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## AGENDA

<b>Committee</b>	PENSIONS COMMITTEE
<b>Date and Time of Meeting</b>	WEDNESDAY, 15 FEBRUARY 2017, 5.00 PM
<b>Venue</b>	COMMITTEE ROOM 1 - COUNTY HALL
<b>Membership</b>	Councillor Hinchey (Chair) Councillors Elsmore, Evans, Graham Thomas and Woodman

### 1 **Apologies for Absence**

To receive apologies for absence.

### 2 **Declarations of Interest**

To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.

### 3 **Minutes** (*Pages 1 - 4*)

To approve as a correct record the minutes of the previous meeting on the 11 January 2017.

### 4 **Wales Investment Pool - Update**

### 5 **Wales Investment pool - Inter Authority Agreement** (*Pages 5 - 54*)

The appendix to this report contains information which is exempt from publication pursuant to paragraphs 14 (information relating to financial or business affairs) and 21 (public interest test) of Parts 4 and 5 of Schedule 12A Local Government Act 1972 (as amended). In the circumstances Members of the Public will be excluded from the meeting during consideration of this item.

### 6 **Funding Strategy Statement** (*Pages 55 - 80*)

### 7 **Date of next meeting**

The next meeting of the Pension Committee is on Wednesday 15 March 2017 in CR 1, County Hall.

**Davina Fiore**

**Director Governance & Legal Services**

Date: Thursday, 9 February 2017

Contact: Andrea Redmond, 02920 72434, a.redmond@cardiff.gov.uk

***This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg***

PENSIONS COMMITTEE

11 JANUARY 2017

Present: Councillor Hinchey (Chairperson), Councillors Elsmore

Also

Present: Gareth Henson, Christine Salter, Kumi Ariyadasa, Erin Kidd, Gary Watkins and Michael Prior

10 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Jonathan Evans, and Councillor Graham Thomas.

11 : DECLARATIONS OF INTEREST

No declarations of interest were received.

12 : MINUTES

The minutes of the meeting on 28 September 2016 were agreed as a correct record.

13 : WALES INVESTMENT POOL

Members were updated on the progress being made with the development of the Wales Investment Pool. Representatives of the Welsh Funds met the Minister for Local Government on 16 November to discuss the proposals for the Wales pool. Consequent to that meeting the Minister wrote to the eight administering authorities confirming acceptance of the proposals.

Members were advised that a Draft Inter Authority Agreement (IAA) has been prepared and has been considered at the Joint Chairs Group meeting which took place today. Members were advised by the Chair that considerable amendment has been made to the draft IAA.

The aim is for the eight authorities to approve the IAA at their Full Council meetings at the end of February or the beginning of March 2017.

Members referred to the 82% actuarial valuation and queried whether the joint Wales pool will have a positive impact. Members were advised that it will not direct individual Council plans although it would mean there may be better access to funding arrangements.

The Chair of the Local Pensions Board advised that the progress being made has been reported at their meetings however, concern has been raised regarding the input the Local Pension Board will have in the governance arrangements. The Chair advised that it was a subject raised at the meeting of the Joint Chair's Group when considering the Draft IAA, that document will contain specific reference to liaison with Local Pension Boards and it was noted that they are a legitimate part of the governance structure.

RESOLVED:

- to note the progress in the development of the Wales Investment Pool.

#### 14 : ACTUARIAL VALUATION 2016

Members were provided with an update. It was noted that Demographic assumptions had been amended to reflect the outcome of the longevity study. The data and analysis indicated that life expectancy factors could be changed when reducing would have the effect of the Fund's projected liabilities.

Members were advised that the current funding ratio is 85%, with a deficit of £299m which compares with a funding ratio 3 years ago of 82% and a deficit of £311m. Increases in liabilities from worsening financial assumptions have been offset by reductions from changes in demographic assumptions and gains from investments and deficit contributions. Members were advised that investment returns are relatively healthy.

Members were informed that the administering authority is required to maintain and publish its Funding Strategy Statement (FSS) by the end of March and it will be submitted for approval to the Committee at its meeting in February.

The Valuation report and employer's contribution certificate are currently being prepared and will be issued by the Actuaries before 31 March 2017.

RESOLVED:

- to note the progress of the triennial valuation
- to note the proposed timetable for preparing and publishing the FSS.

#### 15 : RELATIONSHIP WITH THE LOCAL PENSION BOARD

At its last meeting on 18 October 2016 the Local Pension Board reviewed the changes in the Councils' Constitution relating to pensions and noted the Terms of Reference of the Pensions Committee. The Board requested that the Committee consider how the relationship between the two bodies could be developed to enable both to carry out their respective roles effectively.

The Chair of the Local Pension Board advised that the Board is pleased that the Pensions Committee has been established and are confident that there will be a good working relationship which will benefit all involved. He extended an invitation for Committee Members to attend the Local Pension Board Meetings; advising that they meet three times a year and, on the whole, are well attended. The Committee were asked to consider extending the Terms of Reference to include working together in administering the Pension Scheme.

The Corporate Director was in agreement that the Pensions Committee and Local Pension Board should be working together, however, felt that as both had separate Terms of Reference, each should be true to them. It was felt that minutes should be exchanged as a matter of course, and that the Chairs should attend meetings as an observer. A suggestion was made that consideration be given to arranging an informal joint meeting once a year to provide a platform for networking and the

exchange of ideas. Members were advised however that at the present time nothing has been finalised.

RESOLVED:

- to note, discuss and consider further the matters raised

16 : MINUTES OF INVESTMENT PANEL MEETING OF 20 SEPTEMBER 2016

This item is confidential and not for publication by virtue of paragraph 14 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

The Minutes of the Investment Panel meeting of 20 September 2016 were noted.

17 : DATE OF NEXT MEETING

The next meeting of the Pensions Committee is on Wednesday 15 February 2017 at 5.00 in CR 1.

The meeting terminated at 5.46 pm

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# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



## PENSIONS COMMITTEE: 15 FEBRUARY 2017

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### REPORT OF CORPORATE DIRECTOR RESOURCES

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#### WALES INVESTMENT POOL – INTER AUTHORITY AGREEMENT

The attachment to this report (Appendix 1) contains information which is exempt from publication pursuant to paragraphs 14 (information relating to financial or business affairs) and 21 (public interest test) of Parts 4 and 5 of Schedule 12A Local Government Act 1972 (as amended)

#### Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. This report has been prepared to seek the Committee's recommendation that the Inter Authority Agreement establishing the Joint Governance Committee for the Pool be approved by Full Council.

#### Background

3. Each of the eight LGPS administering authorities in Wales is responsible for managing its own pension fund investments. To enable the pooling of investments the authorities must establish a Joint Governance Committee (JGC). The Inter Authority Agreement (IAA) sets out the powers delegated to the JGC and the rights and obligations of the constituent authorities. The draft terms of the proposed IAA are attached to this report as Appendix 1 which is exempt from publication.

#### Issues

4. The IAA must be approved by each of the eight authorities at a meeting of Full Council. This has been timetabled for the meetings being held at the end of February and the beginning of March. Cardiff's Full Council meeting within this period will be on 23 February.
5. The responsibilities of the JGC are listed in Schedule 4 of the IAA and include:
  - Monitoring of the performance of the Pool Operator
  - Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight funds
  - Providing accountability to the participating funds on the management of the Pool
  - Having responsibility for reporting on the Pool to the UK Government and other stakeholders

- Having oversight of the Officer Working Group
6. The IAA provides for one of the eight authorities to act as Host Authority for the JGC. The Host Authority will provide administrative and secretarial support to the JGC will be the Section 151 Officer and Monitoring Officer and will implement decisions made by the JGC. The Host Authority will liaise with the Operator on behalf of the constituent authorities and will also be responsible for arranging training for members.

### **Legal Implications**

7. The report does not seek a decision and recommends that the Committee note the content of the IAA and recommends a report to Council seeking approval for the IAA and to establish a Joint Governance Committee.
8. Local Authorities have broad powers to collaborate and delegate their functions to joint committees under section 101 and 102 of the Local Government Act 1972. The appointment of a committee, its size, and terms of reference are matters which require the approval of Full Council.
9. In noting the content of the IAA the Committee should be aware that if approved by Council the content and form of the IAA is intended to be a legally binding agreement between the authorities. The IAA details the governance arrangements of the proposed model (a Joint Committee) and will establish the Joint Committee. Council noted the approach to collaboration in a report of June 2016 and full details will be provided in order that Council have sufficient information to make a decision.
10. The IAA sets out, amongst other things (1) the extent of matters delegated to the Joint Committee and those reserved for each Local Authority, (2) the constitutional set up of the Joint Committee and its terms of reference, (3) the remit of the supporting officer working group (4) termination and exit provisions (5) the structure of the pooling collaboration ((6) which Authority shall Host the collaboration and the responsibilities of the Host Authority and ancillary matters such as any cost apportionments, indemnities required to carry out the role of Host (7) financial management arrangements and (8) provisions to address such matters as disputes, variations, freedom of information.

### **Financial Implications**

11. All costs associated with the management and administration of an LGPS pension fund are chargeable to the fund's accounts. Under the Inter Authority Agreement the running costs of the Joint Governance Committee will be divided equally between the eight participating authorities. Expenditure incurred in the management of specific pooled investments will be charged to the relevant Pension Funds in proportion to the pooled amounts.

### **Recommendations**

12. That the Committee notes the content and principles of the draft Inter Authority Agreement (which may be subject to further amendments) and recommends a report to Full Council seeking approval of the final IAA and the establishment of the Joint Governance Committee.



**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES**

Appendix 1 - This appendix contains information which is exempt from publication pursuant to paragraphs 14 (information relating to financial or business affairs) and 21 (public interest test) of Parts 4 and 5 of Schedule 12A Local Government Act 1972 (as amended)

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**PENSIONS COMMITTEE: 15 FEBRUARY 2017**

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## REPORT OF CORPORATE DIRECTOR RESOURCES

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### FUNDING STRATEGY STATEMENT

#### Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. The Terms of Reference include the review and approval of the Fund's Funding Strategy Statement (FSS). The draft FSS is attached as an appendix to this report.

#### Background

3. The Funding Strategy Statement (FSS) sets out how the administering authority aims to meet the regulatory requirements to ensure that funds are available to meet pensions liabilities as they fall due whilst keeping employer contributions as constant as possible.
4. The FSS is normally reviewed every three years as part of the Triennial Valuation following consultation with the Fund Actuary. The administering authority must also consult with "such persons as it considers appropriate" and have regard to guidance published by CIPFA, the Chartered Institute of Public Finance and Accountancy.

#### Issues

5. The actuaries have prepared the draft FSS (attached as Appendix 1) as a revision of the statement published after the 2013 valuation.
6. The revision takes account of the updated guidance published by CIPFA in September 2016. In particular it reflects the change in emphasis in the 2013 Regulations in which securing the long-term solvency of the Fund is a requirement whilst maintaining a constant contribution rate is desirable. It also reflects the requirements of the Public Service Act 2013 for a review by the Government Actuary's Department of LGPS valuations.
7. A paragraph has been added to refer to the Well-being of Future Generations (Wales) Act 2015. The Act requires public bodies in Wales to act "in accordance with the sustainable development principle" which means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The obligations of Scheme Employers under the

Act are aligned with the obligations on the administering authority to give priority to the long term cost efficiency of the Fund.

8. The revised draft document has also been sent to the Fund's employers, the members of the Local Pension Board and the independent advisers, and comments have been invited by Friday 3 March.
9. The FSS is to be approved and published before the completion of the actuarial valuation. The Actuary's report and certificate of contribution rates must be signed by 31 March 2017.

### **Legal Implications**

10. The purpose of the first recommendation is that the Committee note the content of the FSS as attached to this report. As this is in draft it must be appreciated that the final version may be subject to amendment.
11. The second recommendation does not seek a decision and the purpose is to update the Committee on progress of the FSS. The body of the report and background information notes that there is a statutory obligation to consult on the FSS. This creates a legitimate expectation that the results of any consultation will be considered in proposing the final draft of the FSS.
12. The third recommendation is a delegation of the approval of the FSS to the Section 151 Officer of the Council and such any decision flowing from this delegation should be recorded appropriately, fully and properly informed and taken in accordance with advice received from the Fund's professional advisors together with consideration of any responses of the consultation.

### **Financial Implications**

13. No financial implications arise directly from this report.

### **Recommendations**

14. That the Committee note the content of the draft FSS as attached.
15. That the Committee note that the draft FSS is currently being consulted upon.
16. That the Committee delegate approval and publication of the final FSS to the Corporate Director Resources, in consultation with the Chair of the Committee, provided that the advice of the Fund Actuary is sought and taken into account in any approval of the FSS.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**

**THE CARDIFF & VALE OF GLAMORGAN  
PENSION FUND**

**FUNDING STRATEGY STATEMENT**

**FEBRUARY 2017**

## **Introduction**

### **Overview**

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations). It describes City and County of Cardiff's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Cardiff and Vale of Glamorgan Pension Fund (the Fund).

As required by Regulation 58(4)(a), the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016.

### **Consultation**

In accordance with Regulation 58(3), all appropriate persons (including Fund employers) have been consulted on the contents of this Statement and their views have been considered in formulating it. However, the Statement describes a single strategy for the Fund as a whole.

The Fund Actuary, Aon Hewitt Limited, has also been consulted on the content of this Statement.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles / Investment Strategy Statement (ISS) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

### **Purpose of this Statement**

The purposes of this Funding Strategy Statement are to set out the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer's pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Ensures the regulatory requirement to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund's liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement its focus should at all times be on those actions which are in the best long term interests of the Fund.

### **Well-being of Future Generations (Wales) Act 2015**

The Well-being of Future Generations (Wales) Act 2015 requires each public body (including local authorities) in Wales to act "in accordance with the sustainable development principle". This means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to



meet their own needs. The obligations under the Act of City of Cardiff Council, Vale of Glamorgan Council and the other scheme employers to which the Act applies have been recognised in this statement by giving priority to the long-term cost efficiency of the Fund.

### **Link to investment policy set out in the Statement of Investment Principles / Investment Strategy Statement**

The Statement of Investment Principles (SIP) / Investment Strategy Statement (ISS) is a statement of the principles governing the Fund's investment decisions. Among other things, it covers policy on the types of investments to be held, the balance between different types of investments, risk and the expected return on investments.

In keeping with the contents of this Statement, the SIP / ISS states that the policy of the Fund is to ensure that all payments made are at minimal cost to employing bodies. The investment objective is to maximise returns and minimise or at least stabilise employer contributions over the long term within an acceptable level of risk.

The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the SIP / ISS and the funding strategy set out in this Statement. The assets that most closely match the cashflows of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the SIP / ISS invests a significant proportion of the Fund in assets such as equities which are expected, but not guaranteed, to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved, the solvency position of the Fund may deteriorate, particularly where the liabilities are being measured by reference to prevailing gilt yields, as is the case for orphan liabilities

The investment returns required to meet the funding strategy are compatible with the investment policy set out in the SIP / ISS.

An Investment Advisory Panel reviews overall Fund risk. Priority is given to strategic asset allocation based on consideration of the full range of investment opportunities, and having regard to the diversification and suitability of investments. Within individual asset classes the Panel has adopted a specialist structure with a mixture of management approaches. Managers have clear targets and maximum accountability for performance.

The Fund's solvency objective is thus embedded in its strategic asset allocation policy and linked directly to the SIP / ISS, and the risks of different strategies. The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the SIP / ISS and the funding strategy set out in this Statement.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by

including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

**Review of this Statement**

The Administering Authority undertook its latest substantive review of this Statement in February 2017.

The Administering Authority plans to formally review this Statement as part of each triennial valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between actuarial valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

## **Aims and Purpose of the Fund**

The main aims of the Fund in relation to the funding strategy are:

- 1. Enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the Administering Authority and employers alike.**

Producing low volatility in employer contribution rates may require investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise fixed interest and index linked gilt edged investments, where the liabilities are being measured by reference to prevailing gilt yields as is the case for orphan liabilities.

Other classes of assets, such as shares and property, are perceived to offer higher long term rates of return, on average, and consistent with the aim to seek returns from investments within reasonable risk parameters, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver the anticipated returns in the long term.

This short term volatility in returns can produce volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position would be potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

- 2. To ensure that sufficient resources are available to meet all liabilities as they fall due**

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position monthly to ensure that all cash requirements can be met.

### **3. To manage employers' liabilities effectively**

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:

- seeking regular actuarial advice
- ensuring that employers are properly informed and consulted
- through regular monitoring of the funding position and the outlook for employers' contributions, and
- appropriate segregation of employers for funding purposes.

### **4. To seek returns from investments within reasonable risk parameters**

The Administering Authority recognises the desirability of seeking investment returns within reasonable risk parameters through investment in unmatched investments. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as equities and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations
- limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy
- limiting concentration risk by developing a diversified investment strategy, and
- monitoring the mis-matching risk: that the investments do not move in line with the Fund's liabilities.

### **Purpose of the Fund**

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## **Responsibilities of the key parties**

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are as follows:

### ***Administering Authority***

The Administering Authority's key responsibilities are:

1. *To operate a pension fund*
2. *To collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date*

Individual employers must pay contributions in accordance with Regulations 67 to 71. The Administering Authority will ensure that all employers are aware of these requirements and also the requirements of the Pensions Act 1995.

The Administering Authority will monitor the receipt of contributions to ensure they are received in accordance with agreed arrangements. The Administering Authority also has an absolute discretion on the timing of payments relating to bulk transfers or early retirements. Where employers are not adhering to any arrangements this will be brought to their attention. Outstanding contributions or other monies not received by due date may be charged interest in accordance with the Regulations at Base Rate + 1%.

The Administering Authority will ensure, where appropriate, that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased (and from other employers whose participation in the Fund has ceased) by

- requesting that the Fund Actuary calculates any deficiency at the date of exit from the Fund
- notifying the body that it must meet any deficiency at exit. The Administering Authority's policy is set out later in this Statement.

3. *Invest surplus monies in accordance with the Regulations*  
The Administering Authority will comply with the Investment Regulations.
4. *Pay from the Fund the relevant entitlements as set out by the Regulations.*
5. *Ensure that cash is available to meet liabilities as and when they fall due*  
The Administering Authority discharges this duty in the manner set out in the Aims of the Fund above.
6. *Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default...*

7. *Manage the valuation process in consultation with the Fund Actuary*  
The Administering Authority ensures it communicates effectively with the Fund Actuary to:
- agree timescales for the provision of information and of valuation results
  - ensure provision of data of suitable accuracy
  - ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
  - ensure that participating employers receive appropriate communication throughout the process
  - ensure that reports are made available as required by relevant Guidance and Regulations
8. *Prepare and maintain a SIP / ISS and a Funding Strategy Statement after due consultation with interested parties*  
The Administering Authority will ensure that both documents are prepared and maintained in the required manner.
9. *Monitor all aspects of the Fund's performance and funding, and amend these two documents if required*  
The Administering Authority monitors investment performance and the funding position of the Fund quarterly. The SIP / ISS will be formally reviewed annually, and the Funding Strategy Statement every three years, as part of the valuation cycle, unless circumstances dictate earlier amendment.
10. *Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.*
11. *Enable the local pension board to review the valuation process as set out in their terms of reference.*

### **Individual Employers**

The individual employers will:

- Deduct contributions from employees' pay
- Pay all ongoing members' and employer's contributions (both percentage of pay and monetary shortfall recovery contributions which are due) as determined by the Fund Actuary, promptly by the 19<sup>th</sup> day of the month
- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements

- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the SIP / ISS, or other policies
- Pay any exit payments on ceasing participation in the Fund

***The Fund Actuary***

The Fund Actuary will prepare advice and calculations and provide advice on:

- Funding strategy and the preparation of the Funding Strategy Statement and will prepare actuarial valuations, including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years cost, etc.
- Assist the Administering Authority in assessing whether employer contributions need to be revised between valuation as permitted or required by the Regulations
- Provide advice and valuations on the exiting of employers from the Fund.
- Provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the Fund.

Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Regulations.

## Funding Strategy

### Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Further details of these three terms are set out in Appendix 1.

### Application to different types of body

Some comments on the principles used to derive the Solvency and Funding Targets for different bodies in the Fund are set out below.

- **Scheduled Bodies and certain other bodies of sound covenant**  
The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.
- **Admission Bodies and certain other bodies whose participation is limited**  
For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

### Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contributions will be adjusted to target restoration of full funding over a period of years.



The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to Recovery Periods longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods and has agreed with the Fund Actuary a limit of 30 years for employers which are assessed by the Administering Authority as being a long term secure employer.

The Administering Authority's policy is to agree Recovery Periods with each employer which are as short as possible within this framework. For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

### **Stepping**

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps (i.e. the valuation period) will be permitted. Further steps may be permitted in extreme cases, but the total number of steps is unlikely to exceed six steps.

### **Grouping**

In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period (e.g. certain admission bodies) grouping is unlikely to be permitted.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

Where employers are grouped together entirely for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in ill health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

There are two groups of employers in the Fund pooled together for funding and contribution purposes.

1. The Town and Community Councils Group consists, at the date of writing this Statement, of the following employers: Cowbridge Town Council, Llantwit Major Town Council, Penarth Town Council, Barry Town Council, Dinas Powys Community Council, Radyr & Morganstown Community Council, Lisvane Community Council, Wenvoe Community Council, Penllyn Community Council and Pentyrch Community Council.

Currently all the employers within the group pay the same percentage of pay contribution rate.

2. The Colleges Group consists, at the date of writing this Statement, of the following employers: St Davids Catholic College, Cardiff and Vale College, Cardiff Metropolitan University.

Currently the employers within the group pay a common primary (future service) contribution rate and a deficit contribution amount equal to a proportion of the group's total monetary deficit contributions.

### **Inter-valuation funding calculations**

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

### **Notional Sub-Funds for individual employers**

In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Details of how the sub-funds are rolled forward are set out in Appendix 2.

### **Fund maturity**

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding surplus or deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed surplus or deficiency may be set as a percentage of payroll but may have regard for assumed projected payroll provided by the employer. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

Where defined capital streams are required, the Administering Authority will review at future valuations whether any new emerging surplus or deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

### **Special Circumstances related to certain employers**

#### **Interim reviews**

Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers which are expected to exit the Fund at some point in the future, and for the Fund Actuary to certify revised contribution rates between triennial valuation dates.

The Administering Authority's overriding objective at all times is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known,

material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

- For an employer that is likely to exit within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

### **Guarantors**

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

### **Bonds and other securitization**

Schedule 2 Part 3 Para. 6 of the Regulations creates a requirement for a new admission body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of a body admitted under Schedule 2 Part 3 Para. 1(d)(i) of the Regulations) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of admission bodies admitted under Schedule 2 Part 3 Para. 1(d) of the Regulations and other admission bodies with a Guarantor, and so long as the

Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of admission bodies admitted under Schedule 2 Part 3 Para 1(e) of the Regulations, or under Para 1(d) where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover at least once a year.

### **Subsumed liabilities**

Where an employer is exiting the Fund, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

### **Orphan liabilities**

Where an employer is exiting the Fund, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the

liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

### **Exit of an employer from the Fund**

Where an employer exits the Fund, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

The Administering Authority's policy is that in the normal course of events any deficiency that exists at exit of an admission body will be payable immediately as a single payment. In extreme cases the Administering Authority may be prepared to agree payment over a period of years. However this period is very unlikely to exceed five years and any decision will be at the Administering Authority's discretion.

## **Identification of risks and counter measures**

### **Approach**

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these wherever possible. The main risks to the Fund are:

### ***Investment risk***

This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

### ***Employer risk***

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the Funding Strategy Statement.

### ***Liability risk***

The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds in place for Admission Bodies require review.

### ***Regulatory risk***

The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

### ***Liquidity and maturity risk***

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS,
- transfer of responsibility between different public sector bodies,
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

### ***Governance risk***

This covers the risk of unexpected structural changes in Fund membership (for example



the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The policy is to require regular communication between itself and employers and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

**Christine Salter**  
**Corporate Director Resources**

**February 2017**

## **Appendix 1: Method and assumptions used in calculating the funding target**

### **Solvency Target**

The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, , appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund had reached the Solvency Target and its financial position continued to be assessed by use of such methods and assumptions and contributions were paid in accordance with those methods and assumptions, there would be a reasonably prudent chance that the Fund would continue to be 100% funded after a period of 25 years.

This then defines the Solvency Target.

For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit from the Fund the Solvency Target will be set by considering the valuation basis which would be adopted should the employer leave the Fund.. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after the employer has exited the Fund.

### **Probability of Funding Success**

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers and asset-liability modelling carried out by the Fund Actuary.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

### **Funding Target**

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. . The valuation calculations, including

future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

#### **Full Funding and Solvency**

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

#### **Trajectory Periods**

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

## **Appendix 2: Notional Sub-Funds for individual employers**

### **Roll-forward of sub-funds**

The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund (see earlier)
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.
- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

#### ***Attribution of investment income***

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that

employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

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