



CITY & COUNTY OF SWANSEA PENSION FUND FUNDING STRATEGY STATEMENT 2020

1. INTRODUCTION

Overview

- 1.1 This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997 has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the LGPS Regulations). The Statement describes City and County of Swansea's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the City and County of Swansea Pension Fund (the Fund).
- 1.2 As required by Regulation 58(4)(a), the Statement has been prepared having regard to guidance published by CIPFA. This Statement has regard to the updated guidance published in September 2016 and not the original guidance issued in October 2012 as referred to in the LGPS Regulations at time of writing the Statement.

Consultation

- 1.3 In accordance with Regulation 58(3), the Administering Authority has consulted such persons as it considers appropriate on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.
- 1.4 In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).
- 1.5 The Fund Actuary, Aon Hewitt Limited, has also been consulted on the contents of this Statement.

Purpose of this Statement

- 1.6 The main purpose of this Funding Strategy Statement is to set out the processes by which the Administering Authority:
- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
 - supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.
 - ensures that the regulatory requirements to set contributions 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 must be reflected in the Funding Strategy Statement / Investment Strategy Statement, its focus should at all times be on those actions which are in the best long term interests of the Fund.

- 1.7 The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement and the funding strategy set out in this Statement.
- 1.8 The assets that most closely match the liabilities 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 Investment Strategy Statement 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 will deteriorate.
- 1.9 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.
- 1.10 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

- 1.11 The Administering Authority undertook its latest substantive review of this Statement in December 2019.
- 1.12 The Administering Authority will formally review this Statement as part of the next funding valuation following the 31 March 2019 valuation, currently expected to be as at 31 March 2022, unless circumstances arise which require earlier action.
- 1.13 The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

2. THE AIMS AND PURPOSE OF THE FUND

Purpose of the Fund

- 2.1 The purpose of the Fund is to:
- invest monies in respect of contributions, transfer values and investment income to produce a Fund in order to:
 - pay Scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment Regulations over the long term and in so doing:
 - to smooth out the contributions required from employers over the long term.

Aims of the Fund

- 2.2 The main aims of the Fund are:
- a) To comply with regulation 62 of the LGPS Regulations 2013 and specifically to:
- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers
 - while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled (as defined in Part 1 or deemed employers as per Part 4 of Schedule 2 of the LGPS Regulations), resolution (as defined in Part 2 of Schedule 2 of the LGPS Regulations), and admitted bodies
 - enable overall employer contributions to be kept as constant as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- 2.3 The Administering Authority recognises that the requirement to keep total employer contributions as nearly constant as possible can run counter to the following requirements:
- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers
 - the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
 - maximising income from investments within reasonable risk parameters (see later)
- 2.4 Producing low volatility in employer contribution rates requires material 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 gilt edged investments.
- 2.5 Other classes of assets, such as stocks, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the 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 anticipated returns in the long term.
- 2.6 This short term volatility in investment returns can produce a consequent 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.

- 2.7 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.
- 2.8 The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.
- 2.9 b) 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 on a monthly basis to ensure that all cash requirements can be met.

- 2.10 c) 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, and through regular monitoring of the funding position and the outlook for employers' contributions.

- 2.11 d) To maximise the total investment return from investments within reasonable risk parameters.

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

- complying with any restrictions set out in the Investment Regulations
- restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the potential volatility and absolute return risks, and funding risk represented by those asset classes in collaboration with Investment Advisors and Fund Managers, the Fund Actuary and the Wales Pension Partnership and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy
- limiting concentration of risk by developing a diversified investment strategy
- monitoring the mis-matching risk that the investments do not move in line with the Fund's liabilities.

3. RESPONSIBILITIES OF THE KEY PARTIES

3.1 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

3.2 The Administering Authority will:

- Administer the Fund
- 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 (with the due date as specified in the LGPS Regulations, Rates and Adjustments Certificate and any Administering Authority policies)
- Pay from the Fund the relevant entitlements as set out by the Local Government Pension Scheme Regulations 2013.
- Invest surplus monies in accordance with the Investment Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:
 - Agree timescales for the provision of information and provision 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
- Prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding and amend these two documents if required.
- Effectively manage any potential conflicts of interest arising from its dual role both as Administering Authority and as Scheme Employer.
- Take measures, as set out in the Regulations, to safeguard the Fund against the consequences of employer default
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

Individual Employers

3.3 Individual Employers will:

- Deduct contributions from employees' pay.
- Pay all ongoing contributions, including their employer's contribution as determined by the Fund Actuary, and where relevant set out in the rates and adjustment certificate, promptly by the due date.
- Develop a policy on certain discretions and exercise those discretions within the regulatory framework.
- 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 Investment Strategy Statement or other policies.
- Pay any exit payments as required in the event of their ceasing participation in the Fund

Fund Actuary

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

- Funding strategy and the preparation of the Funding Strategy Statement
- Actuarial valuations including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations.
- Bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- Valuations on the cessation of admission agreements or when an employer ceases to employ active members i.e. the exiting of employers from the Fund.
- Bonds and other forms of security for the Administering Authority against the financial effect on the Fund and of the employer's default.
- Assisting the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as permitted or required by the Regulations.
- Ensure that the Administering Authority is aware of any professional guidance requirements which may be of relevance to his or her role in advising the Administering Authority.

Such advice will take account of the funding position and Funding Strategy Statement of the Fund, along with other relevant matters.

4. **FUNDING STRATEGY**

Risk Based Approach

- 4.1 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, and by extension, the appropriate levels of contribution payable. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and Funding Success

- 4.2 The Administering Authority's primary aim is long-term solvency. 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 Solvency Target is the amount of assets which the Fund, having taken advice from the Fund Actuary, wishes to hold at the end of the Trajectory Period (see later) to meet this aim.
- 4.3 The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate 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%.
- 4.4 For secure tax raising Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, the Solvency Target will use appropriate actuarial methods and assumptions that are believed appropriate in the long term for those Bodies. For the 2019 valuation the Solvency Target will be set using an assumed rate of return of 2% in excess of the assumed long term annual increase in the Consumer Prices Index, which is intended to be a prudent outperformance assumption based on assumed future asset holdings.
- 4.5 For non tax raising Scheduled Bodies the Solvency Target may (dependent on circumstances) be set at a more prudent level than that used for Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit.
- 4.6 For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Solvency Target *will* be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

Probability of Funding Success

- 4.7 The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period (or the longest employer Recovery Period, if longer), 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.
- 4.8 Consistent with the Administering Authority's aim of enabling employers' total contributions to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.
- 4.9 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.

Trajectory Periods

- 4.10 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.
- 4.11 Maintaining a stable Trajectory Period avoids undue volatility when setting long term assumptions for the Fund, where the Administering Authority would in ideal circumstances look to reduce the Recovery Period over time in order to achieve full funding. A Trajectory Period of 25 years will be used for the valuation at 31 March 2019.

Funding Target

- 4.12 In order to satisfy the legislative requirement to secure long term cost efficiency the Administering Authority's aim is for employer contributions to be set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficiency. This is achieved through the setting of a Funding Target.
- 4.13 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. It is a product of the actuarial valuation exercise and is not the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).
- 4.14 Consistent with the aim of enabling employers' primary contribution rates 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 (primary) 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 future service (primary) contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- 4.15 The discount rate, and hence the overall required level of employer contributions, has been set for the 2019 valuation such that the Fund Actuary estimates that there is an 80% Probability of Funding Success – i.e. and 80% chance that the Fund would reach or exceed its Solvency Target after a Trajectory Period of 25 years (on the assumption that Recovery Periods were less than 25 years for all employers).

Application to different types of body

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

Scheduled Bodies and certain other bodies of sound covenant

- 4.17 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 secure tax raising Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and certain other bodies which are long term in nature i.e. Admission bodies with a subsumption commitment from such Scheduled Bodies. This is known as the scheduled and subsumption body funding target.
- 4.18 For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:
- the type/group of the employer
 - the business plans of the employer;
 - an assessment of the financial covenant of the employer;
 - any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangement, charge over assets, etc.

- 4.19 Where, by virtue of having taken account of some or all of the above factors, the Administering Authority adopts a less risky (more prudent) funding target than the scheduled and subsumption body funding target for any scheduled bodies, this is known as the intermediate funding target.

Admission Bodies and certain other bodies whose participation is limited

- 4.20 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). This is known as the (ongoing) orphan admission bodies funding target. It is not the same as the exit basis.

Full Funding

- 4.21 The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. 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.

Recovery Periods

- 4.22 Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates will be adjusted to target restoration of fully funding the solvent position over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.
- 4.23 The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary 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, and whether the employer is in surplus or deficit on the appropriate Funding Target.

- 4.24 Where an employer is in surplus, and where an employer's expected exit date is unknown or expected to be later than the date the revised rates and adjustments certificate will come into force following the next valuation, this surplus will only lead to an adjustment in an employer's contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities valued relative to the appropriate Funding Target (i.e. to the extent that the employer's funding level is greater than 110%). Note that where an employer is subject to a temporary relaxation of the requirement for Full Funding, or subject to the subsumption funding target by virtue of a temporary subsumption commitment from City and County of Swansea and/or Neath Port Talbot County Borough Council (see below), the Administering Authority will have regard to the contribution requirement that would have applied without this temporary commitment when determining the extent to which any surplus can lead to contribution reductions.
- 4.25 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, and where the employer is in deficit, the Administering Authority may be prepared to agree to Recovery Periods which are 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 where employers are in deficit, 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.
- 4.26 Where employers are in deficit, the Administering Authority's policy is to agree Recovery Periods with each employer which are as short as possible within the above framework. Recovery Periods for employers or employer groups may differ in order to suitably balance risk to the fund and cost to the employer. 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.
- 4.27 Resulting from the 2019 valuation, a Recovery Period of up to 19 years was used, with an average Recovery Period of just under 19 years across all participating employers.

Grouping

- 4.28 In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contributions). 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.
- 4.29 The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. 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. The Administering Authority's policy is to consider the position carefully at the initial grouping and at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would typically look for evidence of homogeneity between employers before considering grouping.

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

- 4.30 All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum 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.

- 4.31 There is a group of employers in the Fund which will be pooled together for funding and contribution purposes at the 2019 valuation.
- 4.32 From 1 April 2019 it is expected that the Town and Community Councils Group will consist of the following employers - Briton Ferry Town Council, Cilybebyll Community Council, Clydach Community Council, Coedffranc Community Council, Margam Joint Crematorium Committee, Neath Town Council, Pelenna Community Council and Pontardawe Town Council, and any new small councils will join this group going forward.
- 4.33 Under the pooling approach these employers will pay a common percentage of pay as their primary contribution rate and will share experience (subject to each employer not taking action which adversely and materially, as determined by the Administering Authority, affects the group's liabilities in which case the Administering Authority may ensure that employer meets the additional liabilities it has created by such action). Each employer in the group will be responsible for meeting any deficit (or benefit from any surplus) allocated to the employer i.e. this will be outside the experience sharing mechanism. Any deficit recovery plan will be based on the specific employer's circumstances.
- 4.34 In the event that an employer in the group has no active members consideration will be given to first issuing a 'suspension notice' which under the regulations can defer the exit valuation for up to three years if in the reasonable opinion of the administering authority the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. In the event of an exit valuation, the assets and liabilities following exit will be subsumed by the group and the exited employer will not be required to pay any further contributions unless it admits an employee into the Fund, in which case it is expected that the employer will re-join the group as a participating employer. Further, no exit credit will be paid to the exiting scheme employer, unless the exiting scheme employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds.

However, if the exiting employer is likely to have a material impact on the contribution rate payable by the remaining employers then the Administering Authority may decide that the exiting employer should make additional payments to the Fund over a period of time to protect the remaining employers from such increases.

Stepping

- 4.35 Again, consistent with the requirement to keep primary employer contribution rates and overall employer contributions as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be 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 will be permitted. Further steps may be permitted in extreme cases in consultation with the Fund Actuary, but the total is very unlikely to exceed six steps.

Inter-valuation funding calculations

- 4.36 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 funding valuations.

Asset shares notionally allocated to individual employers

- 4.37 Notional asset shares
In order to establish contribution levels for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or

group of employers where grouping operates), as if each employer had its own notional asset share within the Fund.

- 4.38 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.

Roll-forward of notional asset shares

- 4.39 The notional asset share 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 using a cash equivalent transfer value basis unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service and any other benefits shared across all employers (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.

- 4.40 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 or where estimated cashflows can be produced with reasonable accuracy, estimated cashflows will be used.
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material or difficult to estimate with necessary accuracy, the Fund Actuary may instead use an analysis of gains and losses to roll forward the notional asset share. 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.

Fund maturity

- 4.41 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 deficiency.
- 4.42 In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. 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 consider requiring

top up payments where deficit contributions fall below a minimum level, or further alternative approaches as it deems appropriate. **Appendix A**

Interim reviews

- 5.1 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 cease at some point in the future, and for the Fund Actuary to certify revised contribution rates, between funding valuation dates.
- 5.2 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.
- 5.3 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 Transferee 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 whose participation is due 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.
- 5.4 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

- 5.5 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 and monitors the exposure of the Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:
- If an employer ceases 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.

New employers**Initial Rate**

- 5.6 When a new employer joins the Fund, the Fund's Actuary determines the initial employer contribution rate payable.

- 5.7 An interim contribution rate may be set pending a more accurate calculation by the Fund's Actuary of the employer contribution rate payable. The Administering Authority will determine these interim contribution rates following each Actuarial Valuation and at any other time at its discretion.
- 5.8 The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:
- Any past service or transferred liabilities
 - Whether the new employer is open or closed to new entrants
 - The funding target that applies to the employer
 - The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
 - Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary

New Admission Bodies

- 5.9 Where the Administering Authority makes an admission agreement with a body (the New Body), the default stance of the Fund is that the relevant Scheme employer, as defined in Part 3 of Schedule 2 of the LGPS Regulation 2013, will be required to subsume the liabilities (see below) at the point that the New Body no longer has any contributing members. This will be set out within the Admission Agreement or side agreement, and apply to both the liabilities of the initial transferring membership and, in the case of an open admission agreement, any liabilities of the New Body relating to members that commence participation after the initial transfer under the terms of the Admission Agreement.
- 5.10 Unless agreed otherwise (between the relevant Scheme employer and the New Body) the New Body would be required to target sufficient assets to fully fund the liabilities subsumed by the relevant Scheme employer at exit on the assumptions applicable to the relevant Scheme employer.

Bonds and other securitization

- 5.11 Paragraph 6 of Part 3, Schedule 2 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 Transferee Admission Body admitted under paragraph 1(d)(i) of that Part) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.
- 5.12 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 that either funds, owns or controls the functions of the admission body.
- 5.13 The Administering Authority's approach in this area is as follows:
- In the case of Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 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 or Guarantor 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 be pleased to 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 Transferee Admission Bodies admitted under Paragraph 1(d) of

Part 3, Schedule 2 of the Regulations, or under Paragraph 1(e) of Part 3, Schedule 2 of the Regulations, 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 that the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

- 5.14 Where an employer is exiting the Fund such that it will no longer have any contributing members, 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.
- 5.15 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 a mix of growth and matching assets.

Orphan liabilities

- 5.16 Where an employer is exiting the Fund such that it will no longer have any contributing members, 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.
- 5.17 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.
- 5.18 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 between the exit date of the employer and each subsequent funding valuation of the Fund. Assets will then be reallocated within the Fund to ensure the orphan liabilities remain 100% funded on a low risk basis after taking account of any outstanding exit payments payable to, or due from the exiting employer, with any investment profit or loss allocated to the contributing employers in proportion to their notional asset share.

Smoothing of contribution rates for Admission Bodies

- 5.19 The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of Admission Bodies. On the one hand, the Administering Authority requires all Admission Bodies to be fully self funding, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those Admission Bodies. On the other hand, in extreme circumstances, requiring achievement of full funding over a short time horizon may precipitate failure of the body in question, leading to significant costs for other participating employers.

- 5.20 In circumstances which the Administering Authority judges to be extreme, the Administering Authority will engage with the City and County of Swansea and Neath Port Talbot County Borough Council, as the dominant employers in the Fund, with a view to seeking agreement that the requirement that contribution rates target Full Funding can be temporarily relaxed, or alternatively one or both employers agree to subsume the relevant Admission Bodies on exit.
- 5.21 Should an Admission Body leave the Fund during a period where the City and County of Swansea and/or Neath Port Talbot County Borough Council has agreed to subsumption of residual liabilities, the exit funding requirement will be reduced to reflect the Fund's continuing access to funding, should a deficiency emerge in the future in respect of those liabilities (see cessation of participation for subsumed liabilities below).
- 5.22 At subsequent valuations the position will be reassessed with a view to returning Admission Bodies to paying contributions which target Full Funding.

Cessation of participation i.e. Exiting the Fund

- 5.23 Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exiting regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.
- 5.24 The assumptions adopted to value the departing employer's liabilities for the exit valuation will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by long-term other employers.
- 5.25 For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date. Any deficit or surplus in the Fund in respect of the employer will generally be due to the Fund as a termination contribution, or payable by the Fund to the employer as an exit credit respectively, where the exit date is on or after 14 May 2018.
- 5.26 For subsumed liabilities the exit valuation will be determined on the basis that the scheme employer, or in the case of grouped employers, the remaining contributing group employers, providing the subsumption commitment will subsume all assets and liabilities from the exiting scheme employer. No exit credit will be paid to, or any exit debt required from, the exiting scheme employer, unless the exiting scheme employer is in surplus when liabilities are calculated using a Funding Target that anticipates investment in low risk investments such as Government bonds. The assets and liabilities will be subsumed within those of the employer, or employers, providing the subsumption commitment, with future contribution requirements for this employer, or group of employers, being reassessed at each actuarial valuation.
- 5.27 In addition, the Administering Authority may, at its discretion, include additional margins for prudence compared to the approach used for determining ongoing contributions, for example in relation to regulatory uncertainty (which at the date of this Statement includes uncertainty associated with the McCloud case, cost management process and indexation and equalisation of GMP).

6. IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

- 6.1 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 both before, and after, they emerge wherever possible.
- 6.2 The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.
- 6.3 The main risks to the Fund are considered below:

Choice of Solvency and Funding Targets

- 6.4 The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.
- 6.5 The more optimistic the assumptions made in determining the Solvency and Funding Targets, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Solvency and Funding Targets calculated by reference to those assumptions.
- 6.6 The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions, which lead to a reduction in the aggregate employer contribution rate to the Fund.
- 6.7 The Administering Authority's policy will be to monitor an underlying 'low risk' position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic

Investment Risk

- 6.8 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
- 6.9 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
- environmental; social and corporate governance risks

6.10 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 and Fund Managers. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

Employer risk

6.11 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.

6.12 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.

6.13 The Administering Authority will maintain a knowledge base on their 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.

Climate change

6.14 The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority and Investment Advisory Panel keeps the effect of climate change on future returns under review and will commission modelling or advice from the Fund Actuary on the potential effect on funding as required.

Liability Risk

6.15 The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks.

6.16 The Administering Authority will ensure that the Fund Actuary investigates demographic, pay and pension increase experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed, e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigation of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

6.17 The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership early retirements, redundancies and ill health early retirements in the Fund and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

- 6.18 If significant liability changes, including from demographic changes, become apparent between valuations, the Administering Authority will notify the affected employers of the anticipated impact on costs that will emerge at the next valuation and consider whether to require the review of the bonds that are in place for Admission Bodies. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

Regulatory and Compliance Risk

- 6.19 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 to Regulations and LGPS benefits. 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.
- 6.20 There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, including a cap on exit payments by public sector employers, new Fair Deal arrangements and greater flexibility on employer exit from the LGPS. Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although the Administering Authority understands that the 2022 valuation is going ahead as previously planned.
- 6.21 There are a number of additional uncertainties associated with the benefit structure at the time of the latest formal review of this Statement, including:
- 6.22 How Government will address the issues of GMP indexation and equalisation beyond expiry of the current interim solution from 6 April 2021
- 6.23 The outcome of the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes were illegal age discrimination, and what the remedy might be in the LGPS in terms of its scope and form.
- 6.24 The outcome of the cost management process and whether the agreement reached in relation to the Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay.
- 6.25 Details of the allowance made for these uncertainties in the 2019 valuation are as follows:
- McCloud/Cost Cap
- 6.26 1.5% of pay has been added to employer contributions based on Fund-specific calculations carried out by the Fund Actuary. This figure has been calculated across the Fund as a whole on the scheduled and subsumption body funding target assuming the following remedy:
- 6.27 Compensation will apply to members who joined the LGPS before 1 April 2014 (see below).
- 6.28 Benefits will be the better of those accrued in the 2014 Scheme or those accrued in the 2008 Scheme, backdated to 1 April 2014 (i.e. an 'underpin' approach).
- 6.29 Compensation will apply to members who retire from active service with immediate pension benefits, through normal health or ill health retirement (this is because transitional protections only applied to members retiring from active service with immediate pension).

- 6.30 The remedy will not apply to spouses' or dependants' benefits. This is because transitional protections only applied to members' benefits
- 6.31 The cost is split 0.4% of pay in respect of past service and 1.1% of pay in respect of future service where the past service cost has been spread over a recovery period of 19 years.

GMP indexation/equalisation

- 6.32 There is no allowance for GMP equalisation beyond the extended 'interim' solution announced in January 2018, i.e. for full inflationary increases on GMP to be paid from the Fund for members reaching State Pension Age by 5 April 2021.

Liquidity and Maturity Risk

- 6.33 This is the risk of a reduction in cash flows into the Fund (including investment income – e.g. potentially resulting from changes in investment holdings), or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Timing of contribution payments by employers can also impact on liquidity requirements where flexibility is granted by the Administering Authority. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,
- Budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
 - An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
 - Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
 - Scheme changes, for example, lower member contributions as provisionally agreed as part of the Scheme Advisory Board Cost Management Process will lead to lower member contributions which may not be immediately matched by higher employer contributions,
 - An increase in the take-up of the 50/50 option (whether on affordability grounds or to avoid tax charges) will reduce member contributions to the Fund
- 6.34 The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues. The Administering Authority also commissions the Fund Actuary to provide projections of benefit payments and contributions based at each valuation and monitors the cashflow position on a regular basis.

Governance Risk

- 6.35 This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), or establishment of a wholly owned company which does not participate in the Fund, or only partially participates, and the related risk of the Administering Authority not being made aware of such changes in a timely manner.
- 6.36 The Administering Authority's 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. The Fund will consider commissioning triennial reviews of any bonds as part of its risk management.

Statistical/Financial Risk

6.37 This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority policy will regularly assess such aspects to ensure that all assumptions used are still justified.

Smoothing Risk

6.38 The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. Where such an adjustment is used, the Administering Authority will review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits.

Recovery Period Risk

6.39 The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

Stepping Risk

6.40 The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority will limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this statement.