

# **Gwynedd Pension Fund Funding Strategy Statement January 2023**



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# 1 Welcome to our Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Gwynedd Pension Fund.

The Gwynedd Pension Fund is administered by Cyngor Gwynedd, known as the administering authority. Gwynedd Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 27<sup>th</sup> March 2023.

There's a regulatory requirement for Gwynedd Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact [delythwynjonesthomas@gwynedd.llyw.cymru](mailto:delythwynjonesthomas@gwynedd.llyw.cymru).

## 1.1 What is the Gwynedd Pension Fund?

The Gwynedd Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

## 1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

### **Scheduled bodies**

Employers who are specified in a schedule to the LGPS regulations, such as councils. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

### **Designating employers**

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

### **Admission bodies**

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

#### **1.4 How does the funding strategy link to the investment strategy?**

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at [www.gwyneddpensionfund.wales](http://www.gwyneddpensionfund.wales).

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

#### **1.5 Does the funding strategy reflect the investment strategy?**

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

#### **1.6 How is the funding strategy specific to the Gwynedd Pension Fund?**

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

## 2 How does the Fund calculate employer contributions?

### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the Fund's expenses.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The Fund permits the prepayment of employer contributions in specific circumstances. The Fund's policy on prepayments is detailed in **Appendix E**.

## 2.2 The contribution rate calculation

**Table 1: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies		Colleges, Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities, Police and Parc Cenedlaethol Eryri	Parish & town councils	Open to new entrants	Closed to new entrants	(all)
<b>Funding target*</b>	Ongoing participation basis, assumes long-term Fund participation	Ongoing participation basis, assumes long-term Fund participation	Ongoing participation basis, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the Fund
<b>Minimum likelihood of success</b>	70%	75%	75%	75%	75%
<b>Maximum time horizon</b>	17 years	17 years	14 years	14 years or average future working lifetime, if less	Outstanding contract term
<b>Primary rate approach</b>	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon				
<b>Secondary rate</b>	Percentage of pay				
<b>Stabilised contribution rate?</b>	Yes	No	No	No	No
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Reduce contributions through a negative secondary rate	Reduce contributions through a negative secondary rate		Reduce contributions by spreading the surplus over the remaining contract term
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	3 years	3 years	3 years	None

\* Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

\*\* See [Appendix D](#) for further information on funding targets.

## 2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund adopts a stabilised approach to setting contributions for certain employers, which either

- keeps contribution variations within a pre-determined range from year-to-year, or
- dampens contribution rate volatility over time via a phasing mechanism

After taking advice from the Fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the Fund's local authorities, police body and Parc Cenedlaethol Eryri.

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

The longer-term movements in contribution rates are subject to the following rules:

**Table 2: contribution variations for stabilised employers**

Type of employer	Local Authorities, Police and Parc Cenedlaethol Eryri
Maximum contribution increase per year	+1.0% of pay
Maximum contribution decrease per year	-1.0% of pay

Increases and reductions to rates for open admitted bodies are subject to a phasing mechanism. For the 2022 valuation, this is determined by calculating the difference in total rates at 2019 and 2022 before application of the mechanism, and then restricting the subsequent increase or reduction as follows: a) if the difference is 5.0% or less of pay, the rate will change by the full difference, or b) if the difference is more than 5.0% of pay, then the rate will change by 5.0% plus half of the difference above 5.0%.

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

Eligibility for the stabilisation approach and the phasing mechanism, and the numerical limits, are reviewed during each triennial valuation process. The administering authority may also review them between valuations to respond to membership or employer changes.

#### 2.4 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in **Appendix F**. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

#### 2.5 Are any employers pooled?

The administering authority does not currently operate formal contribution rate pools for similar types of employers.

The only employers that may be pooled are those that have a pass-through or other form of risk sharing agreement in place with a letting authority. The Fund's pass-through policy is detailed in **Appendix G**.

#### 2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The Fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the Fund's prepayment policy detailed in **Appendix E**.

### 3 What additional contributions may be payable?

#### 3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread if the administering authority agrees:

Major employing bodies	- up to 5 years
Community Admission Bodies and designating employers	- up to 3 years
Transferee Admission Bodies	- payable immediately

#### 3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

The administering authority has arranged an external insurance policy to cover ill-health early retirement strains for smaller employers. Each employer's contribution includes a share of the premium. When an active member retires on ill-health early retirement, the claim amount is credited to the employer's asset share.

For other employers, each employer's contributions include an allowance for expected ill health strain costs. These costs are monitored as part of the triennial valuation process.

The Fund's policy is detailed in **Appendix H**.

## 4 How does the Fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

### 4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### 4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

## 5 What happens when an employer joins the Fund?

### 5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designating employers may also join the Fund if they pass a resolution to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.2 below.

### 5.2 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting authority to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting authority or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

The Fund's policy is to allow all new admission bodies to be set up with a pass-through arrangement, at the discretion of the letting authority. The Fund's policy on pass through is detailed in **Appendix G**.

### 5.3 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designating employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designating employers in the Fund.

### 5.4 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely

- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund will assess an employer's own unique circumstances when considering whether the body can be admitted to the Fund. This will take into account the above considerations.

The regulations state that an administering authority may make an admission agreement with any body falling under Schedule 2 Part 3 1(d) (i) (previously known as a transferee admission body). In addition to the requirements within the regulations, the Fund will put in place an admission agreement. The terms of admission will need to be agreed by all three parties to the admission agreement - the Scheme Employer, the admission body and Gwynedd Council in its capacity as administrator of the Fund.

The regulations also state that an administering authority may make an admission agreement with any body falling under Schedule 2 Part 3 1 (a) (previously known as community admission bodies). In addition to the requirements given within the regulations, the Fund will put in place an admission agreement where a local authority has agreed to act as guarantor, and as such it will be a party to the admission agreement.

If the administering authority deems it appropriate to admit a new body to the Fund, an admission agreement will be put in place which covers that employer's specific circumstances.

Some of the key issues which will need to be agreed prior to admitting a new employer to the Fund include:

- The terms upon which the admitted body can be admitted to the Fund
- Details of any members who are eligible to transfer to the admitted body
- The approach for allocating assets to the admitted body and setting contributions
- Whether any guarantee or indemnity is required
- How frequently ongoing monitoring of the funding position is carried out
- The basis upon which any termination valuation will be carried out
- Details of any risk sharing or pass-through agreement, including whether the admitted body may be eligible for an exit credit.
- If the admitted body is eligible to have a pooled contribution rate, how this will be set
- The recovery of ill health and early retirement costs

The purpose of the administering authority's consideration is to reduce the risk of cross-subsidy of liabilities between employers, and to try and ensure the security of employers which participate in the Fund.

## 6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- The Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

## 7 What happens when an employer leaves the Fund?

### 7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the body
- a breach of any admission agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the Fund.

### 7.2 What happens on cessation?

The administering authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the Rates and Adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and Fund.

The cessation policy is in [Appendix I](#).

### 7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The Fund's approach to exit credits is detailed in the cessation policy in **Appendix I**.

#### **7.4 How do employers repay cessation debts?**

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt arrangement, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is detailed in the cessation policy in **Appendix I**.

#### **7.5 What if an employer has no active members?**

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis.

## 8 What are the statutory reporting requirements?

### 8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

### 8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the Rates and Adjustments certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

# Appendices

## Appendix A – The regulatory framework

### A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the Fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

### A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue... with council tax raising authorities and representatives of other participating employers'.

In practice, for the Fund, the consultation process for this FSS was as follows:

- A draft version of the FSS was issued to all participating employers in January 2023 for comment;
- Comments were requested within 42 days;
- Following the end of the consultation period the FSS was updated where required and then published, in March.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy linked from the annual report and accounts of the Fund;
- Copies made available on request.

The FSS is published at [Funding Strategy Statement \(gwyneddpensionfund.wales\)](https://www.gwyneddpensionfund.wales) .

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

**A5 How does the FSS fit into the overall Fund documentation?**

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the investment strategy statement, governance policy statement and communication policy statement. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at [Home \(gwyneddpensionfund.wales\)](http://www.gwyneddpensionfund.wales).

## Appendix B – Roles and responsibilities

### **B1 The administering authority:**

- 1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a Fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the Fund against employer default
- 9 works with the Fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the Fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

### **B2 Individual employers:**

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the Fund.

### **B3 The Fund actuary:**

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the Fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

**B4 Other parties:**

- 1 internal and external investment advisers ensure the investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS
- 3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

## Appendix C – Risks and controls

### C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The Pensions Board has an oversight / assisting role not a decision making role, its responsibilities are to:

1. Assist the Gwynedd Pension Fund as Scheme Manager;
2. Securing compliance with regulations and requirements enforced by the Pensions Regulator and the Department for Communities and Local Government
3. Ensuring effective and efficient governance and administration of the Fund.
4. Assist with other matters as the scheme regulations may stipulate.

Details of the key fund-specific risks and controls are set out in the risk register at [Risk Register 2021 \(gwyneddpensionfund.wales\)](#).

### C2 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund's approach is to review such employers' covenants every 3 years ahead of the formal valuation.

### C3 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the Fund has included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the Fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework ([Responsible Investment Policy 2022 \(gwyneddpensionfund.wales\)](#)) of which was agreed by Pensions Committee in 2022.

## Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

### D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

### D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

**Table: Summary of assumptions underlying the ESS, 31 March 2022**

		Annualised total returns								Inflation (CPI)	17 year real yield (CPI)	17 year yield
		UK Equity	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)			
5 years	16th %ile	-2.7%	-3.2%	-5.0%	-2.5%	-5.9%	-3.5%	0.3%	0.5%	2.3%	-2.2%	1.1%
	50th %ile	5.5%	5.3%	9.5%	4.0%	5.6%	4.8%	3.1%	2.0%	3.9%	-1.3%	2.1%
	84th %ile	13.9%	14.0%	24.1%	11.0%	17.9%	12.8%	5.7%	3.4%	5.5%	-0.4%	3.3%
10 years	16th %ile	-0.4%	-0.7%	-1.2%	-0.6%	-2.5%	-1.1%	1.7%	0.9%	1.6%	-1.7%	1.1%
	50th %ile	5.7%	5.6%	9.4%	4.4%	5.8%	4.9%	3.5%	2.3%	3.3%	-0.5%	2.5%
	84th %ile	11.6%	11.7%	20.1%	9.5%	14.4%	10.9%	5.2%	3.7%	4.9%	0.7%	4.3%
20 years	16th %ile	1.7%	1.5%	2.4%	1.4%	0.1%	1.2%	2.8%	1.4%	1.2%	-0.7%	1.3%
	50th %ile	6.2%	6.1%	10.0%	5.0%	6.3%	5.6%	4.4%	2.9%	2.7%	1.1%	3.2%
	84th %ile	10.6%	10.8%	17.6%	8.9%	12.8%	10.1%	6.0%	4.6%	4.3%	2.7%	5.7%
	<b>Volatility (Disp) (1 yr)</b>	19.9%	20.1%	31.2%	15.0%	27.0%	17.5%	7.4%	2.8%	1.4%		

### D3 What financial assumptions were used?

#### Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	<b>Employer type</b>	<b>Margin above risk-free rate</b>
<b>Ongoing basis</b>	All employers except transferee admission bodies and closed community admission bodies	2.3%
<b>Low-risk exit basis</b>	Community admission bodies closed to new entrants	0%
<b>Contractor exit basis</b>	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the Fund

### **Discount rate (for funding level calculation as at 31 March 2022 only)**

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.1% pa applies. This is based on a prudent estimate of investment returns, specifically, that there is an 75% likelihood that the Fund's assets will generate future investment returns of 4.1% pa over the 20 years following the 2022 valuation date.

### **Pension increases and CARE revaluation**

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

### **Salary growth**

The salary increase assumption at the latest valuation has been set to 0.5% above CPI pa plus a promotional salary scale.

### **D4 What demographic assumptions were used?**

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

### **Life expectancy**

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

**Other demographic assumptions**

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	65% of future retirements elect to exchange pension for additional tax-free cash up to the maximum
50:50 option	0.5% of members will choose the 50:50 option.

**D3 Rates for demographic assumptions****Males**

Incidence per 1000 active members per year								
Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.17	323.45	609.76	0.00	0.00	0.00	0.00
25	117	0.17	213.65	402.77	0.00	0.00	0.00	0.00
30	131	0.20	151.59	285.73	0.00	0.00	0.00	0.00
35	144	0.24	118.44	223.22	0.10	0.07	0.02	0.01
40	150	0.41	95.36	179.66	0.16	0.12	0.03	0.02
45	157	0.68	89.57	168.72	0.35	0.27	0.07	0.05
50	162	1.09	73.83	138.92	0.90	0.68	0.23	0.17
55	162	1.70	58.14	109.45	3.54	2.65	0.51	0.38
60	162	3.06	51.82	97.51	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

## Females

Incidence per 1000 active members per year								
Age	Salary Scale	Death Before Retirement	Withdrawals		III Health Tier 1		III Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.10	352.42	373.90	0.00	0.00	0.00	0.00
25	117	0.10	237.14	251.55	0.10	0.07	0.02	0.01
30	131	0.14	198.78	210.83	0.13	0.10	0.03	0.02
35	144	0.24	171.57	181.90	0.26	0.19	0.05	0.04
40	150	0.38	142.79	151.34	0.39	0.29	0.08	0.06
45	157	0.62	133.25	141.21	0.52	0.39	0.10	0.08
50	162	0.90	112.34	118.92	0.97	0.73	0.24	0.18
55	162	1.19	83.83	88.83	3.59	2.69	0.52	0.39
60	162	1.52	67.55	71.50	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

**D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?****Low-risk exit basis**

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
- The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
- Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

**Contractor exit basis**

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the Fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contribution rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.