – Letter detailing transfer in quote	Within 10 days of receiving transfer details from sending scheme

Refund – Process and pay a refund	Within 10 days of (latest of) either compled forms/documents or payable date
Divorce quote – Letter detailing cash equivalent value and other benefits	Within 3 months of request
Divorce Settlement – Letter detailing implementation of cash equivalent value and application of pension sharing order	Within 3 months of receipt of pension sharing order
Provide an acknowledgement and answer to scheme members/Employers/personal representatives/dependents and other authorised persons	Answer non-complex enquiries within 5 working days from receipt and for complex enquiries: acknowledge within 5 working days of receipt and reply substantively within 10 working days.

The timescales for completing the tasks above are measured from the date the Gwynedd Pension Fund is in receipt of all the relevant information required to complete the task and is expressed in "working days"

MEETING: **PENSION BOARD**

DATE: **7 MARCH 2022**

TITLE: **BUDGET APPROVAL FOR 2022/23**

PURPOSE: **To present the 2022/23 financial year budget for the Pensions Administration and Investment sections.**

AUTHOR: **DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 The purpose of this report is to present the 2022/23 financial year budget for the Pensions Administration and Investment sections.

1.2 The budget was approved by the Pensions Committee in their meeting on 17th January 2022.

2. PENSIONS ADMINISTRATION SECTION

	Final 2021/22	Adjustment	Inflation	Budget 2022/23
Employees	£668,020	£122,100*	£19,220	£809,340
Travel and Subsistence	£1,440	£0	£0	£1,440
Supplies and Services	£251,580	(£870)	£8,720	£259,430
Central Services	£114,490	(£1,830)	£4,510	£117,170
Total	**£1,035,530**	**£119,400**	**£32,450**	**£1,187,380**

* Adjustment includes health and social care levy as well as the additional resource requirement of the section presented in 2.1 of this report.

2.1 Employees, travel and subsistence

The original budget for this section consists of 18 full time posts and 1 part time post.

At the Pensions Committee, 17th January 2021, the Committee approved the salary increase of 6 pensions assistant posts and the creation of 1 additional pensions officer and 3 temporary pensions assistants. This is due to the increasing complexity of the scheme, the challenge of obtaining timely and accurate data, and the McCloud project.

2.2 Supplies and Services

The supplies and services include mainly printing, office materials and software costs.

2.3 Central Services

Central services comprise an element of the Fund Director and his ancillary staff costs, and support from Council services such as information technology, corporate and legal.

3. INVESTMENT SECTION

	Final 2021/22	**Adjustment**	**Inflation**	**Budget 2022/23**
Employees	£111,790	£851*	£3,736	£116,377

* Health and social care levy

3.1 <u>Employees</u>

This section is located within the main Central Finance department and therefore only an element of the posts is funded by the Pension Fund.

There are 3 full time posts with officer time divided between the Gwynedd Pension Fund and Gwynedd Council. The following percentages of posts are funded by the Pension Fund:

- Investment Manager (85%)
- Pensions and Investment Officer (80%)
- Pensions and Treasury Management Assistant Accountant (60%)

4. FUND MANAGER AND CONSULTANCY FEES

4.1 There is no budget set as the expenditure can vary significantly, but the expenditure is reported fully in the Fund's financial statements and Annual Report.

5. RECOMMENDATION

5.1 The Committee is asked to note the 2022/23 financial year budget for the Pensions Administration and Investment sections.

MEETING:	**PENSION BOARD**
DATE:	**7 MARCH 2022**
TITLE:	**OBJECTIVES FOR INVESTMENT CONSULTANTS REVIEW**
PURPOSE:	**To report progress against current objectives and to review future objectives**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

At the end of 2018, following a review of the investment consulting and fiduciary management markets, the Competition and Markets Authority ("CMA") stipulated that Pension Scheme Trustees should set objectives for their investment consultants.

2. ESTABLISHING OBJECTIVES FOR INVESTMENT CONSULTANTS

The CMA states that objectives for consultants should include a clear definition of the outcome expected, and should be:

- 'closely linked' to the pension scheme's strategic objectives
- reviewed at least every three years, and after a significant change to the investment strategy or objectives

Establishing long term objectives is part of a well organised governance approach. The extension to set objectives for investment consultants could be regarded as a natural progression towards all stakeholders being aligned towards a common goal.

3. GWYNEDD PENSION FUND OBJECTIVES FOR INVESTMENT CONSULTANTS

The objectives for Gwynedd Pension Fund can be found in Appendix 1, with the progress reported against them during 2021.

A compliance statement has been signed by the Pensions Committee Chairman by the required deadline of 7th January 2022.

4. FUTURE OBJECTIVES

The current objectives will remain for the upcoming period with an additional objective identified to develop the understanding of ESG and climate risk.

This objective aims to ensure that the investment consultants build the knowledge of the Committee on ESG and climate risk considerations, support the implementation of TCFD governance requirements and help the Committee understand and manage climate-related risks within the strategy.

5. RECOMMENDATION

The Board is asked to note information.

Consultant's Objectives	Progress report during 2021
1.Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Fund's investments to support progress towards a long term steady state of funding	Advice has been given on the investment strategy during 2021, including advice on rebalancing given equity outperformance and options for topping up property allocation taking into account structural changes in the property market following the pandemic.
2.Deliver an investment approach that reflects the Fund's cashflow position, and likely evolution, and minimises the risk of forced disinvestment	Strategic objectives for the Fund are stated in the ISS and the last Actuarial Valuation confirmed that the investment strategy provides the Fund with high likelihood of meeting its objectives
3.Advise on the cost efficient implementation of the Fund's investment strategy as required, taking into account the evolution of the Wales pool (WPP).	This exercise is being carried out by the Wales Pension Partnership. Initial advice has also been provided on private markets opportunities to be made available through WPP.
4. Ensure advice complies with relevant pensions regulations, legislation and supporting guidance.	All arrangements remain compliant. There have been no recent regulatory changes that the Fund needed to be aware of, although the Fund continues to monitor and receive training on expected legislative changes (TCFD).
5.Develop the Committee's policies and beliefs, including those in relation to Responsible Investment.	Ongoing review of ESG policy, and potential broadening of the scope, supported by Responsible Investment training.
6.Ensure our advice reflects the Committee's own policies and beliefs, including those in relation to Responsible Investment considerations	Ongoing advice has been provided on new investments, to ensure these are consistent with strategy
7.Provide relevant and timely advice	Timely advice and regular updates are given, including quarterly performance monitoring, advice on rebalancing, and support on asset transitions (disinvestment from equities, investment in multi-asset credit and absolute return bonds, transition of emerging market equities to WPP).
8.Help the Committee develop knowledge and understanding of investment matters	Hymans have not provided any direct training on new asset classes but have done through WPP. Hymans keep the Committee updated on market developments via presentation of the quarterly performance reports. The Committee received training on Responsible Investment (climate change and net zero) during 2021. The Fund has also taken part in the National Knowledge Assessment indicated the potential areas for future training needs.
9. Our services to support your ongoing governance shall be proportionate and competitive in terms of costs relative to our peer group	Hymans' fees are in line with peer group, with fixed fees for certain core tasks, and time-cost fees for additional tasks. Large project fees are agreed in Advanced
10. Develop the Committee's knowledge on ESG and climate risk	New for 2022

COMMITTEE:	**PENSION BOARD**
DATE:	**7 MARCH 2022**
TITLE:	**KNOWLEDGE AND SKILLS POLICY AND 2022/23 TRAINING PLAN**
PURPOSE:	**To present and discuss the Knowledge and Skills Policy and 2022/23 Training Plan**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 The purpose of this report is to present and discuss the Gwynedd Pension Fund Knowledge and Skills Policy and 2022/23 Training Plan.

1.2 The policy and plan will be presented and formally approved by the Pensions Committee on 17th March 2022.

2. GOOD GOVERNANCE REPORT

2.1 The Good Governance report by the England and Wales Scheme Advisory Board sets out several recommendations which would improve the Governance of the LGPS, and achieve a level of parity in terms of Governance across the LGPS funds in England and Wales.

2.2 The Good Governance report recommended to:

> *'Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS Officers and Pensions Committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively'.*
>
> A key focus of the Good Governance review centres on the Fund's Officers as well as Committee members having a sufficient level of knowledge to be able to perform their respective roles effectively.
>
> *'Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.'*

2.3 The Fund has therefore formulated a policy in order to fulfil these requirements.

3. KNOWLEDGE AND SKILLS POLICY

3.1 The draft policy can be seen in Appendix 1 and covers the following main areas:

- Training requirements
- Guidance
- Induction process
- Training plan
- Delivery of training
- Monitoring
- Reporting

4. TRAINING PLAN

4.1 A training plan has been formulated for 2022/23 and can be seen in Appendix 2.

5. RECOMMENDATION

5.1 The Board is asked to discuss and note any amendments to the draft Knowledge and Skills policy and 2022/23 training plan before it is presented to the Pensions Committee.

Knowledge and Skills Policy

March 2022

Contents

Knowledge and Skills Policy

Introduction

Gwynedd Council is the Administering Authority for the Gwynedd Pension Fund (the Fund). The Fund administers the Local Government Pension Scheme (LGPS) on behalf of around 49,600 members which comprisess Gwynedd, Anglesey and Conwy Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Adra, various town and community councils, and other scheduled and admitted bodies.

Within its Constitution, Gwynedd Council has delegated responsibility for the administration of the LGPS to a Pensions Committee of elected councillors. The Pensions Committee is the decision-making body for the Fund, advised by Fund officers in their role as scheme administrators. Officers and the Pensions Committee are assisted by a Local Pension Board, made up of representatives of LGPS members and LGPS employing organisations. The Pension Board has an oversight and scrutiny role, and makes recommendations to the Pensions Committee.

The purpose of the Fund's Knowledge and Skills policy is to aid the senior officers, Pension Committee members and Board members in understanding their respective roles and responsibilities, by setting out how they will obtain and maintain the necessary knowledge and understanding in order to fulfil their roles and responsibilities.

Training Requirements

This policy, and regular training, is necessary due to:

- the potential consequences of not administering the Fund in an appropriate manner, due to a lack of knowledge and understanding,
- the complexity of pension and investment issues,
- inevitable changes in Pensions Committee and Board membership, due to election and appointment cycles,
- the Fund being treated by investment managers as a professional client under the FCA Markets in Financial Instruments Directive II (MiFID II).

All Pension Fund Committee members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met, the fiduciary duty owed to the Fund, and ultimately to LGPS beneficiaries.

Guidance

Gwynedd Pension Fund recognises that there is a significant amount of training related guidance and regulations which is targeted at LGPS Funds and Private Sector Pension Schemes, this includes but is not limited to:

- The Pensions Act 2004
- The Public Service Pensions Act 2013
- Scheme regulations (the LGPS Regulations 2013, LGPS Transitional Regulations 2014, and LGPS Investment Regulations 2016)
- LGPC circulars, monthly bulletins, employer guides, administrator guides, legal opinions, and other documents from the Local Government AssociationCIPFA's Code of Practice & Knowledge and Skills Frameworks
- The Knowledge and Skills elements in the CIPFA Investment Pooling Governance Principles guidance
- The Pensions Regulator's codes of practice and toolkits
- The LGPS Scheme Advisory Board's non-statutory guidance, legal opinions, and other documents
- The "MiFID II" (Markets in Financial Instruments Directive) framework

The Fund is supportive of these sources of guidance and regulations and has sought to incorporate the sentiment and nature of these sources into its own knowledge and skills policy and training plan.

Induction Process

On joining the Pensions Committee, the Pension Board or the Gwynedd Pension Fund Management Team, a new member, officer or adviser will be provided with the following documentation to assist in providing a basic understanding of Gwynedd Pension Fund:

- The members' guide to the Local Government Pension Scheme
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
    - The Funding Strategy Statement
    - The Governance Policy and Compliance Statement
    - The Investment Strategy Statement
    - The Communications Policy

New members and senior officers will also be required to complete LGPS Fundamentals as soon as possible after joining and members are encouraged to complete the Pension Regulator Trustee Toolkit.

Training Plan

The Fund's approach to training will be supportive with the intention of providing pension fund committee members, pension board members and officers with regular sessions that will contribute to their level of skills and knowledge. The Fund will develop a Training Plan on an annual basis, which takes account of the following:

Topic based training
Training in relation to current topics will be provided (or made available from partner organisations) as required and appropriately timed, such as when decisions are required in relation to complex issues, or on matters not considered.

General awareness
There is an expectation on those to which this policy applies that they should maintain a reasonable knowledge of ongoing developments and current issues, and have a good level of general awareness of pension related matters appropriate for their roles.

Delivery of Training

The Fund will bear the cost of training delivered through a variety of methods, including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with asset manager firms and advisors
- Attendance at the Wales Pensions Partnership's meetings and events
- Various sources of online training, webinars and virtual meetings and conferences

In addition, Fund officers and advisers are available to answer any queries on an ongoing basis, including providing access to materials from previous training events.

Monitoring

Gwynedd Pension Fund recognises the importance of monitoring the effectiveness and ongoing suitability of this Policy. In order to identify whether the objectives of this policy are being met, the Investment Manager will maintain a training log which records attendance and effectiveness of training as seen in Appendix 1. Any findings or insight will be considered and actioned during the annual review of this Knowledge and Skills policy.

Reporting

A report will be presented to the committee and board on an annual basis setting out:

- the training provided / attended in the previous year at an individual level;
- commentary on how this compares to the Training Plan; and
- any actions required, such as a review of the Training Plan.

This information will also be included in the Fund's Annual Report. The Fund's committee members and pension board members will be provided with details of forthcoming seminars, conferences and other relevant training events.

Contacting the Gwynedd Pension Fund

You can contact us in several ways:

Our offices:	Gwynedd Pension Fund Gwynedd Council, Shirehall Street, Caernarfon, Gwynedd. LL55 1SH
By email:	pensions@gwynedd.llyw.cymru
By telephone:	01286 679982
Online:	www.gwyneddpensionfund.wales

Appendix 1

Cronfa Bensiwn Gwynedd Pension Fund
Cofnod Hyfforddiant / Training Record 2022-23

Enw/ Name:
Rôl/ Role:

Dyddiad/ Date	Amser/ Time	Teitl/ Title	Darparwr/ Provider	Nodiadau/ Notes

Gwynedd Pension Fund Training Plan 2022/23

Background and Introduction

It is best practice for Gwynedd Pension Fund officers, committee and board members to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions,
- the pooling of local authority pension schemes, and
- relevant investment opportunities.

2022/23 Training

We have set out below a list of training topics which have been provisionally planned during the 2022/23 financial year. The topics outlined below are based on current topical priorities and takes into consideration that there could be member changes in the Pension Committee following the council elections in May 2022:

Topic	Provisional Date	Applies to	Provider
Overview of Gwynedd Pension Fund	June 2022	Committee Members	Gwynedd Pension Fund officers and Fund Managers TBC
Private Market Asset Classes & the role of the Allocator	Q1 April – June 2022	Officers, Committee and Board Members	Wales Pension Partnership
Active Sustainable Equities			Wales Pension Partnership
Pool Knowledge: Governance & Administration	Q2 July – September 2022	Officers, Committee and Board Members	Wales Pension Partnership
Pool Knowledge: Roles & Responsibilities			Wales Pension Partnership
What Responsible Investment means for the WPP	Q3 October – December 2022	Officers, Committee and Board Members	Wales Pension Partnership
Stewardship Code and TCFD Reporting			Wales Pension Partnership
Progress of other LGPS pools	Q4 January – March 2023	Officers, Committee and Board Members	Wales Pension Partnership
Collaboration Opportunities			Wales Pension Partnership
LGPS Fundamentals	Autumn 2022	New Committee Members	Local Government Association
Accounts Closedown	March 2023	Officers	CIPFA

Agenda Item 10

COMMITTEE:	**PENSION BOARD**
DATE:	**7 MARCH 2022**
TITLE:	**RESPONSIBLE INVESTMENT POLICY**
PURPOSE:	**To present and discuss the Responsible Investment Policy**
AUTHOR:	**DAFYDD L EDWARDS, FUND DIRECTOR AND DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 The purpose of this report is to present and discuss the Gwynedd Pension Fund Responsible Investment Policy.

1.2 The policy will be presented and formally approved by the Pensions Committee on 17th March 2022.

2. RESPONSIBLE INVESTMENT

2.1 The Fund recognises that environmental, social and corporate governance issues can represent a material financial risk to its stakeholders and can influence the Fund's long-term returns and reputation.

2.2 The Fund has released two responsible investment statements in April and July 2021 and have now formalised their beliefs into a policy.

3. RESPONSIBLE INVESTMENT POLICY

3.1 The draft policy can be seen in Appendix 1 and covers the following main areas:

- Investment Beliefs
- Engagement
- Disclosure and Reporting
- Reducing the Fund's carbon emissions and future goals
- Framework to support Fund's climate ambitions

4. NET ZERO GOAL

4.1 Within the policy, the Fund has committed to set a goal to be net zero by 2050, supported by an undertaking to assess the feasibility of the Fund reaching net zero 5, 10 or 15 years earlier. The factors considered when setting this goal are discussed in the policy.

4.2 A framework has been developed to support the Fund's climate ambitions, covering opportunities, engagement, and monitoring & metrics.

5. FUTURE DEVELOPMENTS

5.1 Currently, LGPS funds can make prudent divestment decisions based on an assessment of the financial consequence of a number of matters, including those relating to Environmental, Social and Governance (ESG) factors. It can be evident in appendix 2 that The Boycotts, Divestment and Sanctions (BDS) Bill has recently been announced where measures to restrict expenditure and procurement decisions made by public bodies has been announced. These developments would enable the Secretary of State to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy.

6. RECOMMENDATION

6.1 The Board is asked to discuss and note any amendments to the draft Responsible Investing Policy before it is presented to the Pensions Committee.

Responsible Investment Policy

March 2022

Contents

Introduction

Gwynedd Council is the Administering Authority for the Gwynedd Pension Fund (the Fund). The Fund administers the Local Government Pension Scheme (LGPS) on behalf of around 49,600 members which comprises of Gwynedd, Anglesey and Conwy Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Adra, various town and community councils, and other scheduled and admitted bodies.

Within its Constitution, Gwynedd Council has delegated responsibility for the administration of the LGPS to a Pensions Committee of elected councillors. The Pensions Committee is the decision-making body for the Fund, advised by Fund officers in their role as scheme administrators. Officers and the Pensions Committee are assisted by a Local Pension Board, made up of representatives of LGPS members and LGPS employing organisations.

The day to day management of the Fund's investments is delegated to professional asset management firms. Regular meetings are held with the Fund's managers, where they are expected to provide a summary of actions that they have taken, or are taking, to consider responsible investment on a day to day basis.

Responsible Investment

Gwynedd Pension Fund aims to deliver strong investment returns over the long term, protecting our stakeholders' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

Gwynedd Pension Fund's purpose in doing this is to better manage risk and generate sustainable, long-term returns. All actions are predicated on fulfilling our core legal obligations – our 'fiduciary duty' – to the employers and scheme members.

The Fund recognises that environmental, social and corporate governance ('ESG') issues can represent a material financial risk to its stakeholders and can influence the Fund's long-term returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG factors.

The United Nations Principles for Responsible Investment describe these as:

- Environmental issues: climate change – including physical risk and transition risk; resource depletion, including water; waste and pollution; deforestation.
- Social issues: working conditions, including slavery and child labour; local communities, including indigenous communities; conflict; health and safety; employee relations and diversity.
- Governance issues: executive pay; bribery and corruption; political lobbying and donations; board diversity and structure; tax strategy.

The Committee considers the Fund's approach to stewardship also as a key area by acting as a responsible and active investor, by commissioning considered voting on the Fund's behalf as shareholders, and by indirectly engaging with investee company management as part of the investment process.

Investment Beliefs

The Committee has agreed the following set of investment beliefs in relation to Responsible Investment:

- In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though ESG matters can materially affect risk and returns. Therefore, ESG factors should be embedded in the investment processes and in the decision-making processes of asset managers appointed by the Fund / by the Wales Pension Partnership.
- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.
- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action (such as that taken via Local Authority Pension Fund Forum (LAPFF) membership and commissioned from Robeco alongside Wales Pension Partnership partners) provides the most successful route to influence outputs.
- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the Fund is.
- Shareholder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.
- Training and education is likely to form a key element in developing the Fund and its Committee position on ESG related matters.

Engagement

The Committee recognises that successful engagement can protect and enhance the long-term value of the Fund's investments. The Committee encourages the Fund's asset managers to engage with the companies they invest in, where they believe that value can be added, or risk can be reduced.

This engagement can apply across a range of assets. The Committee endorses the principles embedded in the UK Stewardship Code and intends to apply to become a signatory to the updated UK Stewardship Code 2020. The Committee expects both the Wales Pension Partnership and any directly appointed asset managers to be signatories to the UK Stewardship Code 2020. In addition, the Fund believes in collective engagement and is a member of the LAPFF, through which it collectively exercises a voice across a range of corporate governance issues.

The Committee supports engagement activity that seeks to:

- Achieve greater disclosure of information on the ESG related risks that could affect the value of an investment;
- Achieve transparency of an investment's carbon exposure and how such companies are preparing for the transition to a low carbon economy;
- Encourage its asset managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund.

The Committee's investment consultant is required to provide input and analysis to assist the Committee in assessing the Fund's asset managers' performance from an ESG engagement perspective, and this is also a key consideration when the Committee is allocating money to a new fund, or when the Wales Pension Partnership are appointing a new asset manager. The investment consultant's role also includes working closely with the officers to develop appropriate training arrangements.

The Committee liaises closely with the Wales Pension Partnership to ensure that they also adopt the approaches set in this policy. The Fund's asset managers are encouraged to sign up to the appropriate industry initiatives, including the UK Stewardship Code, LGPS Cost Transparency, the Principles of Responsible Investment and upcoming TCFD requirements.

Disclosure and Reporting

The Fund recognises that transparency and disclosure is an important aspect of being a responsible investor. The Fund will:

- make the Fund's Responsible Investment Policy available to members, and incorporate this fully into the way the Fund communicates and interacts with its members,
- make the Fund's Responsible Investment Policy available to wider stakeholders, online in the public domain, and
- report on the Fund's progress and developments in the way it approaches Responsible Investment matters.

Reducing the Fund's Carbon Emissions and Future Goals

Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to high carbon emitting companies and projects within the Fund's portfolio could pose a material financial risk.

The Committee recognises that the Fund's assets are invested globally, and across many sectors, which means reducing the Fund's carbon emissions is more challenging than it would be for an individual organisation. However, the Committee has committed to set a goal for the Fund to be net zero by 2050, supported by an undertaking to assess the feasibility of the Fund reaching net zero 5,10 or 15 years earlier. The factors considered by the Committee when setting this goal are discussed below.

The Committee believes it is important for LGPS funds to take a leading role in shaping the future, both in terms of supporting the transition to a low carbon economy and achieving broader ESG goals. The Committee is able to exert influence in two ways: through the investment decisions it takes; and through ongoing engagement with the companies and projects the Fund invests in. Against this background, the Committee believes it is appropriate to set a realistic goal while also looking at the feasibility to achieve a more ambitious goal.

At the same time, the Committee believes that the reduction in the Fund's carbon emissions should be achieved in a measured way. The Fund must remain focused on its primary obligation to pay benefits to its members, including consideration of any associated risks. A measured approach allows the Fund to capture investment opportunities arising from the transition to a low carbon economy, as well as mitigating the risks. Further, a measured approach supports active stewardship, giving the Committee more time and greater scope to effect change and achieve a just transition through ongoing engagement.

Framework to support the Fund’s Climate ambitions

The Committee has developed a framework to support the Fund’s climate ambitions, covering Opportunities, Engagement, and Monitoring & Metrics.

Opportunities

- Review the Fund’s existing mandates in the context of climate risk and net zero ambition (continuous development as shown in in Appendix 1).
- Consider if any mandates could evolve further, or possibly if they should be replaced, due to climate-related investment opportunities to support, and benefit from, the low carbon transition.
- Support the Wales Pension Partnership’s initiatives (such as the 'decarbonisation overlay' and ‘disinvestment from fossil fuel extractors’) and plans to reduce the carbon exposure of the funds it oversees (currently, c82.5% of the Fund’s assets sit within the Wales Pension Partnership framework, and this percentage is expected to grow over time).

Engagement

- Co-operate with the Wales Pension Partnership’s collective engagement protocol, such as jointly commissioning Robeco to engage with the Fund’s asset managers with respect to voting activity on climate-related issues, and to engage with the companies we invest in to influence and improve their behaviour on climate-related issues.
- Engage regularly with the Fund’s asset managers to challenge actions and encourage best practice, referencing Fund's beliefs and climate ambitions.
- Consider disinvestment / reallocation of capital if engagement does not give impact.
- Working together with other LGPS funds through the LAPFF. The LAPFF aims to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds. The Forum engages directly with hundreds of companies and their chairs. This is done by building trust and having a two-way dialogue on corporate responsibility in the areas of stewardship, climate risk, social risk and governance risk.

Monitoring and metrics

- Agree backward / forward looking metrics and set short, medium and long-term targets for each, that support the Fund’s overall net zero goal (this is currently challenging, while standard climate ambition metrics for the LGPS are still awaited, and the means by which we may achieve climate ambitions goals are jointly commissioned with several partners).
- Review the Fund’s investments in relation to these metrics and set a plan for progress.
- The current monitoring and positive progress of Gwynedd Pension Fund’s asset managers can be seen in Appendix 1.

Contacting the Gwynedd Pension Fund

You can contact us in several ways:

Our offices:	Gwynedd Pension Fund Gwynedd Council, Shirehall Street, Caernarfon, Gwynedd. LL55 1SH
By email:	pensions@gwynedd.llyw.cymru
By telephone:	01286 679982
Online:	www.gwyneddpensionfund.wales

Appendix 1: Monitoring of Gwynedd Pension Fund Asset Managers

Fund Manager	Fund	Target allocation	Developments as at March 2022
WPP – Russell Investments	Global Opportunities	14%	A 'decarbonisation overlay' has been implemented by Russell Investments, reducing the carbon footprint by 25%.
WPP – Baillie Gifford, Veritas, and Pzena	Global Growth	14%	Asset managers within this fund have taken steps to reduce its carbon footprint. Baillie Gifford's Paris Aligned fund disinvests from fossil fuel extractors and fossil fuel service providers. Veritas always sought investments synonymous with sustainability. Pzena have sold their holding in a company which formerly contributed to 35% of carbon emissions of Pzena's part of the fund.
WPP – Russell Investments	Absolute Return Bond	15%	Improving responsible investing practices by the fund managers supported by detailed consideration and a number of initiatives.
WPP – Russell Investments	Multi Asset Credit	7.5%	Strong ESG practices across all fund managers and future commitments very strong.
WPP – Russell Investments	Emerging Markets	2.5%	A 'decarbonisation overlay' has implemented which reduces the carbon footprint by 25%.
BlackRock	Aquila Life UK Equity Index	10.5%	BlackRock are signatories to the UK Stewardship Code and engage regularly with companies.
BlackRock	Aquila Life GBL Dev Fundamental	7%	BlackRock are signatories to the UK Stewardship Code and engage regularly with companies.
BlackRock	ACS World Low Carbon Equity	12%	BlackRock's low carbon fund which screens fossil fuels before low carbon optimization, thus reducing carbon relative to a standard global equity index by an additional 44%.
BlackRock	Property	2.5%	BlackRock are in 7th place in the GRESB rating (Global Real Estate Sustainability Benchmark - a global ESG rating for property funds).
Lothbury	Property	2.5%	Lothbury are in 4th place in the GRESB rating.
UBS	Property	2.5%	UBS are in 1st place in the GRESB rating for the 5th year running.
Columbia Threadneedle	Property	2.5%	Columbia Threadneedle are in 32nd place in the GRESB rating, but are improving yearly with improvements in energy consumption, GHG emissions and asset energy performance.
Partners Group	Private Equity	5%	Partners Group embed ESG into the strategy, direction and goals of their portfolio companies.
Partners Group	Infrastructure	2.5%	Partners Group's fund invests in green energy, low carbon fuels and carbon capture infrastructure.

Appendix 2

Extract from https://lgpsboard.org/index.php/structure-reform/bds-main

(last updated 23 February 2022)

Guidance on investments which conflict with UK foreign and defence policy

Background

After failing to defend previous LGPS investment guidance in the Supreme Court (see board summary of judgment) the government undertook to bring it before Parliament through legislation.

The Boycotts, Divestment and Sanctions (BDS) Bill was announced in the Queen's speech for this Parliament (see the article below this one on this page). Although no timetable for the Bill is available it was expected to be the primary measure to bring about the restrictions in the original guidance plus other measures to restrict expenditure and procurement decisions made by public bodies.

The current position on divestment

It is the Board's understanding that it is for LGPS funds to make prudent divestment decisions based on an assessment of the financial consequence of a number of matters, including those relating to Environmental, Social and Governance (ESG) factors. Where such decisions are based on non-financial factors LGPS funds should follow the Law Commission's direction that any financial impact should not be significant and that the decision would likely be supported by scheme members.

PSPJO Bill

In advance of the BDS Bill Robert Jenrick MP raised, at second reading in the Commons, the possibility of amending the PSPJO Bill to include a power for the Secretary of State to make guidance in this area. Support from government was not forthcoming in terms of its own amendment, however he subsequently tabled an amendment (listed as NC1) which was debated on 22nd February at report stage.

Following an at times heated debate and – importantly – a change of stance by the government to support the amendment it passed by 299 votes to 81. On the same day (22nd February) the Bill passed its third reading and will now return to the Lords for consideration of amendments prior to royal assent.

The Amendment NC1

Guidance to public service pension scheme managers on investment decisions

(1) The Public Service Pensions Act 2013 is amended in accordance with subsection (2).

(2) In schedule 3, paragraph 12(a), at end insert "including guidance or directions on investment decisions which it is not proper for the scheme manager to make in light of UK foreign and defence policy.

Member's explanatory statement

This new clause would enable the Secretary of State to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy

Effect of the amendment

The amendment would alter the Public Service Pensions Act (PSPA) 2013 as follows – amendment in square brackets:

3 Scheme regulations

(1)Scheme regulations may, subject to this Act, make such provision in relation to a scheme under section 1 as the responsible authority considers appropriate.

(2)That includes in particular—

(a)provision as to any of the matters specified in Schedule 3;

……

SCHEDULE 3

Scope of scheme regulations: supplementary matters

12 The administration and management of the scheme, including—

(a) the giving of guidance or directions by the responsible authority to the scheme manager (where those persons are different); [including guidance or directions on investment decisions which it is not proper for the scheme manager to make in light of UK foreign and defence policy].

Next steps

The above changes to the PSPA 2013 will not occur until the PSPJO Bill gains royal assent which is expected sometime in March. Prior to it gaining assent the Bill will return to the Lords for consideration of amendments ('ping pong') at which time the amendment may be subject to further debate.

Guidance under this provision, should it be forthcoming, would be expected to be drafted under Investment Regulation 7.

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

Such guidance would also be expected to be subject to a period of consultation which would provide an opportunity for interested parties, including the SAB, to comment on its potential impact. Furthermore, as this will be guidance and not primary legislation further legal action cannot be ruled out. Although the courts could this time be assured it was the intention of Parliament to provide a power to the Secretary of State in this area, a challenge could still be made on the grounds that the guidance was seen to go beyond that intention.

Questions

There are many questions around this provision, most of which cannot be answered until the exact wording of any guidance made under it is available. These include:

- Will the guidance be specific in nature, for example, singling out a particular instance of divestment or be broader, for example banning divestment unless specific government sanctions are in place?
- Will the guidance only cover decisions made for non-financial reasons?
- Will the guidance require immediate divestment upon the imposition of government sanctions on a business or country?
- Will pension funds still be able to make divestment decisions based on a prudent assessment of the impact on long term returns of ESG matters where no sanctions are in place?
- How will 'in the light of' be interpreted by any guidance?

The Board will seek answers to these and other questions from DLUHC and HMT.

Other amendments tabled

There were two other amendments tabled (NC2 and NC3) which potentially would have had an impact on the LGPS in respect of investments to be made in line with the Glasgow 2021 Climate Pact and a requirement to divest from fossil fuels by 2030. Neither of these amendments were put before the House at report stage so they will not be included in the Bill.

Today the government's legislative programme was laid out and includes a Boycotts, Divestment and Sanctions Bill the purpose of which will be to stop public bodies from taking a different approach to

UK Government sanctions and foreign relations and will cover purchasing, procurement and investment decisions. The gov.uk website includes a briefing note on the full programme.

The legal opinions and summaries page has been updated with a link to a summary of the judgment of the Supreme Court in the LGPS investment guidance boycotts and divestment case.

'The SAB welcomes the clarity brought by the judgment of the Supreme Court in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). In seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board's view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters'

The Board's secretariat and legal advisor have commenced work on a draft summary of the judgment which will be published on this site as soon as it is available.

The Supreme Court today handed down its judgment in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent) which was originally heard on 20th November 2019. The court found in favour of the appellants and would appear to take the position that the Government has the power to direct authorities on the approach they take to investment decisions, but not the investments they make.

A Summary of the judgement (PDF 2 pages 180kb) published by the practice at 11KBW is available - please note this summary is the view of 11KBW not necessarily the Board which has yet to consider the implications of the judgment for itself.

Meeting:	**Pension Board**
Date:	**07/03/2022**
Title:	**2022 Valuation: Actuarial Assumptions**
Author:	**Dafydd L Edwards – Fund Director**
Recommendation:	**For information only**

Introduction

1. Members will recall that a report was submitted to the Pension Committee on 21st October 2021 setting the timetable for the Pension Fund's valuation, based on the membership as at 31 March 2022, with new employer contribution rates coming into force on 1 April 2023. Effectively, the formal valuation is the Fund's most comprehensive and critical risk management exercise.

2. As part of the valuation, the Fund reviews its funding strategy and funding plans. A key element of the funding strategy is the underlying actuarial assumptions. These assumptions should seek to reflect the Fund's future expectations and level of risk appetite. Both of these may change over time as more information becomes available, the environment in which the Fund operates evolves and the balance between prudence and affordability shifts in light of external factors. Therefore, it is both necessary and good practice to review the actuarial assumptions adopted by the Fund as part of every triennial valuation.

3. The actuarial assumptions listed in this report were approved by the Pension Committee on the 17th January 2022 and are included on today's agenda for your information.

What is the purpose of the Valuation?

4. The purpose of the valuation is to:
   - review the current funding strategy in light of changes to the economic, regulatory and social environment;
   - set a contribution rate for every employer that will be paid (in this case) from 1 April 2023 to 31 March 2026, at which point rates will be re-assessed at the 2025 valuation; and
   - check the current funding position.

5. To determine the required level of future employer contributions we must carry out two projections:

   - Benefit projection: this projects the benefits that will be paid to scheme members in each future year (taking into account benefits accrued up to the valuation date and those that will continue to be accrued after the valuation date).

   - Asset projection: this projects the amount of the Fund's assets in each future year, taking into account future employer and employee contributions, future benefit payments (from the benefit projection) and the investment returns that will be earned on the assets.

6. The contribution rates are then set such that, at the end of an agreed period (the funding time horizon), there are enough assets (from the asset projection) to meet the future benefit payments (from the benefit projections) in a sufficiently high number of possible future economic outcomes. This is the funding objective.

What actuarial assumptions are needed?

7. To carry out the valuation we need to make assumptions about the magnitude and timing of both the future benefits that will be paid out of the Fund and the future investment returns generated by the Fund's assets. The assumptions fall into two broad categories – financial assumptions and demographic assumptions.

8. The tables below set out the Fund Actuary's recommendation for each key valuation assumption, along with supporting rationale.

9. Officers have received proposals from the Fund Actuary, Hymans Robertson, setting out options of how to build and set valuation assumptions. The proposals set out below have also been discussed with the Committee Chairman. Full details about the assumptions are set out in the Actuary's report enclosed here as an Appendix, giving further background information on these assumptions.

Financial Assumptions

10. Hymans use a "risk-based" approach to calculating the benefit and asset projections and setting the underlying financial assumptions. Under this approach, Hymans use an economic scenario generator (Hymans Robertson's proprietary generator is called the Economic Scenario Service – ESS) to produce 5,000 different simulations of future financial assumptions. This allows them to generate a distribution of future benefit and asset projections so all stakeholders in the Fund can better understand risk. The assumptions in each scenario vary by year i.e. they are not 'flat', so they are a better representation of reality than a single, linear assumption.

Assumption	2019 assumption	2022 assumption	Reason for change
Future Investment Returns	Based on Hymans Robertson's ESS model	As per 2019 but updated to latest market calibration	No change, level of prudence (75% prudence margin) consistent with 2019 valuation. Asset class return expectations are broadly similar to 2019.
Discount Rate	1.7% p.a. excess above risk-free rate Based on a prudence margin of 75%	2.0% p.a. excess above risk-free rate The same 75% prudence margin, results in a marginal increase	Retaining the same level of prudence, consistent with 2019 valuation, results in a marginal increase in the Discount Rate from 1.7% in 2019 to 2.0% for 2022.

Pension Benefit Increases	Based on Hymans Robertson's ESS model	As per 2019 but updated to latest market calibration	No significant change, level of prudence consistent with 2019 valuation, although inflation expectations are slightly higher (c.0.2-0.3% p.a.) than 2019 due to the current economic outlook.
Salary Increases	0.3% above CPI inflation	0.5% above CPI inflation (note also that CPI inflation expectations are now higher than 2019)	2022 proposed assumption is in line with 2019 long-term expectations. At 2019, allowance was made for short-term expected pay restraint. For 2022, no allowance is made for short-term pay restraint.

Demographic Assumptions

Assumption	2019 assumption	2022 assumption	Reason for change
Baseline Longevity	Based on Club Vita analysis & reflects individual member characteristics	Based on Club Vita analysis as per 2019, but updated to reflect latest observed non-Covid related mortality experience	No significant change anticipated. Tailored to Fund's membership to reduce risk of actual experience being materially different from expectations.
Future Improvements in Longevity	CMI 2018 model Smoothing applied to recent experience Long-term rate of improvement = 1.25% p.a.	CMI 2021 model No weight placed on 2020/21 data, and adjustment to reflect membership profile Long-term rate of improvement = 1.5% p.a.	Latest version of CMI model reflects more recent experience. Avoid long-term projections being unduly affected by short-term Covid-19 experience. Starting the projections from a lower point than in 2019 (due to the recent heavier mortality experience), the increase from 1.25% to 1.5% ensures life expectancies remain broadly similar to our 2019 assumption.
Withdrawals	Based on analysis of experience at a national level, Hymans have increased their national assumption on the likelihood of withdrawals, reflecting trends of increased job mobility. Fund specific analysis here shows withdrawals have been lower, hence Hymans propose to scale down from their nationally assumed increase (80% of the increase for full-time males, 80% for part-time females, and 75% for part-time males, but no scaling for full-time females, to reflect local experience).		
Ill health retirements	No change from the 2019 valuation assumption. While incidence of ill-health retirements is slightly lower than expected, Hymans propose to leave this assumption at its current level, in light of the potential increase in ill-health retirements as a result of Covid-19.		

<table>
<tr><td>Promotional salary scale</td><td colspan="3">Hymans’ analysis of our Fund’s membership shows that salary increases have been above the national default assumption, but it is proposed to continue with the 0.5% above CPI level, as this trend is unlikely to continue long-term.</td></tr>
<tr><td>Death before retirement</td><td colspan="3">Hymans expect the death-in-service rate to fall at each valuation. Therefore, the default expected rate of death-in-service is reduced by 20% for the 2022 valuation.</td></tr>
<tr><td>50:50 option take-up</td><td>0.5%</td><td>0.5%</td><td>No change, reflecting ongoing sustained low take-up by scheme members.</td></tr>
<tr><td>Retirement age</td><td colspan="3">Assuming scheme members retire at the earliest age at which no benefits will be reduced. This adjustment reflects emerging experience, further to benefit changes, and reduces liabilities by around 1%.</td></tr>
<tr><td>Cash commutation</td><td>50% pre-2008, 75% post-2008</td><td>65% of maximum tax-free cash</td><td>Simplification of calculation and assumption reflects our Fund’s recent membership experience.</td></tr>
<tr><td>Proportion leaving a dependant</td><td colspan="3">Based on Club Vita analysis of our Fund, to ensure the current assumption reflects Fund’s membership experience</td></tr>
</table>

11. These assumptions will now be formalised in an updated version of the Funding Strategy Statement in January 2023 (draft pending consultation) and in March 2023 (final version), as part of the 2022 valuation process.

Gwynedd Pension Fund

2022 Valuation: Actuarial Assumptions

December 2021

Richard Warden

Fellow of the Institute & Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

Contents

1 Executive summary

The formal valuation is the Fund's most important budgeting and risk management exercise. As part of the valuation, the Fund reviews its funding strategy and funding plans. A key element of the funding strategy is the underlying actuarial assumptions. These assumptions should seek to reflect the Fund's future expectations and level of risk appetite. Both of these may change over time as more information becomes available, the environment in which the Fund operates evolves and the balance between prudence and affordability shifts in light of external factors. Therefore, it is both necessary and good practice to review the actuarial assumptions adopted by the Fund as part of every triennial valuation. The tables below set out our recommendation for each key valuation assumption, along with supporting rationale. The next step is for the Fund to use this information to agree the assumptions that will be used for the 2022 valuation.

Financial assumptions

Assumption	2019 assumption	Recommended 2022 assumption	Reason for recommendation
Future investment returns	Based on Hymans Robertson ESS model	As per 2019 but updated to latest market calibration	Facilitates risk-based approach to setting contribution rates so the Fund can understand risk inherent in funding plans Asset class return expectations are broadly similar to 2019
Discount rate	1.7% excess above risk-free rate Based on a prudence margin of 75%	Keep prudence margin at 75%, resulting in an increase in the excess above risk-free rate to 2.0% p.a. (1.7% p.a. has a prudence margin of 78%)	No significant change in the funding environment to justify an increase or decrease in the level of prudence in the assumption. 75% remains an appropriate level (in our opinion) of prudence for the Gwynedd Pension Fund's funding position and risk appetite. Increasing assumption from 1.7% p.a. to 2.0% p.a. will reduce contribution rates by 1.5%-3.0% of pay. However, it would mean in 20 years' time the Fund would hold around 5-10% less in assets (all other things being equal).
Benefit increases CARE revaluation	Based on Hymans Robertson ESS model	As per 2019 but updated to latest market calibration	Facilitates risk-based approach to setting contribution rates so the Fund can understand risk inherent in funding plans Inflation expectations are slightly higher (c.0.2-0.3% p.a.) than 2019 due to current economic outlook
Salary increases	0.3% above CPI inflation	0.5% above CPI inflation	2022 proposed assumption in line with 2019 long-term salary increase expectations. However, at 2019, allowance was made for short-term expected pay restraint. Given recent increases in National Living Wage and reduced impact on pension liabilities from short-term pay expectations, recommend that no allowance is made for any short-term pay restraint.

Demographic assumptions

Assumption	2019 assumption	Recommended 2022 assumptions	Reason for recommendation
Baseline longevity	Based on Club Vita analysis and reflects individual member characteristics	As per 2019 but updated to reflect latest observed non-Covid related mortality experience	Ensures longevity assumptions are tailored to Fund's membership to reduce risk of actual experience being materially different from expectations.
Future improvements in longevity	CMI2018 model Smoothing applied to recent experience Long-term rate of improvement - 1.25% p.a.	CMI2021 model No weight placed on 2020/21 data Adjustment to model to better reflect Fund's membership profile Long-term rate of improvement – 1.5% p.a.	Latest version of CMI model is best practice Avoid long-term projections being unduly affected by short-term Covid-19 experience Take advantage of new CMI model flexibilities to better fit future improvement projections (evidence suggests long-term improvements vary between socio-economic groups) Recent non-Covid experience has resulted in lower starting point for future improvement projections. Increase in long-term rate ensures life expectancies remain similar to 2019 assumption.
Withdrawals	We propose updating the national assumption following the Fund specific analysis. Our recommendation is to apply scaling of 80% for full-time males, 80% part-time females and 75% for part-time males. We propose that no scaling is required for full-time females.		
Ill health retirements	Recent experience suggests no change needed from 2019 valuation assumption		
Promotional salary scale	Recent experience suggests that the Fund has had consistently higher salary increases than the default assumption. If this trend is thought to continue then it may be worth considering a higher salary increase assumption above CPI e.g. higher than 0.5% above CPI inflation.		
Death before retirement	Reduction in assumed incidences of death before retirement to reflect recent experience of Fund's membership		
50:50 option take-up	0.5%	0.5%	Reflects ongoing sustained low take-up of this option by members
Retirement age	Simplification to assume members retire at the earliest age at which no benefits will be reduced. Reduces liabilities by less than 1%		
Cash commutation	50% pre-2008, 75% post-2008	65% of maximum tax-free cash	Simplification of calculation and assumption reflects Fund's recent membership experience
Proportion leaving a dependant	Ensure current assumption reflects Fund's membership experience based on Club Vita analysis		

2 Introduction

Addressee and Purpose

This paper has been commissioned by and is addressed to Gwynedd Council in its capacity as Administering Authority to the Gwynedd Pension Fund ("the Fund"). It has been prepared in our capacities as Actuaries to the Fund.

The next actuarial valuation of the Fund takes place as at 31 March 2022. This paper has been prepared to facilitate discussions on actuarial assumptions for the 2022 valuation.

This paper has been prepared solely for the use of the Administering Authority to the Fund to assist in setting the actuarial assumptions for use in the 2022 formal valuation. In this paper we set out our analysis and other relevant considerations that will help the Fund with this important decision-making aspect of the 2022 valuation.

This document should not be released or otherwise disclosed to any third party without our prior consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party, or for any other use, unless we have expressly accepted such liability in writing.

Given that this paper is to facilitate discussions about the assumptions, the final choice of assumptions may change from those set out in this paper. The final assumptions, and rationale if different from these proposals, will be documented elsewhere as part of the overall valuation process.

Format of paper

This paper is split into three sections:

1 Executive summary – to provide a high-level overview of the 2022 valuation recommendations and reasoning.

2 Main body – to provide more detail around the recommendations and their rationale. The main body contains discussions of the factors that have been considered in the assumption setting process and the derivation/methodology adopted.

3 Appendices – these contain more detailed technical explanations and material for those who wish to better understand certain aspects of the assumption setting process.

Next steps

After reading this report, we would be happy to discuss the contents with the Fund's Officers and/or Pensions Committee with the aim of helping them agree the assumptions to use for the 2022 valuation.

Once the assumptions have been agreed, these will be formalised in an updated version of the Funding Strategy Statement as part of the 2022 valuation process. However, we would recommend that an internal audit trail is also kept to document the rationale behind the selection of each assumption.

3 Background

Summary of the actuarial valuation

The formal valuation is the Fund's most important budgeting and risk management exercise. The purpose of the valuation is to:

- review the current funding strategy in light of changes to the economic, regulatory and social environment;
- set a contribution rate for every employer that will be paid (in this case) from 1 April 2023 to 31 March 2026, at which point rates will be re-assessed at the 2025 valuation; and
- check the current funding position.

To determine the required level of future employer contributions we must carry out two projections:

4 Benefit projection: this projects the benefits that will be paid to members in each future year (taking into account benefits accrued up to the valuation date and those that will continue to be accrued after the valuation date).

5 Asset projection: this projects the amount of assets in each future year, taking into account future employer and employee contributions, future benefit payments (from the benefit projection) and the investment returns that will be earned on the assets.

The contribution rates are then set such that, at the end of an agreed period (the ***funding time horizon***), there are enough assets (from the asset projection) to meet the future benefit payments (from the benefit projections) in a sufficiently high number of possible future economic outcomes. This is the ***funding objective***.

What actuarial assumptions are needed?

To carry out the valuation we need to make assumptions about the magnitude and timing of both the future benefits that will be paid out of the Fund and the future investment returns generated by the Fund's assets.

A summary of the actuarial assumptions required for the valuation exercise is set out on the next page in Table 1. The assumptions fall into two broad categories – financial assumptions and demographic assumptions.

Climate risk

Climate change will affect many aspects of the Fund's assets and liabilities, for example the return on its assets, the inflation used to revalue benefits and the longevity of its members. The uncertainty around future climate pathways and their impact means that it is impossible to factor climate change considerations into every assumption described in this paper.

We will however consider climate change scenarios when setting the long-term longevity improvements assumption (see section 5 and Appendix 3), and the Fund will consider climate risk in its funding strategy by testing its resilience under three climate scenarios.

A note on prudence

The valuation assumptions, when taken as a whole, are required to be prudent under LGPS guidance. To achieve this, we recommend that the discount rate be set with an explicit allowance for prudence and all other assumptions be set based on realistic ("best estimate") expectations.

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Table 1

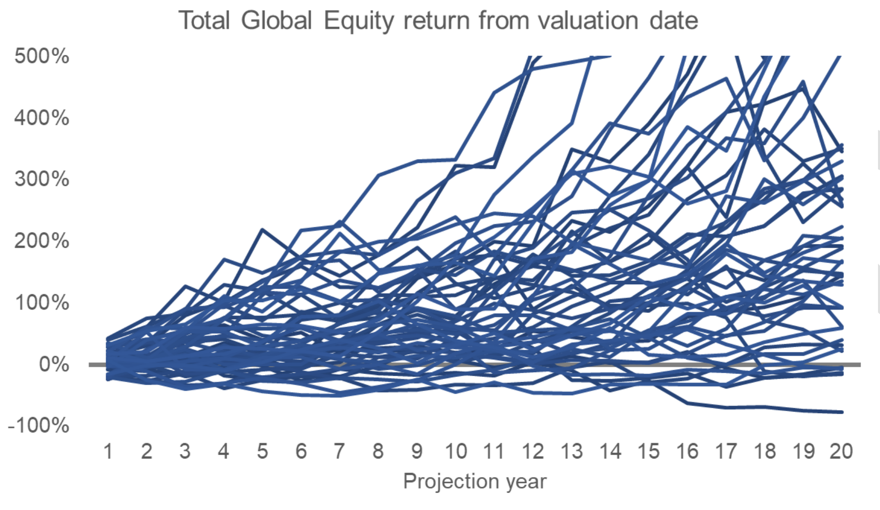
Financial assumptions		
Assumption	**Description**	**Required for**
Future investment returns (split by asset class)	Projected annual returns and volatility on asset classes invested by the Fund e.g. UK equities, property etc.	**Asset projection** – to project the employer's asset share to the end of the funding time horizon
Discount rate	Annual rate of future investment return that will be earned on the Fund's assets after the end of the funding time horizon	**Funding objective** – to place a present value at the end of the funding time horizon of the future benefit payments
Salary increases	Future inflationary salary awards	**Benefit projection** – to determine the size of future benefit payments (the pre-2014 final salary and post-2014 Career Average Revalued Earnings benefits are linked to salary) **Asset projection** – to determine future payroll values (and hence contribution income)
Benefit increases CARE revaluation	Future Consumer Price Index inflation	**Benefit projection** - to determine the size of future benefit payments (LGPS benefits are index-linked to CPI inflation)
Demographic assumptions		
Assumption	**Description**	**Required for**
Baseline longevity	How long we expect members to live based on current observed death rates	**Benefit projection** – to determine how long each member's benefits are paid for
Future improvements in longevity	How death rates are expected to change in the future (historically life expectancy has improved over time)	**Benefit projection** – to determine how long each member's benefits are paid for
Other demographic assumptions	• Retirement ages • Rates of ill health retirement, withdrawal from active service, death before retirement • Promotional salary increases scale • Rate and extent of commutation • Family details (proportion who die with dependants and age of dependants) • 50:50 option take-up	**Benefit projection** – to determine the size and timing of future benefit payments

4 Financial assumptions

Approach to setting financial assumptions

We use a "risk-based" approach to calculating the benefit and asset projections and setting the underlying financial assumptions. Under this approach, we use an economic scenario generator (Hymans Robertson's proprietary generator is called the Economic Scenario Service – ESS) to produce 5,000 different simulations of future financial assumptions. This allows us to generate a distribution of future benefit and asset projections so all stakeholders in the Fund can better understand risk. The assumptions in each scenario vary by year i.e. they are not 'flat', so they are a better representation of reality than a single, linear assumption. The chart below shows a sample of the 5,000 simulations for future cumulative total returns on global equities over the next 20 years.

Chart 1



Future investment returns

The assumed future investment returns on each asset class, which feed into the asset projection and discount rate assumption, are generated from the ESS. Further detail on the ESS methodology and assumptions are provided in Appendix 1.

Discount rate

The discount rate is an assumption about the future expected investment return from the Fund's assets. The purpose of a discount rate is to place a present value on payments that are expected to be made in the future. This is achieved by 'discounting' the future payments. For example:

- The Fund needs to make a £100 payment in 5 years' time.
- The Fund's assets are expected to achieve a return of 4% p.a..
- To make this payment, the Fund will need to hold c.£82 today i.e. today's value of the payment is £82.

Under the risk-based valuation approach, the employer's assets and benefit payments are projected 5,000 times up to the funding time horizon. At this point, a discount rate is needed to place a value on the benefit payments due after the funding time horizon. Given that each of the 5,000 projections represents a different prevailing economic environment, a single, fixed value for the discount rate will not be appropriate for every simulation. For example, a high discount rate would not be appropriate in simulations with a weak outlook (at the funding time horizon) for economic growth and vice versa. Therefore, we use a discount rate that is reflective of the economic environment at the funding time horizon in that simulation. To do this we base the discount rate around the prevailing risk-free rate of return with allowance for higher expected returns from the Fund's non-risk free assets.

As mentioned in Section 3, we recommend that the discount rate is where the Fund builds in its margin of prudence in the assumption set. At the 2019 valuation, the discount rate used to set contribution rates (an assumed excess of 1.7% p.a. above the prevailing risk-free rate of return) had a 75% likelihood of being achieved by the Fund's assets. Based on the Fund's current long-term strategic asset allocation (set out in Appendix 2), and the 30 November 2021 calibration of the ESS, we estimate that there is now a 78% likelihood associated with this discount rate i.e. the prudence margin has increased.

If the Fund wishes to increase the prudence margin at the 2022 valuation to 78%, then no change will be required to the discount rate assumption. However, if the Fund wishes to maintain the prudence margin used at the 2019 valuation (i.e. a 75% likelihood), then the discount rate would assume an excess of 2.0% p.a. above the prevailing risk-free rate of return. We have also considered the impact on the assumption if the Fund decreased the prudence margin to 70%.

The above results are summarised in the table below. We would be happy to further explore using alternative prudence margins if necessary.

Table 2

Discount rate for contribution-setting	Discount rate assumption (above risk-free rate)	Prudence margin
Keep discount rate as per 2019 and update prudence	1.7%	78%
Keep prudence as per 2019 and update assumption	2.0%	75%
Reduce prudence margin	2.4%	70%

Each 0.1% p.a. increase in the discount rate assumption reduces employer contributions by approximately 0.5-1.0% of pay for an open, long-term employer (ignoring other changes in assumptions and stabilisation mechanism overlays). It also results in the Fund holding less assets in the long-term (we estimate c.2-3% reduction for each 0.1% p.a. increase in the assumption).

The prudence margin at the 2019 valuation was agreed based on the Fund's risk appetite at the time, the current funding environment and uncertainty around the LGPS benefit structure (due to McCloud and the Cost Cap). Since 2019, the uncertainty around the benefit structure has been addressed. However, other forms of uncertainty have appeared – volatility in investment markets due to the pandemic's economic impact and concern around the long-term cost of climate change. Given this, and that the general funding environment and risk appetite of the Fund are broadly similar to 2019 (as far as we are aware), it would suggest that a prudence margin of 75% is maintained.

<u>Recommendation</u>: We recommend the Fund adopt a discount rate assumption for contribution rate setting that is in line with the Fund's current prudence margin of 75% i.e. 2.0% p.a.. We are comfortable that this level of prudence is appropriate for the purposes of funding a LGPS fund in the long-term.

Please note that the above analysis is based on the calibration of the ESS at 30 November 2021. All the valuation calculations will be based on the calibration at March 2022. As such the above prudence levels and associated assumed excess returns may alter. Whilst we do not expect there to be material changes, we will communicate this once the information is available to ensure you are still happy with the assumptions.

Future pension increases

LGPS benefits increase each year in line with the Consumer Prices Index ("CPI") measure of inflation, which is therefore a key financial assumption for the valuation. Given the uncertainty and volatility around expected future CPI inflation, we again use the ESS to model this assumption in a risk-based approach (see Appendix 1 for further details of the ESS).

<u>Recommendation</u>: We recommend that the future benefit increases and CARE revaluation (CPI inflation) assumption is based on the updated calibration of the ESS model as at 31 March 2022.

Salary increases

The salary increase assumption comes in two parts to reflect the two elements of pay increases:

- Annual 'inflationary' salary awards, historically set in order for employees' pay to at least keep up with the cost of living; and
- Promotional salary awards or those awarded as part of a defined salary scale.

This part of the paper considers the first element of the salary growth assumption only. Assumptions about promotional salary awards are considered later in Section 5.

The inflationary increase assumption is always set with reference to inflation e.g. 1% above inflation (or CPI + 1%). At the 2019 valuation, the assumption for 'inflationary' increases was based on an underlying assumption of short-term pay restraint (2% p.a.) to 31 March 2021, followed by long-term increases in line with CPI inflation + 0.5%. After allowing for the expected run-off of the Fund's final salary (pre-2014) linked benefits, this gave an assumption of CPI + 0.3%.

When considering the assumption to use at the 2022 valuation, there are four areas to consider.

1. **Run-off of final salary liabilities:** it is expected that the run-off of final salary liabilities from 2022 onwards is to be much more gradual than at previous valuations. This is because those members with the largest amount of final salary linked benefits are likely to be the oldest in the Fund and will have retired between 2014 and 2022. Therefore, the impact of short-term pay levels when setting this long-term assumption is diminished.

2 The **McCloud remedy** means that many members' post 2014 benefits effectively still retain a link to final salary until they retire, again meaning that the impact of short-term pay awards is reduced.

3 **Impact of Covid-19 on budgets:** the ongoing pandemic has had a significant impact on both public and private sector employer finances, with many still trying to recover and in challenging financial circumstances. Typically, in these situations, employers are controlling costs, including payroll costs, and therefore we see lower salary increases being awarded. This may suggest a reduction in the long-term salary increase assumption.

4 **National living wage increases:** recent years have seen an above inflation rise in the National Living Wage (NLW) (£9.50/hr in 2022 vs. £8.21/hr in 2019) and an increasing number of employers adopting this as their minimum wage. Although the NLW is aimed at the lowest paid, these recent increases will put pressure on salary rates across the whole workforce as employers may feel the need to keep the increments between staff consistent to adequately reward those with more responsibility or experience. This may suggest an increase in the long-term salary increase assumption.

One other topical area regarding salary increases is the recent increase in UK inflation expectations as a result of multiple factors (supply chain issues, low interest rate environment, Government stimulus packages etc.). Higher inflation generally feeds through to higher increases in pay as workers expect their salary to at least match cost of living increases. However, the salary increase assumption for the valuation is set with reference to inflation. Given that this topic is unlikely to have a long-term bearing on the margin above inflation used for salary increases, we do not believe that this should be a factor to consider when setting the assumption.

Given the above discussions, we are not aware of any issues that would suggest a significant change to this assumption from that adopted at the 2019 valuation (after removing the previous allowance for short-term pay restraint) i.e. CPI + 0.5%. However, of all the assumptions, we appreciate that this is the one where the Fund will have more information and data on which to decide the assumption. Therefore, we would be happy to be guided by your views to help set the most appropriate salary increase assumption.

Recommendation: We recommend a future salary increase assumption of CPI + 0.5% p.a., subject to the Fund's input.

Reporting the funding level

As well as setting contributions, a key output of the valuation is a measurement of past service liabilities at the valuation date itself to determine the funding level. To report a funding level, we need to use a single value for each assumption (compared to the risk-based approach used for contribution rate setting).

To ensure consistency between the reported funding level and employer contribution rates, we still use the ESS to derive the assumptions used to report the funding level. These assumptions are summary statistics of the 5,000 individual simulations used to project forward assets and benefit payments when setting contributions.

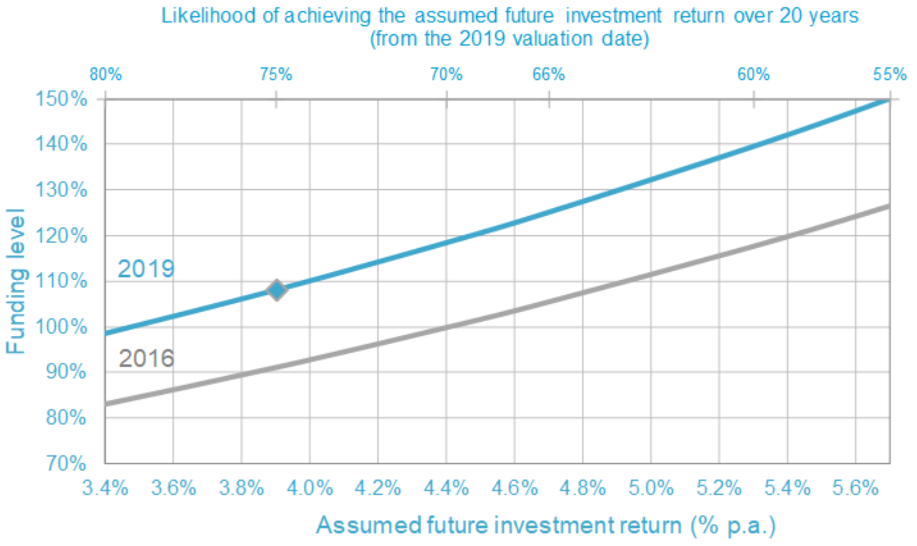
Future investment return

At the 2019 valuation, we showed:

- How the funding level at the valuation date varied with the choice of future investment return; and
- The likelihood of the Fund's assets yielding at least a given investment return (based on the ESS simulations).

This was all detailed in the one chart, an example of which is shown (this is the chart contained in the Fund's 2019 valuation report).

Chart 2



At the 2019 valuation, the Fund used a summary investment return for funding level reporting purposes of 3.9% p.a., which had an associated 75% likelihood i.e. the same level of prudence as that used for contribution rate setting.

For the 2022 valuation, we will continue to report the funding level using the above 'tramline' chart to give you the best possible understanding of funding risk. However, we also need to report a single funding balance sheet based on a single future investment return.

At the 2022 valuation, we recommend that the future investment return selected continues to be the one which has the same likelihood as that used for contribution rate setting purposes i.e. 78% (or 75% if you decide to maintain the 2019 prudence margin for contribution rate setting). This will continue to provide consistency between contribution rates and funding positions.

Based on the 30 November 2021 calibration of the ESS, the results of our analysis are:

Table 3

Future investment return	Investment return (absolute)	Likelihood now
Same likelihood as for contribution-setting	3.6% p.a.	78%
Same likelihood as in 2019	3.9% p.a.	75%

As a rule of thumb, each 0.5% p.a. increase in the assumed future return would decrease the liabilities, and increase the funding level, by approximately 10%.

The chart below sets out more detail about the expected future return on the Fund's assets.

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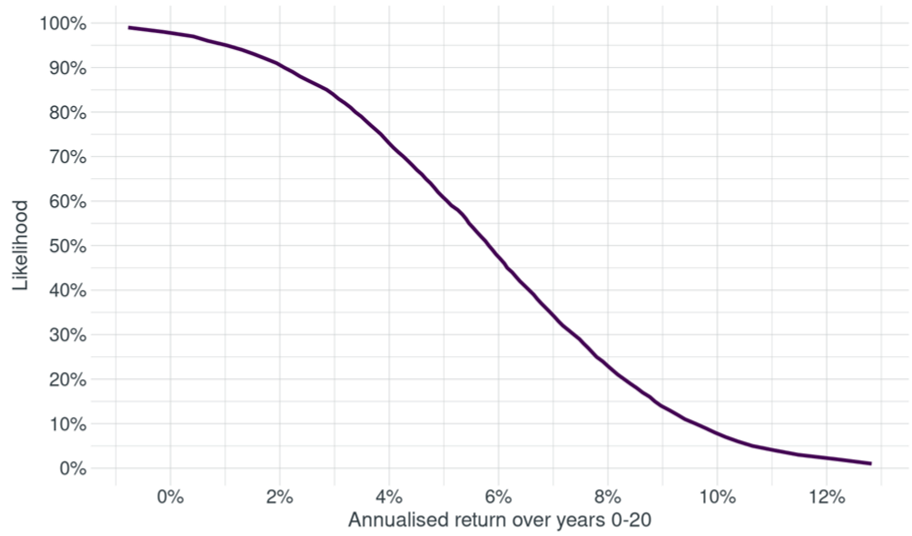
Chart 3



Pension increases

For funding level reporting purposes we will use a value for CPI inflation which has a 50% likelihood of occurring (i.e. best estimate) over the next 20 years. This assumption represents a best estimate expectation of future CPI inflation.

Based on the ESS calibration as at 30 November 2021, the CPI inflation assumption would be 2.6% p.a. (an increase from the 2019 valuation assumption of 2.3%, reflecting the current outlook for potentially higher inflation). However, please note that to report the funding position as at the valuation date, the 31 March 2022 calibration will be used.

This is a change in approach from that used at the 2019 valuation (set by reference to the difference in yields available on long-term fixed and index-linked gilts) due to the supply/demand distortion that currently exists in the gilt market.

Salary increases

Given that the salary increase assumption for contribution rate setting is expressed in relation to CPI inflation, for funding level reporting purposes this assumption will be based on the CPI inflation assumption plus the agreed margin (which we recommend as 0.5% in Section 4).

5 Demographic assumptions

Longevity

Of all the demographic factors, longevity is the one that presents the greatest uncertainty to an LGPS fund. There are two components when setting an assumption for longevity:

1. How long people currently live for, based on observed life expectancies ('baseline longevity'); and
2. An allowance for possible future improvements to longevity ('future improvements').

Throughout most of the 2000s and 2010s, life expectancy in the LGPS had been steadily increasing. This was reflected in the longevity assumptions set by actuaries at successive valuations, which often led to an increase in the value of the past service liabilities and higher contribution rates payable by employers, as improvements outstripped expectations.

However, in recent years (and ignoring the Covid-19 pandemic), experience has bucked the trend with a noticeable slowdown in life expectancy improvements. This slowdown has not been consistent across the population, with those in lower socio-economic groups experiencing a greater slowdown than the more affluent members of society.

Covid-19 pandemic

The Covid-19 pandemic has unfortunately resulted in increased morbidity and death since 2020. It is likely that we will see higher than expected death experience since the 2019 valuation. This will result in a decrease in liabilities as the Fund will be paying out less pension than expected.

However, Club Vita's latest monitoring report for the Fund suggests that there was actually an increase in liabilities of 0.1% from less deaths than expected over the year to 31 March 2021.

This is probably not what most people would expect. However, the cause is due to Covid-19 tending to affect older members of the population and those with poorer health characteristics. As remaining life expectancy for these members was already expected to be relatively short, the timing between actual and expected death is proportionately smaller.

The bigger impact from Covid-19 on the Fund's liabilities and funding strategy will be any impact on future improvements to longevity, driven by the lingering after-effects of the pandemic.

Firstly, we know Covid-19 has affected different groups of society to differing degrees. Early evidence suggests more affluent socio-economic groups have been more resilient to the effects of the pandemic. Therefore, in the longer-term, we expect this group's life expectancy to be less impacted by Covid-19. That is why it will be even more important to reflect your own membership to capture the socio-economic differences in your longevity assumption.

Secondly, we need to consider the impact of Covid-19 on the long-term trajectory of life expectancy. This is an emerging issue with lots of ongoing research. However, our longevity experts have the earliest access to a large mass of emerging data and statistics and hence are able to simplify this research to help funds consider how they want to reflect their view (informed by our support and advice) in the longevity assumption.

Baseline longevity

The Fund participates in Club Vita to monitor and manage its longevity risk. Participation also provides the Fund the ability to set a baseline longevity assumption using a bespoke set of VitaCurves that are specifically tailored to fit each individual member of the Fund. This tailored fit approach is important as life expectancy can vary significantly between members depending on certain characteristics. Further details are set out in Appendix 3.

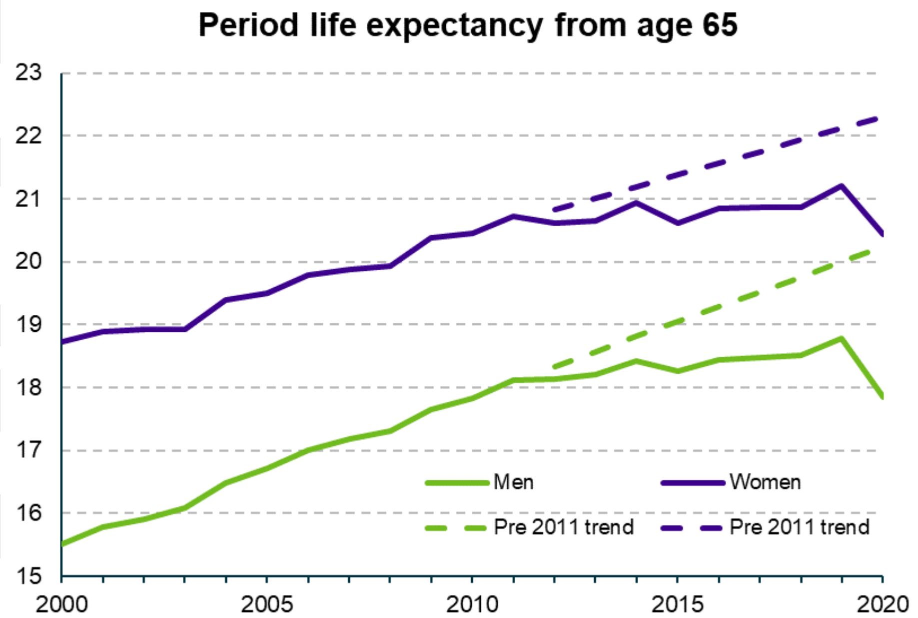
For the 2022 valuation, **we recommend using the latest available set of individual member VitaCurves**. This method is the same approach that was adopted at the 2019 valuation and is more accurate than trying to fit standard mortality tables to reflect the Fund's membership.

For the avoidance of doubt, the baseline longevity assumption at the 2022 valuation will be reviewed and, if necessary, adjusted to ensure it is not materially distorted by the mortality experience observed in 2020 and 2021 due to Covid-19.

Future longevity improvements

As mentioned above, even before the Covid-19 pandemic, recent evidence suggested that we may be starting to see a slowdown in the rate of future life expectancy improvements. This is set out in the chart below.

Chart 4



Source: Curtate life expectancy at age 65, based on data for England & Wales, as published by the CMI in Working Paper 147 alongside the CMI 2020 model

The causes for this slowdown – and what might happen in the future – are hotly debated. This uncertainty means that more judgment is required to set the future improvement assumption at the 2022 valuation.

The starting point all actuaries use for setting the future improvement assumption is the Actuarial Profession's Continuous Mortality Investigation

(CMI) longevity improvement model. This model is updated annually with the latest observed mortality data. **<u>Our recommendation for the 2022 valuation is to use the latest available version of the CMI longevity improvements model, likely to be CMI_2021</u>**. We expect this model to be published in March/April 2022 and calibrated to England & Wales population mortality data up to 31 December 2021.

The core CMI model has a set of parameters that allow users to adjust the model to reflect the membership of the entity being modelled and their beliefs about future trends. There are three key parameters to consider for assumption setting at the 2022 valuation.

1. Weight placed on 2020 (and 2021) experience (the "W_{2020}" parameter)
For projecting forward future rates in longevity improvements, the CMI model uses recently observed improvement rates as a starting point. Given that both 2020 and 2021 have been significantly affected by the Covid-19 pandemic, **<u>we would recommend that no weight is placed on data from these years</u>**. This will avoid overstating the impact of the pandemic on long-term rates of improvements, as we have little evidence of the long-term effects at this stage.

2. Adjustment to observed data to reflect scheme membership (the "A" parameter)
As mentioned above, the CMI model is based on England & Wales population mortality data. Evidence suggests that most members of an occupational pension scheme (e.g. the LGPS) have experienced higher improvements in life expectancy than the general population in recent years. The A parameter allows users to adjust the starting point for the projections in the model to reflect this differing experience.

To help set this parameter, Club Vita have undertaken some analysis to calculate mortality improvement rates split by socio-economic group. The results are detailed in Appendix 3. Based on the analysis, **<u>we recommend using the A parameter to adjust the starting point in the CMI model by 0.5%.</u>**

3. Long-term rate of improvement

The final parameter to set is the expected level of longevity improvements which will be sustained in the long-term. When thinking about this parameter, there are typically two key areas to consider:

- How has life expectancy been increasing over the longer term, and how could this be projected to increase in future?
- What are the drivers which might lead to future improvements being lower or higher than the historical rate?

Appendix 3 contains a detailed discussion of historic longevity improvements and what factors (pandemic and non-pandemic) might affect how life expectancy changes in the future.

In our opinion, we do not believe we have sufficient evidence to justify an explicit adjustment to the future improvement assumption in light of any of the key drivers discussed in Appendix 3. Furthermore, at this stage, we are of the opinion that it is too early to understand what the long-term impact of Covid-19 could be on life expectancy. However, if the Fund does have firmer beliefs or views in this area, we would be happy to discuss and reflect that in the 2022 valuation future improvement assumption.

At the 2019 valuation, we used a long-term improvement rate of 1.25% p.a.. Given that we do not believe there have been any significant events to suggest a material change in absolute life expectancy, and that we are now starting the future improvement projections from a lower starting point than in 2019 (due to the recent heavier mortality experience), **<u>we recommend that the long-term rate adopted at the 2022 valuation is 1.5% p.a.</u>**. This should ensure that life expectancy is similar in absolute terms to that at the 2019 valuation.

Pre-retirement demographics

Assumptions such as the rate at which members are assumed to leave local government employment with a deferred pension and the assumed incidence of ill-health early retirements affect the assessed cost of benefits accrued to date and the cost of benefits accrued in future. However, in terms of magnitude, these assumptions are second-order compared to those already discussed in this paper.

The starting point for our proposed 2022 valuation assumptions was to analyse past experience over 2016 to 2019 for all the LGPS funds Hymans Robertson advises (39 funds in England & Wales). This analysis provides an overall recommended assumption for LGPS funds ("the default") for the valuation. While this gives an average set of assumptions which we feel are suitable across the whole LGPS, we understand that there may well be local factors which influence certain assumptions, or some funds with markedly different experience. Best practice dictates that each fund selects an assumption set which reflect the underlying membership and the fund's own views of the future. Therefore we have carried out this analysis to enable the Fund to meet best practice.

This report looks at the actual experience (i.e. number of actual events recorded in the Fund's membership data between 2016 and 2019) and compares this to the expected values based on the 2022 national default assumption. The underlying analysis and data used for this analysis is set out in Appendix 4. The outcome and recommendation of the analysis is contained within the main body of the report.

Withdrawals (excluding ill health)

Based on our analysis of withdrawal experience from 2016 to 2019 at a national level we have made increases to the likelihood of withdrawals at each age so that our default assumption better reflects recent experience (the magnitude of increase differs between gender and part-time/full-time workers but the range is between 15% to 40%). This continues the trend we observed at the 2019 valuation (the analysis covered the period 2013 to 2016) and reflects increased job mobility within today's workforce (e.g. the end of a job-for-life outlook to employment).

At a Fund level, the analysis showed that withdrawals have been lower than our proposed assumption. Therefore changes are required to the default assumption to reflect local experience.

We propose updating the national assumption following the Fund specific analysis. Our recommendation is to apply scaling of 80% for full-time males, 80% part-time females and 75% for part-time males. We propose that no scaling is required for full-time females.

Ill health early retirements

The national analysis we carried out for the 2022 valuation suggests that the incidence of ill-health retirements is slightly lower than expected at 2019. However, we are proposing to leave our default assumption at its current level in light of the potential increase in ill-health retirements as a result of Covid-19, both direct (those suffering severe long-term Covid-related illness) and indirect (reduced access to healthcare systems).

At a Fund level, the analysis showed slightly lower than expected numbers of ill-health retirements. However, given the small number of cases in the Fund we do not believe there is credible evidence to justify a change from our default assumption.

Salary scale

As mentioned earlier, our assumption for pay growth has historically been split into general inflationary pay increases and promotional pay growth. At the 2019 valuation we used the same promotional pay scale for all members i.e. there was no split between men/women, full-time/part-time employees and officers/manual workers. The national analysis carried out for the 2022 valuation does not suggest that any change is required from the salary scale used for the 2019 valuation.

However, the analysis of the Fund's own membership shows that salary increases have been consistently above the default assumption at all ages. If this is expected to continue then we suggest considering a higher salary increase assumption above CPI (e.g. higher than 0.5% above CPI) to reflect local experience.

Death in service

The overall incidence of death-in-service is very low. Furthermore, our analysis at national level for the period 2016 to 2019 suggests that the incidence of death-in-service is slightly lower than expected at 2019. Whilst there may be a slight increase as a result of Covid-19 for the period 2019 to 2022, we believe this will only be temporary due to the efficacy of vaccines in the working-age population. We would also expect the death-in-service rate to fall at each valuation for the same reason as we expect life expectancies to increase in general. Therefore we have reduced the default expected rate of death-in-service by 20% for the 2022 valuation.

At a Fund level, the analysis showed that the incidence of death-in-service has been slightly lower than expected at 2019 for males and females. However, given the small number of cases in the Fund we do not believe there is credible evidence to justify a change from our default assumption.

50:50 take-up option

From 1 April 2014, members have been able to elect to pay half the standard level of contributions for half the accrued benefit (i.e. an accrual rate of 1/98). This option affects future service only (past service is protected) and the employer's cost will fall as a result of members choosing this option. This benefit is known as the *50:50 option*.

At the 2019 valuation we assumed that 0.5% of members (uniformly distributed across the age, service and salary range) would choose to take up the 50:50 option. This was agreed based on the actual Fund take-up at 2019 of approximately 0.5%.

It is still not clear whether take-up will remain low or increase in future due to the impact of more awareness campaigns and higher annual and lifetime tax allowances. We would recommend that the assumption remains at 0.5%.

Retirement age

Due to benefit changes over the years there are a complex set of rules determining the age at which LGPS members can take their benefits without seeing them reduced. These rules differ by member (depending on age and when they joined the scheme) and tranche (with the pre-2008 and pre-2014 schemes having earlier retirement ages). However, by 2022 a lot of members with complex retirement ages will have reached these ages and can therefore be assumed to retire imminently, allowing us to simplify our assumptions.

At the 2019 valuation we assumed that members retired in the years up to their state pension age, with a chance of retiring in each year from 55 based on analysis of historical data. For 2022 we will assume that members retire at the earliest age at which none of their benefits will be reduced. For most members this is their state pension age (SPA). For members with an SPA over 65, we will allow for increases to their pre-2014 benefits according to LGPS late retirement factors.

Based on analysis of a few sample funds, we estimate that the impact of this change in assumption is a small reduction in liabilities of around 1%.

Cash commutation uptake

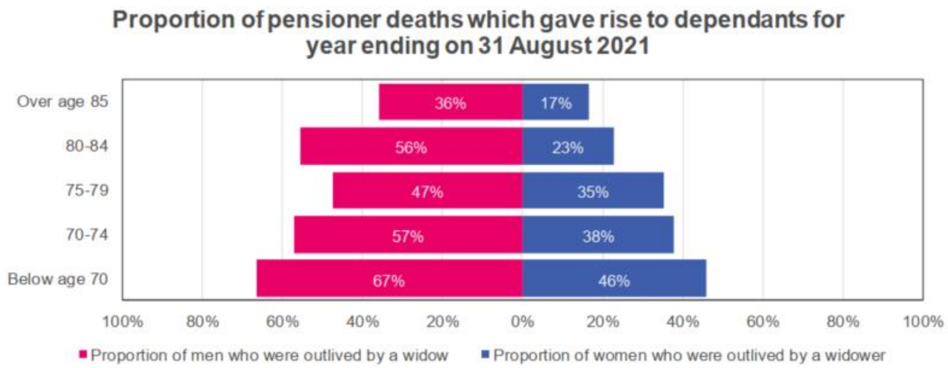
At the 2019 valuation, the rate at which members were assumed to exchange pension for tax-free cash at retirement (commutation) was 50% of HMRC limits for service to 1 April 2008 and 75% of HMRC limits for service from 1 April

2008. For the 2022 valuation, we have simplified our calculations and methodology such that this assumption no longer needs to be split between service tranches. Based on analysis of the Fund's actual commutation experience between 2016 and 2019, we propose an assumption that members exchange pension for tax-free cash at 65% of HMRC limits.

Proportion leaving a dependant

This is an area that is monitored by Club Vita as part of helping the Fund manage their longevity risk. The chart below details the percentage of members who are outlived by a partner eligible for a LGPS dependant pension.

Chart 5



As expected, the percentages are higher for males as females live longer on average. For the 2022 valuation, we will review the 2019 assumption and assess whether an adjustment is required to better reflect your Fund's experience.

6 Reliances and limitations

This paper is addressed to Gwynedd Council as Administering Authority to the Gwynedd Pension Fund. It has been prepared in our capacity as Actuaries to the Fund and is solely for the purpose of discussing the assumptions for the 2022 formal valuation and sets out our recommendations. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The results of the Fund specific pre-retirement demographic analysis are wholly dependent on the valuation data provided to us for the 2019 valuation and the assumptions that we use in our calculations.

The assumptions in this document are for the Fund as a whole. For the avoidance of doubt, we propose to apply the same assumptions across all employers in the Fund.

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100; and
- TAS300.

Richard Warden FFA

22 December 2021

For and on behalf of Hymans Robertson LLP

Appendix 1 – ESS methodology and assumptions

ESS methodology

The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class e.g. UK equities. This approach is also used to generate future levels of inflation (both realised and expected). The ESS is also designed to reflect the correlations between different asset classes and wider economic variables (e.g. inflation).

In the short-term (first few years), the models in the ESS are fitted with current financial market expectations. Over the longer-term, the models are built around our long-term views of fundamental economic parameters e.g. equity risk premium, credit-spreads, long-term inflation etc. The ESS is calibrated every month with updated current market expectations (a minor calibration). Every so often (annually at most), the ESS is updated to reflect any changes in the fundamental economic parameters as a result of change in macro-level long-term expectations (a major calibration).

Summary of ESS calibration

The table below summarises the calibration of the ESS as at 30 November 2021. Please note that for the 2022 valuation we will use the 31 March 2022 calibration of the ESS; this will be communicated and shared in the advice presented to you during the valuation year. All returns are shown net of fees and are the annualised total returns over 5, 10, 20 and 40 years.

The highlighted figures in the table below show that, for example, over the first 20 years of the model:

- In 800 of the 5,000 simulations (84th percentile), overseas equity returns are projected to be greater than 10.1% per annum.
- In 2,500 of the 5,000 simulations (50th percentile), overseas equity returns are projected to be greater than 5.7% per annum (this can be viewed as the best estimate return for overseas equities over the next 20 years).
- In 4,200 of the 5,000 simulations (16th percentile), overseas equity returns are projected to be greater than 1.2% per annum (implying that in 800 simulations, overseas equity returns are projected to be less than 1.2% per annum).

It is important to remember that the above figures are summary in nature and do not reflect the year-to-year volatility in returns in each simulation i.e. each individual simulation is not a 'flat' consistent annual return.

The impact of using the March 2022 calibration compared to the 2019 calibration varies by asset class, and the overall impact will also depend on whether the investment strategy has changed. The expected returns on most asset classes are similar. One notable exception is index-linked gilts, where reform to the Retail Price Index inflation measure means that expected returns are materially lower now.

		Annualised total returns								
		UK Equity	Overseas Equity	Private Equity	Property	Infrastructure Equity	Global Equity	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	Inflation (CPI)
5 year	16th %'ile	-3.7%	-3.4%	-7.0%	-3.3%	-4.8%	-3.2%	0.7%	1.2%	2.0%
	50th %'ile	4.5%	4.5%	5.3%	2.7%	4.3%	4.7%	3.4%	2.2%	3.6%
	84th %'ile	12.5%	12.4%	19.1%	9.0%	14.3%	12.3%	5.4%	3.1%	5.2%
10 years	16th %'ile	-0.9%	-1.0%	-3.2%	-1.3%	-1.8%	-0.8%	1.6%	1.3%	1.5%
	50th %'ile	4.7%	4.9%	5.7%	3.1%	4.8%	4.9%	3.5%	2.4%	3.1%
	84th %'ile	10.6%	10.7%	15.6%	8.0%	12.0%	10.5%	5.2%	3.6%	4.8%
20 years	16th %'ile	1.2%	1.2%	0.3%	0.6%	0.8%	1.4%	2.8%	2.1%	1.1%
	50th %'ile	5.6%	5.7%	6.6%	4.1%	5.7%	5.7%	4.4%	3.5%	2.6%
	84th %'ile	10.2%	10.1%	13.4%	7.9%	10.9%	10.1%	6.0%	5.0%	4.2%
40 years	16th %'ile	3.0%	2.9%	2.5%	2.0%	2.6%	3.1%	3.9%	2.9%	0.9%
	50th %'ile	6.4%	6.4%	7.4%	4.9%	6.6%	6.5%	5.6%	4.6%	2.2%
	84th %'ile	9.9%	10.0%	12.6%	8.0%	10.6%	10.1%	7.6%	6.6%	3.5%
	Volatility (Disp) (1 yr)	18%	17%	28%	14%	21%	17%	5%	3%	3%

Appendix 2 – Fund's Asset Allocation

The table below sets out the long-term strategic asset allocation we have used for the analysis of the future expected investment returns for the Fund and the subsequent discount rate recommendations. This asset allocation is dated as at 30 September 2021 and was provided by our Investment colleagues.

Asset class	Allocation
UK equities	10.5%
Overseas equities	49.5%
Private equity	5.0%
Total growth assets	**65.0%**
Property	10.0%
Infrastructure	2.5%
Multi Asset Credit	7.5%
Total income assets	**20.0%**
Absolute return bonds	15.0%
Total protection assets	**15.0%**
Total	**100%**

The investment strategy may change during the course of the valuation as this is when the funding and investment strategies are typically reviewed. We would only expect the results in this paper to materially change if there was a significant change in the high-level asset allocation.

Appendix 3 – Additional detail on longevity assumptions

Baseline longevity

Club Vita's analysis shows that baseline longevity varies significantly between members based on a wide range of socio-economic factors. For example:

Characteristic	Impact on life expectancy from age 65
Gender (Female vs. Male)	Increase of 2-2½ years
Reason for retirement (Ill health vs. Normal)	Decrease of 2½ to 3½ years
Location based longevity group (High vs. Low)	Increase of 4½ to 5 years
Pay at retirement (<£17k p.a. vs. >£73k p.a.)	Increase of 2 to 3 years
Occupation (Non-manual vs. Manual)	Increase of less than ½ year

Longevity improvements – Initial addition (A) parameter

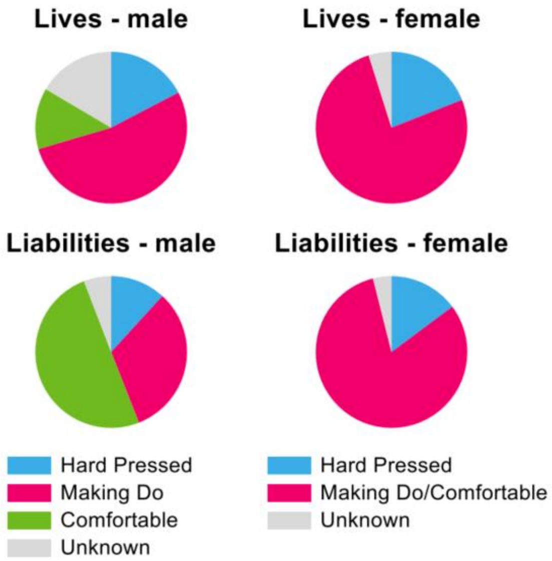
The CMI model is based on England & Wales population mortality data. Evidence suggests that most members of an occupational pension scheme (e.g. the LGPS) have experienced higher improvements in life expectancy than the general population in recent years. The "A" parameter allows users to adjust the starting point for the projections in the model to reflect this differing experience.

To help set this parameter, Club Vita have undertaken some analysis to calculate mortality improvement rates split by socio-economic group. The results are shown in the table below along with the England & Wales rates within the core CMI_2020 model.

This analysis is consistent with similar analysis performed by the CMI, which found higher longevity improvements in less deprived population groups (IMD deciles 8-10). These results are also shown in the table for comparison.

	Annualised mortality improvement (2013 – 2018)	
	Men	**Women**
England & Wales (core CMI)	0.9%	0.6%
Club Vita 'Comfortable'	+0.3% vs. E&W	+0.5% vs. E&W
Club Vita 'Making-Do'	+0.5% vs. E&W	
Club Vita 'Hard-Pressed'	-0.2% vs. E&W	Analysis showed no material difference by segment for women
CMI analysis IMD deciles 8-10 (more affluent)	+0.2% vs E&W	+0.3% vs E&W

Both analyses show that, in recent years, more affluent individuals have enjoyed higher than average improvements in life expectancy. It is these individuals that also tend to dominate the liabilities of the Fund. Indeed, the breakdown of the Fund's membership between the Comfortable (most affluent), Hard-Pressed (least affluent) and Making-Do (mid affluence) groups has been calculated by Club Vita and is shown below.

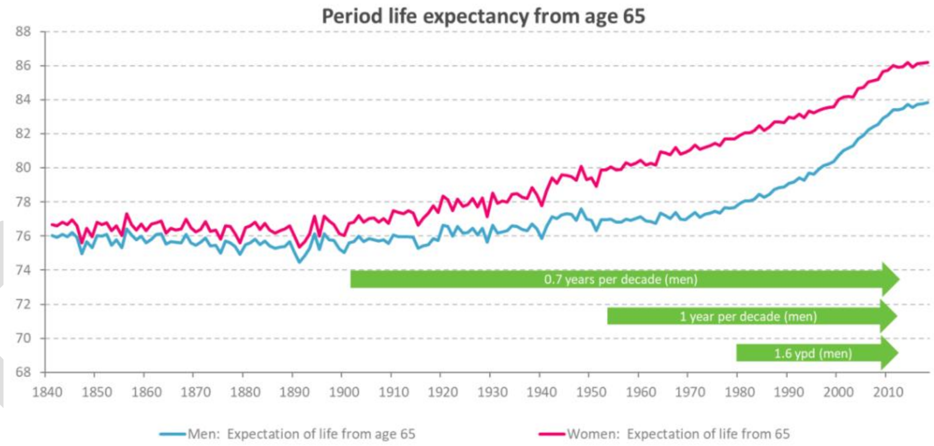


The majority of the Fund's liabilities relate to those members in the making-do and comfortable groups. As such, we would recommend using the "A" parameter to adjust the starting point in the CMI model by 0.5%.

Longevity improvement – long term rate of improvement

Historic life expectancy improvements

The chart below shows how life expectancy from age 65 has changed over the last 180 years. For women, we can see that there has been a fairly constant pattern of increasing longevity, at a rate approaching one year per decade, for much of the 20th Century. In contrast the pattern for men is more "stop-start", with periods of increase followed by periods of stagnation (e.g. the 1920s/1930s and the 1950s/1960s). For men and (to a lesser extent) women there is an acceleration of period life expectancy in the late 1990s/early 2000s. This is partly a consequence of the well-documented "golden cohort" effect associated with individuals born in the late 1920s and early 1930s who reached age 65 during the 1990s.



The general pattern of divergence and then convergence between male and female life expectancies is partly attributable to smoking patterns (both take-up and cessation).

When considering long term rates, the most recent decades are the most important as they reflect a period when people were routinely living to 65+ and so the focus of medical advances had been on the diseases of older age. Based on historical data, and in particular the more stable female trend observed during the 20th century, a long-term rate of improvement in life expectancy of the order of one year per decade might be reasonable, equivalent to a long-term rate of between 1.25% and 1.5% p.a..

Future drivers of change

The changes in life expectancy over the last 180 years have been driven by significant factors such as the discovery of penicillin, the introduction of the NHS and reduction in smoking. Looking forward we need to consider what factors will affect longevity in future, how likely they are to happen, and what their impact will be.

Why might long-term improvements be lower than historical trends?

1 Socio-economic transition: the make-up of the current retired population is likely to be very different to that 50 years ago, with a general 'gentrification' of the UK population as manual industries have declined. This will have contributed to the improving health and longevity of the UK population and may be unlikely to continue at the current rate of change.

2 Smoking effects: The historical decline in circulatory disease can, in part, be attributed to specific behavioural changes like smoking cessation, and 'you can only give up smoking once' so a major contributor to historical improvements will not be available to support future improvements.

3 Obesity: The rising epidemic of obesity amongst the younger population is often cited as a driver for slowdown of UK longevity.

4 Super-bugs: the risk that drug-resilient strains of various diseases will develop, leading to a reduction in our ability to protect against infectious diseases in later life e.g. MRSA.

5 Resource scarcity: were we to have issues with food transportation, international food production or continued population growth then we may see a reversal of the recent benefits of better diets and healthier lifestyles. You can read more about the potential impacts of climate change on longevity in Club Vita's Hot and Bothered research paper.

Why might long-term improvements be higher than historical trends?

The debate around future improvements often focuses on why the improvements should be lower than suggested by historical trends. However equally there are reasons why improvements may be considerably higher than suggested by historical trends.

1 Government intervention: a future example could be the government intervening more proactively to reduce alcohol consumption, akin to the campaigns against smoking.

2 Medical innovation: advances in nanotechnology and 'intelligent-drugs' are just two examples of recent innovations which could drive faster improvements than predicted by historical trends.

3 Anti-ageing: increased understanding of the ageing process may enable us to delay onset of senility and Alzheimer's, increasing life expectancy.

4 Regenerative medicine: the ability to replace, rejuvenate or regenerate human cells, tissues and organs to establish normal function could allow humans to address specific genetic disorders, 'grow' organs for transplant or alleviate the molecular damage caused by ageing.

5 Super-drugs: the discovery of 'super-drugs' – drugs which are able to tackle multiple causes of deaths, for example different cancers – could dramatically accelerate increases in life expectancy.

6 Serendipity: serendipity pervades medical advances and medical researchers continue to make serendipitous discoveries – such as the mounting evidence that regular taking of aspirin not only reduces blood pressure but also reduces the risk of cancer. A serendipitous discovery which led to increased cancer survival periods (or indeed reduced cancer incidence) would be one way in which serendipity could drive higher improvements over the long-term.

Impact of Covid-19 as a driver of change

When considering how the lingering after-effects of the global COVID-19 pandemic could affect the longevity of the pension fund members, it is useful to consider scenario analysis of how the pandemic could evolve over time. We have examined the analysis set out in Club Vita's research paper "Covid-19 longevity scenarios". These scenarios, together with consideration of other risks such as covenant and investment risk, can help pension funds quantify and communicate the potential ramifications of the coronavirus pandemic as part of their risk management framework.

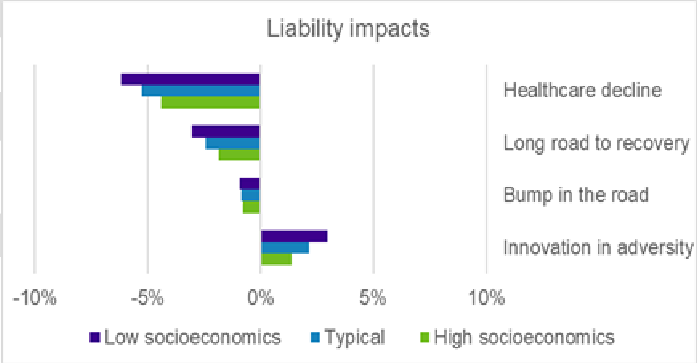
The Covid-19 pandemic is likely to influence longevity in 2022 and beyond from a few key drivers:

- Direct risk of Covid-19 – what will be the efficacy of vaccines, take-up rates, improvements in Covid-19 treatments and social distancing measures?
- Disruption to non-Covid-19 medical care – how long will the disruption to healthcare systems last and what will its impact be on mortality rates in the short-to-medium term?
- Changes to health and care systems – improvements to health systems, with a greater focus on preventative measures, and innovation in healthcare and vaccine technology.
- Global recession – there could be a long economic downturn, following the ongoing bounce-back, resulting in strained healthcare finance and negative lifestyle changes.

Combining each driver above, four holistic scenarios are outlined below which have a range of optimistic and pessimistic outcomes for longevity (relative to pre-Covid-19 expectations).

- Bump in the road – COVID-19 has a short and isolated effect and after a marked increase in deaths due to the pandemic in 2020 and 2021, trends return to the pre-pandemic rate, although with a couple of "lost years" of longevity improvement that will never be recovered.
- Innovation in adversity – together with the swift recovery from the pandemic already seen, lessons learnt during the outbreak of Covid-19 act as a catalyst for longer term improvements in health and longevity, particularly for those most impacted by the pandemic.
- Long road to recovery – challenges to the efficacy and take up of the vaccine mean that society and the economy need to deal with the effects of the pandemic for a prolonged period. The 2020s will see sluggish economic growth and low improvements in life expectancy.
- Healthcare decline – subsequent waves proving more deadly than those already experienced. Mortality rates remain elevated for much of the 2020s with a prolonged recession after the recent recovery. Healthcare systems struggle to provide regular care.

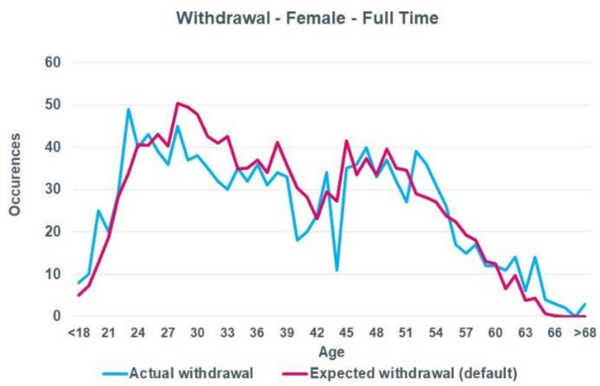
For a typical fund, the liability impacts of these scenarios range from around a 2% increase to a 5.5% reduction. This range increases to a 3% increase to a 6% decrease for a fund with a less affluent mix of lives.

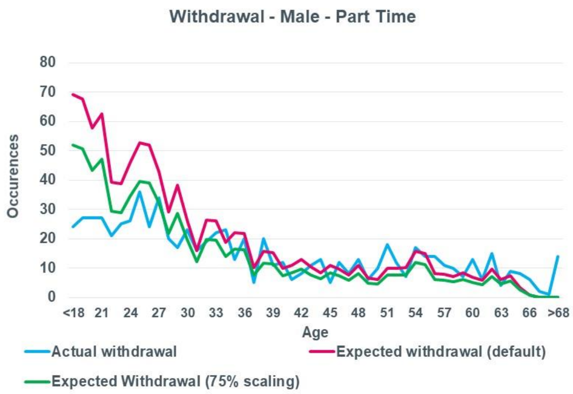


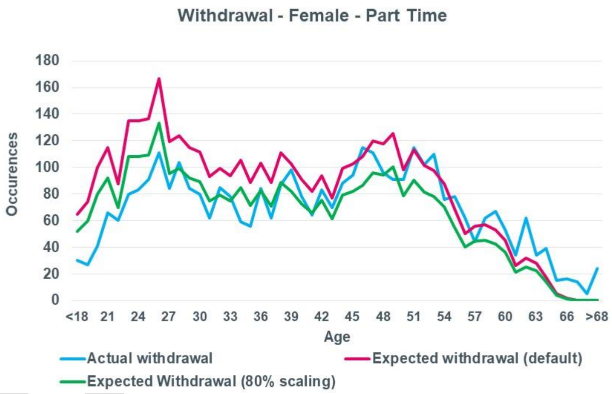
Appendix 4 – Fund specific demographic analysis

Withdrawal

We have analysed the Fund's data on withdrawals for males and females, and also split by part-time and full-time workers (historically we have observed higher withdrawal rates for part time workers), and compared the Fund's incidence rates against our 2022 national default assumption. The results of the withdrawal analysis are shown below along with our suggested scaling (no scaling is needed for full time females):







Commentary on results

The analysis shows that the shape and scale of the decrement is broadly appropriate for each sub-group when scaling is applied.

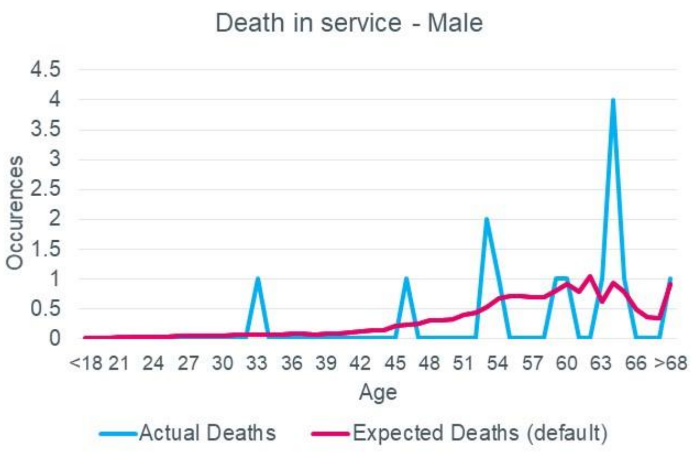
Recommendation

We propose updating the national assumption following the Fund specific analysis. Our recommendation is to apply scaling of 80% for full-time males, 80% part-time females and 75% for part-time males. We propose that no scaling is required for full-time females.

Death in service (DIS)

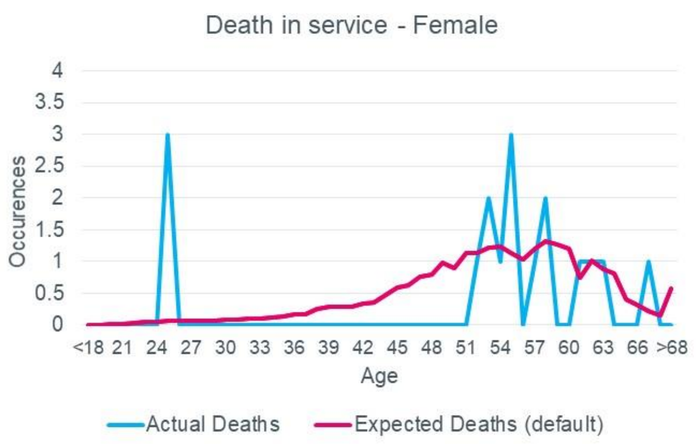
We have compared the actual numbers of deaths in the Fund's data, against the national default assumption for the 2022 valuations. This has been done for both males and females. The results are shown in the charts below.

Death in Service - Males



Age Band	Actual	Expected
Up to Age 20	0	0
21-25	0	0
26-30	0	0
31-35	1	0
36-40	0	0
41-45	0	1
46-50	1	1
51-55	3	3
56-60	2	4
61-65	6	4
over 65	1	2

Death in Service - Females



Age Band	Actual	Expected
Up to Age 20	0	0
21-25	3	0
26-30	0	0
31-35	0	1
36-40	0	1
41-45	0	2
46-50	0	4
51-55	7	6
56-60	3	6
61-65	3	4
over 65	1	1

Commentary on results

The analysis indicated no obvious departure from the shape of the 2022 default assumption and given the very low numbers we do not believe there is sufficient justification to make any change from the default assumption.

Recommendation

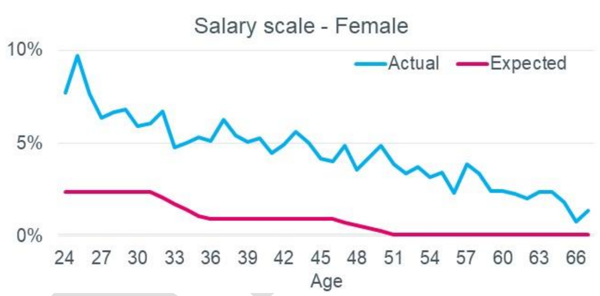
Make no adjustment to the default assumption.

Salary Scale

At each valuation we include an underlying salary scale for active members. This salary scale reflects the promotional element of salary increases, and is in addition to the inflationary element of salary increases we apply via the salary increase assumption. The salary scale varies by age, typically with larger increases at younger ages (as you would expect more career progression, and therefore pay rises, at earlier stages in a career).

It is always difficult to measure salary scale explicitly as pay increases are rarely explicitly split between inflationary and promotional. The salary data we receive is simply a snapshot of the FTE salary at two valuation dates. The analysis has been done by taking salaries from 2016 and 2019 for active members appearing at both valuations. The average salary increase over the 3 years has been stripped out to reflect the Government's policy of awarding 1% p.a. pay awards to public sector workers in 2016/17, 2017/18 and subsequently increasing this to around 2% in 2018/19. Any residual salary increases are attributed to the salary scale.

The charts for males and females are shown below:



Commentary on results

Any salary increases are inclusive of both traditional annual inflationary increases and any underlying salary scale which reflects experience in a role.

The analysis indicates that the overall shape of the default assumption is similar to the Fund's actual experience. However, the Fund's salary increases are consistently much higher than that of the default assumption.

There is also likely to be an increasing number of members working for employers (e.g. contractors) not subject to the pay awards dictated by government, who have possibly received inflationary pay awards in excess of the 1% per annum. This could narrow the gap between the actual and expected lines in the charts above.

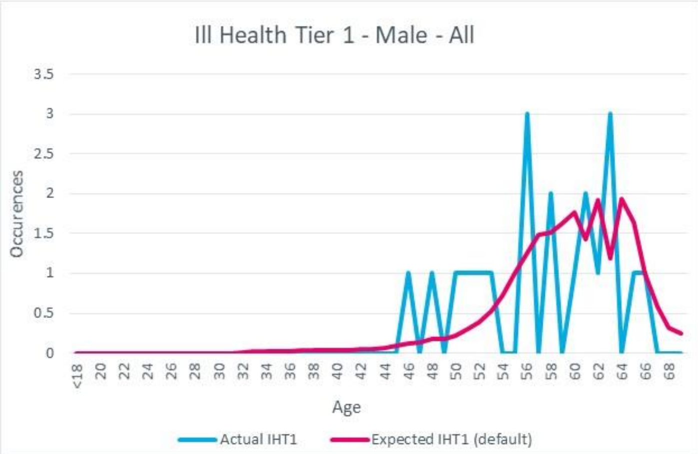
Recommendation

It would be worth discussing this further and potentially considering a higher salary increase assumption above CPI (e.g. higher than 0.5% above CPI inflation) if this trend is expected to continue into the future.

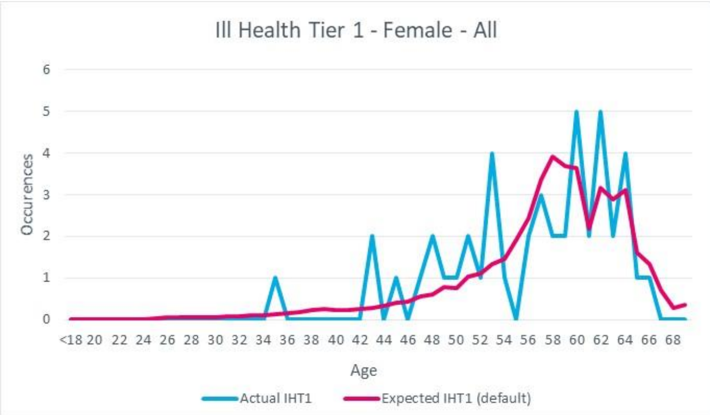
Ill Health – Tier 1

The charts below show the expected (based on our national default assumption) and recorded number of ill health tier 1 early retirements, categorised by male and female. Alongside each chart there is a table providing groupings in age bands of 5 years, due to the low number of incidences at individual ages.

Ill health Tier 1



Age Band	Actual	Expected
Up to Age 20	0	0
21-25	0	0
26-30	0	0
31-35	0	0
36-40	0	0
41-45	0	0
46-50	3	1
51-55	3	3
56-60	6	8
61-65	7	8
over 65	1	2



Age Band	Actual	Expected
Up to Age 20	0	0
21-25	0	0
26-30	0	0
31-35	1	0
36-40	0	1
41-45	3	2
46-50	5	3
51-55	8	7
56-60	14	17
61-65	14	13
over 65	1	3

Commentary on results

The experience analysis of the Fund's data suggests that overall the default assumption looks to be an appropriate shape and scale for the Fund's membership data.

Recommendation

Make no adjustment to the default assumption.

Ill Health Tier 2

Based on the Fund's data, there have been only 4 tier 2 ill health retirements between 2016 and 2019. This is broadly consistent with our LGPS analysis which showed there have been significantly fewer tier 2 ill health retirements than tier 1. Given the number of ill health tier 2 retirements, and the very low expected incidence, this does not provide a big enough data set to justify a departure from our default assumption.

Recommendation

Make no adjustment to the default assumption.

Data used for demographic analysis

The analysis of the Fund's experience is based on the membership data provided for the 2019 valuation, which is summarised in the 2019 valuation report dated March 2020.

As far as we can determine the data quality is adequate for the purposes of the analysis presented here. Any material issues in the data could lead to an inappropriate demographic assumption and therefore a large experience gain/loss at future valuations. However, the impact of this is not expected to be material given the size of the adjustments we have recommended to our default parameters, and the fact that demographic assumptions tend not to have a huge impact on the results anyway.