Fife Council

Fife Pension Fund

Administered by Fife Council

Funding Strategy Statement

March 2024

Pension Fund –Funding Strategy Statement

Contents

1 Welcome to Fife Pension Fund's Funding Strategy Statement

This document sets out the funding strategy statement (FSS) for Fife Pension Fund.

The Fife Pension Fund is administered by Fife Council, known as the Administering Authority. Fife Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 01 April 2024.

There's a regulatory requirement for Fife 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 john.mackie@fife.gov.uk

1.1 What is the Fife Pension Fund?

The Fife Pension Fund is part of the Scottish Local Government Pension Scheme (LGPS). You can find more information about the LGPS at 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, including councils and employers like further education establishments. 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.

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 in the Fund's Statement of Investment Principles at www.fifepensionfund.org.

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 Fife 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 as they apply in Scotland.

Employer contributions are made up of two elements:

a) **the primary contribution rate** – contributions payable towards future benefits

b) **the secondary contribution rate** – the costs associated with sufficiently funding benefits accrued up to the valuation date and any adjustments to deliver stability in the overall contribution rate.

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:

1. **the funding target** – how much money the Fund aims to hold for each employer
2. **the time horizon** – the time over which the employer aims to achieve the funding target
3. **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.

2.2 The contribution rate calculation

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

Type of employer*	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Council**	**Police, Colleges**	**Fire, Council ALEO's****	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	120% Ongoing	120% Ongoing	120% Ongoing	120% Ongoing	100% Low-risk exit	100% Ongoing
Minimum likelihood of success	80%	80%	80%	80%	50%	80%
Maximum time horizon	18 years	18 years	18 years	>20 members:18 years <20 members; future working lifetime	Future working lifetime	Remaining contract period
Primary rate approach	The primary contribution rate is that sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon.					
Secondary rate	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll/ monetary amount	% of payroll
Stabilised contribution rate?	Explicit stability mechanism	Explicit stability mechanism	May follow stability mechanism	May follow stability mechanism	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Follow stabilised arrangement	Follow stabilised arrangement	Full allowance	Full allowance
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Follow stabilised arrangement	Follow stabilised arrangement	None	None

** See Appendix D for further information on funding targets.*

*** The contribution rate for these employers (i.e. the Council subsidiaries) has been set to offer the same contribution rate pattern as the Council. In order to do this, we have tested the suggested rates for these Employer's and are comfortable that they meet the funding target within the required likelihood of success.*

2.4 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 operates an explicit contribution stability mechanism. This mechanism limits changes in contribution rate to 1% of pay per annum. This mechanism is reviewed by the fund at each triennial valuation to ensure it is an appropriate long-term funding strategy and it is only applicable to those employers who will participate in the Fund for the long-term and the employer has a suitably strong covenant and large membership. Stabilisation criteria and limits are reviewed during the valuation process, this review may also consider how changes in the contribution rates within the mechanism are profiled. The Administering Authority may review how the stability mechanism applies to or operates for an employer between valuations to respond to membership or employer changes.

At its sole discretion, for the reasons of long-term contribution stability, the Fund may apply the rules of the stability mechanism (ie limiting contribution rate increases to 1% of pay per annum) to other employers in the Fund. This will be communicated to relevant employers when it has been applied.

2.5 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 set out in Appendix E. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.6 Contribution rate pooling

The Administering Authority may operate contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the Fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the Fund receives the overall contributions required, the risk that individual employers develop a surplus or deficit increases. Therefore, pooling is usually only permitted after seeking advice from the Fund actuary and at the sole discretion of the Administering Authority.

Pooled employers are identified in the Rates and Adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't usually disclosed to pooled employers.

If an employer leaves the Fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.7 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.

2.8 Prepayment of employer contributions

The Fund will consider prepayment of employer contributions on a case-by-case basis. Considerations will include whether to permit prepayment and how such prepayments may be calculated. Advice from the Fund actuary will typically be sought.

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 over a time period if the Administering Authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, an additional funding strain will arise which may be a large sum. The funding strain is the responsibility of the member's employer to pay. Employer contribution rates include an allowance for potential ill health funding strain but this may be insufficient to cover the actual strain cost. This is more likely to be the case for smaller employers in the fund (eg admission bodies) due to the size of their payroll compared to the magnitude of strain costs.

The Administering Authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

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.

Each Fund employer has a notional share of the Fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The Fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole Fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one 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 a new employer is formed or 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 contribution 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.

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 approach 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 5.4 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 employer 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 employer 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.

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.

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.

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.

The bulk transfer policy is in Appendix F.

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 admission body
- a breach of the 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 Fund leaves the scheme.

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 the Fund's risk-based cessation approach, outlined in Appendix G

(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 the employer 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 a deficit 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. 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. Costs will be charged even if the cessation does not go ahead.

The cessation policy is in Appendix G.

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 will obtain a revised rates and adjustments certificate showing the exit credit payable to the exiting employer.

Full details of the Fund's approach to cessation valuations can be found in the Fund's cessation policy (in Appendix G).

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 agreement (DDA), it stays in the Fund and pays contributions until the cessation debt is repaid (confirmed by the Fund). Payments are reassessed at each formal valuation.

More detail of the flexibilities available to employers on exit can be found in the Fund's cessation policy.

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' and dependants' benefits have been paid. The other Fund employers will be required to contribute to fund the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis based on a methodology agreed at the time with the Fund.

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 methodology agreed at the time with the Fund.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires that the Government Actuary's Department must report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers on each of the LGPS Funds in Scotland. This report is 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 18 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 adjustment 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 and SPPA on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

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). The purpose of the FSS is to document the processes the Administering Authority uses to:

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

To prepare this FSS, the Administering Authority has used guidance by 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*'.

The consultation process included issuing a draft version to participating employers and offering the opportunity to discuss any key aspects. Any policy changes from the previous version of the FSS were highlighted to employers during the process.

A3 How is the FSS published?

The FSS is

- Published on the Fund's website
- Published as part of the Pensions Committee agendas
- Available freely on request

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 statement of investment principles, administration strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at www.fifepensionfund.org

Appendix B – Roles and responsibilities

B1 The Administering Authority:

1 operates the Fund and follows all LGPS (Scotland) 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 Statement of Investment Principles (SIP)

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 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 Statement of Investment Principles (SIP) 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 Statement of Investment Principles

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 SPPA/Scottish Ministers (assisted by the Government Actuary’s Department) and the Scottish LGPS Scheme Advisory Board, should 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 role of the local pension board is set out in its constitution:

www.fifepensionfund.org/forms-and-publications/fife-pension-board-constitution .

Details of the key Fund-specific risks and controls are set out in the Fund's Risk Register which is presented on annually to the Pensions Committee for approval and reviewed quarterly. The Fund's latest Risk Register can be accessed as part of the Pensions Committee agenda papers which are published on Fife Council's website.

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 assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire, Colleges	Tax-raising or government-backed, no individual assessment required	n/a
Admission bodies (including TABs & CABs)	Assessments may be commissioned by specialist as appropriate or carried out by Fund Officers.	The Fund will review employers periodically or when a significant event occurs.

C3 Climate risk and TCFD reporting

The Fund has considered climate-related risks as part of the 2023 valuation when setting the funding strategy. To consider the resilience of the strategy the Fund has considered climate scenario stress testing as part of an asset-liability modelling exercise. The modelling results under the stress tests were 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 modelling was carried out at whole fund level. Given that the same underlying model is used for all employers when setting contribution rates, 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 Statement of Responsible Investment Principles which is available on the Fund's website.

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 2023

Time period	Percentile	Asset class annualised total returns							Inflation/Yields		
		Cash	All World ex UK Equity	UK Equity	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	Property	Corporate Debt	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	2.5%	1.1%	1.3%	0.8%	2.4%	1.2%	2.7%	0.9%	-0.3%	2.7%
	50th	3.6%	7.3%	7.5%	2.8%	3.7%	6.2%	4.3%	2.5%	0.9%	4.1%
	84th	4.7%	13.6%	13.5%	5.1%	4.9%	11.5%	5.8%	4.1%	2.2%	5.9%
20 years	16th	2.3%	2.8%	3.0%	1.0%	3.3%	2.7%	3.7%	0.7%	-0.5%	1.4%
	50th	3.7%	7.4%	7.5%	2.7%	4.1%	6.4%	4.7%	2.3%	1.3%	3.4%
	84th	5.4%	12.2%	12.0%	4.5%	4.8%	10.3%	5.8%	3.9%	2.9%	5.9%
40 years	16th	1.8%	3.7%	3.9%	1.0%	2.9%	3.2%	3.4%	0.6%	-0.6%	1.2%
	50th	3.5%	7.2%	7.4%	2.7%	3.7%	6.2%	4.4%	2.0%	1.3%	3.3%
	84th	5.7%	10.9%	10.9%	4.6%	4.9%	9.5%	5.8%	3.5%	3.2%	6.1%
	Volatility (5yr)	2%	18%	18%	7%	5%	15%	8%	3%	-	-

ESS assumptions are calibrated against current market conditions at each month end. Contribution rate assessments carried out after 31 March 2023 (for new employers joining the Fund) will use the most up to date calibration of the ESS.

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.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except closed community admission bodies	1.9%
Low-risk exit basis	Community admission bodies closed to new entrants	0%

Discount rate (for funding level calculation as at 31 March 2023 only)

For the purpose of calculating a funding level at the 2023 valuation, a discount rate of 5.5% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the Fund's assets will achieve future investment returns of 5.5% pa over the 18 years following the 2023 valuation date.

Pension increases and CARE revaluation

Increases to pensions in payment, deferred benefits and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the relevant regulations.

The CPI assumption is based on Hymans Robertson's ESS model.

For funding level calculations, the CPI assumption is based on the median value from the ESS model over a time horizon consistent with that used to derive the discount rate. The median value of CPI inflation from the ESS was 2.3% pa on 31 March 2023.

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 2022 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point (A parameter) 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.

A weighting of 0% has been applied to 2020 and 2021 data within the model to avoid overstating the impact of the covid-19 pandemic on future life expectancy. However a weighting of 25% has been applied for 2022 data reflecting emerging data on the longer term impact of the pandemic and a wider slow down in life expectancy improvements.

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 85% for males and 60% for females. The dependant of a male member is assumed to be 2 years younger than him and the dependant of a female members is assumed to be 3.5 years older than her.
Commutation	70% of maximum tax-free cash
50:50 option	0.2% of members will choose the 50:50 option.

D3 Rates for demographic assumptions

Males

Incidence per 1000 active members per year (excluding salary scale)								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	270.14	434.15	0	0	0	0
25	117	0.21	178.44	286.77	0.11	0.02	0.13	0.02
30	131	0.26	126.57	203.42	0.21	0.03	0.23	0.03
35	144	0.30	98.87	158.90	0.41	0.14	0.46	0.15
40	154	0.51	79.56	127.86	0.62	0.26	0.69	0.24
45	164	0.86	46.50	104.62	0.99	0.51	1.09	0.49
50	174	1.37	36.02	81.04	1.86	1.31	2.59	1.45
55	179	2.15	34.60	77.85	5.83	4.52	4.67	3.11
60	184	3.86	30.82	69.33	9.91	6.97	3.87	2.65
65	185	6.44	0	0	18.92	13.49	0	0

Females

Incidence per 1000 active members per year (excluding salary scale)								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.11	359.79	338.79	0	0	0	0
25	117	0.11	242.03	227.90	0.16	0.13	0.09	0.10
30	131	0.16	202.83	190.19	0.21	0.18	0.12	0.13
35	144	0.27	124.95	164.73	0.41	0.34	0.24	0.25
40	154	0.44	103.93	137.00	0.61	0.51	0.36	0.37
45	164	0.71	85.55	112.78	0.82	0.68	0.48	0.50
50	174	1.04	65.19	85.94	1.50	1.23	1.11	1.13
55	179	1.37	60.98	80.39	5.47	4.43	2.32	2.35
60	184	1.75	49.03	64.64	11.52	9.30	2.38	2.40
65	185	2.25	0	0	20.73	16.76	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?

Please refer to the Fund's cessation policy in Appendix G for further information.

Appendix E – Policy on contribution reviews

Effective date of policy	01 April 2024
Date approved	28 March 2024
Next review	2026

Introduction

The purpose of this policy is to set out the Administering Authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

E1 Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

E2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

E3 Guidance and regulatory framework

Regulation 61 of the Local Government Pension Scheme (Scotland) Regulations 2018 sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 61 (6) – allows the Administering Authority to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 61A - sets out specific circumstances where the Administering Authority may revise contributions between valuations (including where a review is requested by one or more employers).

E4 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The Administering Authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the Administering Authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the Fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

E5 Policy

E5.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

E5.2 Employer requests

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The Administering Authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the Administering Authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

E5.3 Other employers

When undertaking any review of contributions, the Administering Authority will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole Fund.

The Administering Authority will consult with other Fund employers as necessary.

E5.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider financial market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

E5.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.

- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the Administering Authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

E6 Related Policies

9 The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix F – Policy on bulk transfers

Effective date of policy	01 April 2024
Date approved	28 March 2024
Next review	2026

Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

F1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

F2 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the Fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services or college mergers); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

F3 Guidance and regulatory framework

F3.1 Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), including:

- Regulation 93 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 94 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 95 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with "non-Club" accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 97 - states that any transfer between one LGPS fund and another LGPS fund where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

F3.2 Local Authorities

The Statutory Guidance to Local Authorities on Contracting, which came into force on 10 August 2006, applies to contracting by local authorities and to any exercise which involves the consideration of a change of service provider or where the transfer of local authority staff is at issue. The statutory guidance:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority
- where a broadly comparable scheme is provided, the new employer's pension scheme should allow transferring employees the option of moving their accrued credits into that scheme on a fully protected basis, and
- provides that the provision of pension protection is enforceable by the employee.

The Guidance also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

Where the service provider recruits or allocates staff to work on a local authority contract alongside employees transferred from the local authority, all new recruits should be offered access to pension provision which, where applicable, can be equated broadly comparable to that enjoyed by originally transferred local authority employees.

F3.3 Other employers

For all scheme employers that do not fall under the statutory guidance there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority's requirements (e.g. having a bond or guarantor in place).

In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate Government Actuary's Department (GAD) guidance.

F4 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the fund, the administering authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.

- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
    - the use of cessation assumptions where unsecured liabilities are being left behind;
    - where a subset of an employer's membership is transferring (in or out), the Fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or
    - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.
- There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the fund and that which the receiving scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

F5 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the Administering Authority's associated policies.

F5.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 97 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the Fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring:** CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's). **All members transferring (i.e. all actives, deferred and pensioners):** Receive all assets attributable to the membership within the transferring scheme.	The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis.
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 97 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring (i.e. remaining members left behind):** CETV in accordance with GAD guidance using transferring fund's actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV's). **All actives transferring (i.e. deferred and pensioner members left behind):** Assets will be retained by the Fund to cover the liabilities of the deferred and pensioner members calculated using the Fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme. **All members transferring (i.e. all actives, deferred and pensioners):** Transfer all assets attributable to the membership to the receiving scheme.	The Fund's default policy is to offer a transfer value that is equal to the total of the individual CETV calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Discretion exists to amend this to reflect specific circumstances of the situation.

F5.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 93 of the Local Government Pension Scheme (Scotland) Regulations 2018 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the Club transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

F5.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 93 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

F6 Practicalities and process

F6.1 Format of transfer payment

Ordinarily, payment will be in cash.

A deduction from the bulk transfer may be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

F6.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in funding position, for example where the deterioration in funding position is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

F6.3 Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

F6.4 Approval process

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to. All bulk transfers that represent a departure from this policy will be put to the Pensions Committee for agreement, detailing any proposals to depart from this policy.

F6.5 Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

F6.6 Costs

Actuarial and other professional costs will be recharged in full to the employer.

F7 Related Policies

The Fund's general approach to bulk transfers is set out in the Funding Strategy Statement, specifically "Section 6 –What happens if an employer has a bulk transfer of staff?"

Appendix G – Policy on cessations

Effective date of policy	01 April 2024
Date approved	28 March 2024
Next review	2026

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework and the Fund's discretionary policies (see below).

G1 Aims and Objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the Administering Authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

G2 Background

As described in the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Administering Authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, however is liable for any surplus through the payment of an exit credit.

G3 Guidance and regulatory framework

The Local Government Pension Scheme (Scotland) Regulations 2018 contain relevant provisions regarding employers leaving the Fund (Regulation 61) and include the following:

1. Regulation 61 (2) – this regulation states that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from, or the exit credit payable to, the exiting employer.

2. Regulation 61 (3) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

3. Regulation 61 (4B-4G) – the Administering Authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of a cessation debt despite having no active members.

4. Regulation 61 (5) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining Fund employers may be amended.

5. Regulation 61 (6) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that

employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

6. Regulation 61 (7) – following the payment of an exit payment to/from the Fund, no further payments are due to the Fund from the exiting employer.

7. Regulation 61B (1) – the Administering Authority may set out a policy on spreading exit payments.

In addition to the 2018 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

These regulations relate to all employers in the Fund.

G4 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

c) It is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

d) The Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per the FSS and Section 3.1 above). This would extinguish any liability to the Fund by the exiting employer.

e) The Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of any cessation debt.

G5 Policies

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments above).

In circumstances where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid to the exiting employer in line with the Regulations.

If there is any doubt about the applicable LGPS benefit structure at the date of exit, the Fund's actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit payment or credit.

G5.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Risk based cessation approach[1]	Shared between other Fund employers
Designating employers	Risk-based cessation approach	Shared between other Fund employers (if no guarantor exists)
Colleges	Risk based cessation approach[1]	Shared between other Fund employers
Admission bodies ("TABs" – typically contractors)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies ("CABs" – typically any ABs other than contractors)	Risk based cessation approach	Shared between other Fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the Administering Authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on the risk-based cessation approach.

Risk-based cessation approach

The Fund uses a risk-based approach to set employer funding strategies, including within cessation calculations. In particular, the likelihood of the Fund's assets achieving particular future investment returns is analysed.

Where appropriate, the Fund will use this approach to set an upper and lower amount (or "corridor") in order to consider the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, an employer is deemed to have a deficit if its assets are below the lower amount and a surplus if its assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

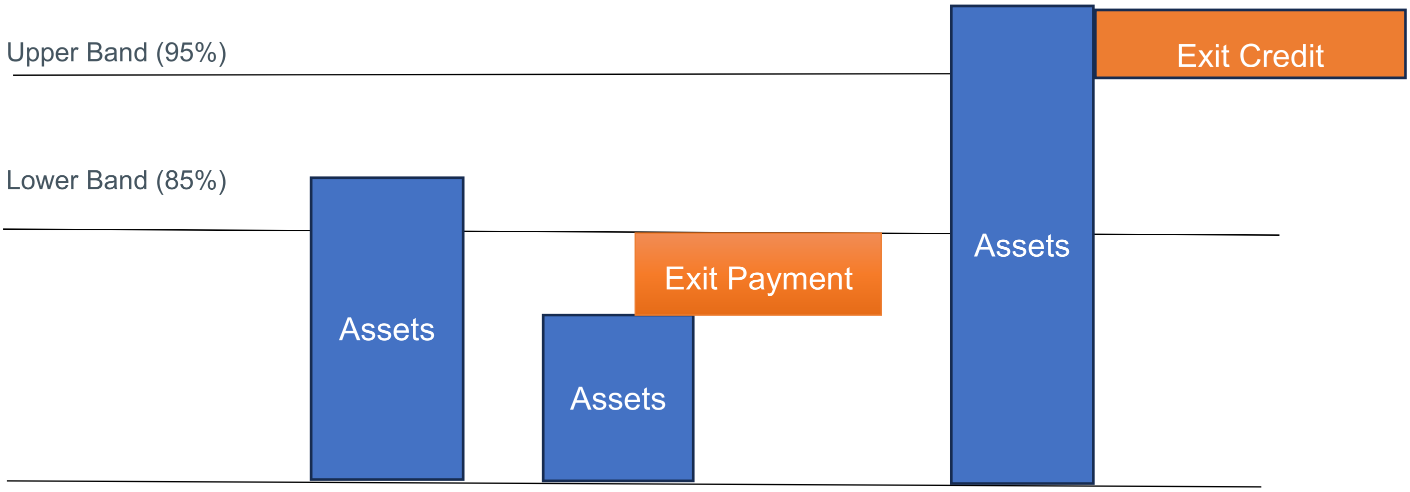
The upper bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 95% of outcomes over the next 18 years (based on the Fund's investment strategy at the calculation date).

The lower bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 85% of outcomes over the next 18 years (based on the Fund's investment strategy at the calculation date).

When calculating the liabilities, all other financial and demographic assumptions are as set out in the Funding Strategy Statement with the exception of future longevity improvements, where a long-term improvement of 1.75% pa is assumed.

The Administering Authority reserve the right to adopt alternative assumptions if felt necessary to protect the interests of the Fund.

The picture below illustrates how the corridor operates in practice.



The Fund reserves the right to review the definition of the corridor as part of any review of this policy.

G5.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the Administering Authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within three months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.

- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund reserves the right to require that the exiting employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by Fund Officers, in consultation with the Chair, if an urgent decision is required between Committee meetings.
- All costs of the arrangement are to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

Deferred debt agreement (DDA)

When an exiting employer is unable to pay the required cessation payment as a single lump-sum, the Fund's preferred policy is to spread the payment via a deferred spreading arrangement (DSA). However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 61 (4B)).

Where a DDA is in place, the employer must continue to meet all regulatory and Fund-specific requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

8. The employer enrols new active Fund members.
9. The period specified, or as varied, under the DDA elapses.
10. The take-over, amalgamation, insolvency, winding up or liquidation of the employer.

11. The Administering Authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer’s ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
12. The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully Funded on their exit basis).
13. The Fund actuary assesses that the employer’s value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
14. The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

G6 Practicalities and process

G6.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).
- meet the cost of all fees and charges incurred by the Fund in the course of cessation including, but not limited to, the cost to obtain the cessation valuation report from the Fund Actuary and the cost of implementing a flexible repayment option (as set out in section 3.2).

G6.2 Responsibilities of Administering Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a zero exit payment by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

G6.3 Payment of an exit credit

15. If an exit credit is payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six-month timeframe, the Fund requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The Fund is unable to make any exit credit payment until it has received all data requested.

16. At the time this policy was effective from, the Fund has been informed by HMRC that exit credits are not subject to tax. However all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

G6.4 Responsibilities of the actuary

Following commission of a cessation valuation by the Administering Authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

G7 Related Policies

The Fund's approach to setting of employer contribution rates is set out in the FSS, specifically "Section 2 - How does the Fund calculate employer contributions?"

The Fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?".

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.