Staffordshire Pension Fund
Funding Strategy Statement (FSS)
31 March 2023

Contents

1 Welcome to the Staffordshire Pension Fund's Funding Strategy Statement

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

The Staffordshire Pension Fund is administered by Staffordshire County Council, known as the administering authority. Staffordshire County Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There is a regulatory requirement for the Fund to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, please contact the Fund directly at pensions.comms@staffordshire.gov.uk

1.1 What is the Staffordshire Pension Fund?

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

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

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

1.3 Who is the FSS for?

The FSS provides relevant information for employers participating in the Fund. It sets out how money will be collected from employers to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled Bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and other employers -such as academies and further education establishments. Scheduled Bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, e.g. another public service pension scheme.

Designating employers

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

Admission bodies

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

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

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

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets, and other income are then invested according to an investment strategy set by the Fund. The investment strategy is set out in the Fund's Investment Strategy Statement (ISS) which can be found on the Fund's website.

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

1.5 Does the funding strategy reflect the investment strategy?

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

1.6 How is the funding strategy specific to the Staffordshire Pension Fund?

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

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution. These are typically contributions in respect of the funding risk associated with benefits built up to date.
- The primary rate also includes an allowance for the Fund's administration **expenses**.

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

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

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

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

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
Sub-type	**Local authorities, police, fire**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target**	Ongoing	Ongoing	Ongoing	Ongoing	Low risk exit	Ongoing
Minimum likelihood of success	68%	75%	68%	68% for town and parish councils, else 72%	77%	Same as the letting employer
Maximum time horizon	20 years	15 years	20 years	15 years	15 years or average future working lifetime, if less	Same as the letting employer

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
Sub-type	Local authorities, police, fire	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate (if payable)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	% of payroll
Stabilised contribution rate?	Yes	No	Varies by employer	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the Fund	Covered by stabilisation arrangement If not participating in stabilisation arrangement: preferred approach to keep contributions at primary rate.	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the Fund	Preferred approach: contributions kept at lower of primary rate or current contribution rate in payment. Reductions may be permitted by the Fund	
Phasing of contribution changes	Covered by stabilisation arrangement	By Fund agreement	Covered by stabilisation arrangement	By Fund agreement	By Fund agreement	None

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

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

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund actuary, the Fund believes a stabilised approach is a prudent longer-term strategy for the Fund's local authorities, police and fire authorities and some academy schools. For these bodies, the Fund has set a pre-determined range of +/-1% of pay per annum variations.

Stabilisation does not apply to those academies who have chosen to voluntarily opt out of the mechanism.

Stabilisation criteria and limits are reviewed during the valuation process. The Fund may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

Under the Regulations the Fund may amend contribution rates between valuations for "significant change" to the liabilities or covenant of an employer: this may result in a material increase or decrease in contributions, depending on the circumstances. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of the Fund there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the Fund that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Fund that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Fund that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Fund.

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

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

The Rates & Adjustments Certificate will be updated as necessary, following such a review.

The Fund will also consider guidance in such matters from the Scheme Advisory Board as issued from time to time.

2.5 What is contribution rate pooling?

The Fund may operate contribution rate pools for some types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In this type of pooling arrangement, contributions are set to target full funding for the pool as a whole, rather than individual employers. If one employer in a pool has significantly more assets and liabilities than others, the pooled rate will be closely linked to this employer's individual rate.

Whilst pooling helps reduce contribution rate volatility, it can mean that the contribution rate being paid is higher or lower than if an employer was funding their benefits on a standalone (non-pooled) basis. For employers in a pool, typically the Fund will still track each employer's underlying funding position.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the Fund.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

2.6 What are the current contribution rate pools?

- **Schools** – generally pooled with Staffordshire County Council or Stoke City Council, although there may be exceptions for specialist or independent schools.
- **Small council related contractors** – where deemed appropriate, generally pooled with the ceding council.
- **Minor employers pool** – all parish and town councils.
- **Multi-academy trusts (MATs)** – at the request of the MAT, all individual academies within the same MAT may be pooled for contribution rate setting purposes. The decision to allow pooling is at the discretion of the Fund.

2.7 Fund discretion

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

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

2.8 Pre-payment of employer contributions

The Fund permits the prepayment of employer contributions in specific circumstances. Each request by a participating employer to pre-pay employer contributions will be considered by the Fund on its own merits.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement except on grounds of ill-health

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

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

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

Local authorities, Police & Fire authorities	- up to 5 years
Academies	- up to 3 years
Colleges and Universities	- payable immediately
CABs and designating employers	- payable immediately
TABs	- payable immediately

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, this may result in a funding strain, which could be a large sum. Strains are currently met by a Fund-operated ill-health risk management solution whereby any ill-health early retirement strain costs are in effect spread among all employers. This avoids adversely high ill-health added costs falling on any one employer.

As and when ill-health retirements occur, the strain cost is not levied on that particular employer's asset share; instead, the cost is met by all other employers via a reduction to their respective asset share, weighted by their total active and deferred membership numbers. Typically, due to the weighting approach and the rate of occurrence of ill-health retirements, this will have a negligible impact on employer asset shares.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

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

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

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

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

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefit payments for all members into the future. These future benefit payments are then expressed as a single value in today's money (i.e. the liabilities) by discounting them back in line with expected future investment returns.

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

4.3 What is a funding level?

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

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. This snapshot of the current funding position is a useful high-level health check metric. However it does not consider, amongst other factors, the cost of future benefits and the level of future funding volatility and risk. Therefore, it is not a direct driver of contribution rates which, for most employers, is the main consideration. See section 2 for further information on rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund?

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

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

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement – see Section 5.3 below).

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former Council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding Council.

New academies will be allocated an asset share based on the estimated funding level of the ceding Council's active members, having first allocated the Council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The Council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. Contribution rates will typically be certified in the Rates & Adjustments Certificate at individual academy level.

The new academy's contribution rate is based on the current funding strategy (set out in section 2), the transferring membership and whether they are part of a multi-academy trust which is paying a pooled contribution rate.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The Fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future Funding Strategy Statements.

The Fund's full policy on academy participation is detailed in Appendix E.

5.3 New admission bodies as a result of outsourcing services

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

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

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

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. One option which may be agreed between a letting employer and a new contractor is participation via a “pass through” arrangement. Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit nor receive an exit credit. In other words, the pensions risks “pass through” to the letting employer.

The Fund’s policy is to require all new admission bodies with 10 members or fewer, and a contract period of 5 years or less, to be set up with a pass-through arrangement. Should a letting employer wish to outsource on an alternative basis (e.g. a “standalone” basis with no risk sharing), the Fund will permit this at its sole discretion.

The Fund’s policy on pass through is detailed in Appendix F.

5.4 Other new employers

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

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

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, the risks a new admission body poses to the Fund must be assessed if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. The assessment must be to the satisfaction of the Fund and the letting employer. In practice, typically the Fund actuary carries out the assessment.

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

This may cover some, or all, of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body’s existing deficit.

As per the Academy Trust Handbook, academies must seek permission from the Education and Skills Funding Agency before providing a guarantee as a letting authority. The Fund will expect academies to evidence that they have sought and received permission to act as a guarantor before permitting an admission body to join the Fund.

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

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

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

The Fund's Bulk Transfer Policy is set out in Appendix G.

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

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

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

7.2 What happens on cessation?

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

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the nature of the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer cannot pay the contributions due and the approach is within guarantee terms or the employer is participating under a pass through arrangement.

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

The Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses will be charged to the employer.

The Fund's Cessation Policy is set out in Appendix H.

7.3 What happens if there is a surplus?

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

- the surplus amount;
- the proportion of the surplus due to the employer's contributions;
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support; and
- any other relevant factors, including those set out the Fund's Exit Credit Policy.

The Fund's policy on the payment of exit credits is set out in the Exit Credits Policy and the Cessation Policy (Appendix H).

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or spread over an agreed period, if the employer enters into a deferred spreading arrangement (DSA).

If an exiting employer enters into a Deferred Debt Agreement, they remain a participating employer in the Fund and pay contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The Fund's policy regarding employer flexibility on exit is set out in the Cessation Policy (Appendix H).

7.5 What if an employer has no active members? (not applicable to Scheduled bodies)

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

a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers may be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

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

8.2 Solvency

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

- employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level; or
- there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

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

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

Relative factors include:

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

Absolute factors include:

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

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

Appendices

Appendix A – The regulatory framework

A1 Why do Funds need a Funding Strategy Statement?

The Local Government Pension Scheme (LGPS) regulations require Funds to maintain and publish a Funding Strategy Statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the Fund uses to:

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

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

A2 Consultation

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

The consultation process included a launch of the consultation at the Fund's Annual General Meeting, with the draft version of the FSS being made available to participating employers in the Latest News area of the Fund's website shortly afterwards. Any policy changes from the previous version of the FSS were highlighted to employers during this process.

A3 How is the FSS published?

The FSS is:

- published on the Fund's website;
- promoted in Employer Newsletters;
- published as part of Pensions Committee Agendas; and
- available freely on request.

The FSS is published at https://www.staffspf.org.uk/Finance-and-Investments/Funding-Strategy-Statement/Funding-Strategy-Statement.aspx

A4 How often is the FSS reviewed?

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

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

The FSS is a summary of the Fund's approach to funding liabilities. It is not exhaustive – the Fund publishes other statements like the Investment Strategy Statement, Governance Policy Statement and Communication Policy. The Fund's Annual Report and Accounts also includes up-to-date Fund information.

You can see all Fund documentation at https://www.staffspf.org.uk/Home.aspx

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a Fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money, like contributions and income, which isn't needed to pay immediate benefits, in line with regulation and the Fund's investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares, and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the Local Pensions Board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the Fund promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the Fund

7 comply with the Fund's Pensions Administration Strategy

B3 The Fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within the FSS and LGPS regulations and appropriately targeting Fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on Fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the Fund to consider changes to employer contributions between formal valuations

6 advises on terminating employers’ participation in the Fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 Internal and external investment advisers ensure the Investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement

2 Investment managers, LGPS Central (the Fund’s asset pool), custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS

3 Auditors comply with standards, ensure Fund compliance with requirements, monitor, and advise on fraud detection, and sign-off annual reports and financial statements

4 Governance advisers may be asked to advise the Fund on processes and working methods

5 Internal and external legal advisers ensure the Fund complies with all regulations and broader Local Government requirements, including the Fund’s own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary’s Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The Staffordshire Pension Fund has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the Local Pension Board is set out in the Board's terms of reference available at:

https://moderngov.staffordshire.gov.uk/mgCommitteeDetails.aspx?ID=994

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

C2 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire, Parish & Town councils	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	Assessments may be commissioned by specialists as appropriate or carried out by Fund Officers	The Fund will review employers periodically or when a significant event occurs
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	Assessments may be commissioned by specialists as appropriate or carried out by Fund Officers	The Fund will review employers periodically or when a significant event occurs

C3 Climate risk and TCFD reporting

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

The modelling was carried out at Fund level. Given that the same underlying model is used for all employers when setting contribution rates, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has further detail on its approach to Responsible Investment and Engagement, including its Climate Change Strategy and latest TCFD report, on its website: https://www.staffspf.org.uk/Finance-and-Investments/Corporate-Governance-and-Responsible-Investment/Responsible-Investment-and-Engagement.aspx

Appendix D – Actuarial assumptions

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

D1 What are assumptions?
Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

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

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

D2 What assumptions are used to set employer contribution rates?
The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

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

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

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

Time period	Percentile	Asset class annualised total returns											Inflation/Yield	
		Cash	Index Linked Gilts	Fixed Interest Gilts	Private Equity	Property	Unlisted Infrastructure Equity	Multi Asset Credit	All World ex UK Equity	Direct Lending	Corporate Debt (A rated)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	0.8%	-3.1%	-1.5%	-1.2%	-0.6%	0.7%	1.7%	-0.4%	2.7%	1.4%	1.6%	-1.7%	1.1%
	50th	1.8%	-0.7%	0.7%	9.4%	4.4%	5.9%	3.5%	5.8%	6.0%	2.4%	3.3%	-0.5%	2.5%
	84th	2.9%	2.0%	2.8%	20.1%	9.5%	11.2%	5.2%	11.9%	9.2%	3.4%	4.9%	0.7%	4.3%
20 years	16th	1.0%	-2.6%	-0.2%	2.4%	1.4%	2.6%	2.8%	1.8%	4.3%	2.0%	1.2%	-0.7%	1.3%
	50th	2.4%	-0.9%	0.9%	10.0%	5.0%	6.5%	4.4%	6.3%	6.8%	3.2%	2.7%	1.1%	3.2%
	84th	4.0%	0.8%	2.0%	17.6%	8.9%	10.6%	6.0%	11.1%	9.2%	4.6%	4.3%	2.7%	5.7%
40 years	16th	1.2%	-1.1%	1.2%	4.7%	2.6%	3.9%	3.6%	3.4%	5.5%	2.4%	0.9%	-0.6%	1.1%
	50th	2.9%	0.3%	1.9%	10.3%	5.5%	7.0%	5.3%	6.8%	7.7%	3.9%	2.2%	1.3%	3.3%
	84th	4.9%	1.9%	2.8%	16.1%	8.8%	10.3%	7.1%	10.4%	10.0%	5.8%	3.7%	3.2%	6.1%
Volatility (5 yr)		2%	9%	8%	30%	15%	15%	6%	18%	10%	3%	3%	-	-

ESS assumptions are calibrated at each month end. Contribution rate assessments carried out after 31 March 2022 will use the most up to date calibration of the ESS at the date the employer joins the Fund.

D3 What financial assumptions are used?

Future investment returns and discount rate

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

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

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	1.6%
Low-risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the Fund (as set out in the actuarial report on joining)

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

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.4% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 72% likelihood that the Fund's assets will achieve future investment returns of 4.4% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

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

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

Salary growth

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

D4 What demographic assumptions are used?

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

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

Life expectancy

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

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

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

Other demographic assumptions

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

Males

Incidence per 1000 active members per year (except promotional salary index)								
Age	Promotional salary index	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Incidence per 1000 active members per year (except promotional salary index)								
Age	Promotional salary index	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

Based on guidance issued by the Department of Levelling Up, Housing and Communities on 22 March 2022, the Fund has allowed for the cost associated with the McCloud remedy in the liability calculations at the 2022 valuation (and going forward).

Given the lack of information and/or their relatively small impact, there has been no other allowance for any potential future benefit structure changes that may occur due to ongoing legal cases (e.g. the Goodwin case) or the outcome of the 2020 cost cap valuation.

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

Employers with no guarantor

Where there is no suitable guarantor or risk-sharing arrangement, the low-risk exit basis will apply.

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

1. The likelihoods used to determine the forecasted future investment returns when assessing the liabilities under the corridor approach are:
   - Level of cessation debt: 85% likelihood
   - Level of cessation surplus: 95% likelihood
2. The CPI assumption is based on the weighted average of CPI for the following 20 years from Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those described in Section D4, with one adjustment - a higher long-term rate of mortality improvements of 1.75% pa is assumed.

Employers with a guarantor

Where there is a guarantor (e.g. in the case of contractors where the local authority guarantees the contractor's admission in the Fund), the funding basis used to calculate contribution rates will apply to derive financial and demographic assumptions (typically either contractor exit or the ongoing basis).

If the cessation event is trigged by the admission agreement being terminated early by the contractor, then the low-risk exit basis will typically apply.

Appendix E – Policy on Academy Funding

Staffordshire Pension Fund

Policy on Academy funding

Effective date of policy	1 April 2023
Date approved	31 March 2023
Next review	31 March 2025

Introduction

The purpose of this policy is to set out the Fund's funding principles relating to academies and Multi-Academy Trusts (MATs).

E1 Aims and Objectives

The Fund's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT;
- to state the approach for setting contribution rates for MATs;
- to outline the responsibilities of academies seeking to consolidate; and
- to outline the responsibilities of academies when outsourcing.

E2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the Fund on conversion from a local authority school or on creation (e.g. newly established academies, Free Schools, etc). Upon joining the Fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the Fund's discretion, however guidance on how the Fund will apply this discretion is set out within this policy.

E3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the Fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities[1], which was reviewed[2] in 2022.

Academy guidance from the Department for Education (DfE) and the Department for Levelling Up, Housing and Communities (DLUHC) may also be relevant.

[1]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1106083/DfE_parliamentary_minute_21_July_2022_LGPS_liabilities_for_academy_trusts.pdf
[2]https://questions-statements.parliament.uk/written-statements/detail/2022-07-21/hcws261

E4 Statement of Principles

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

- the Fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- Where the academy is part of a MAT that already participates in the Fund, the academy's assets and liabilities will be calculated individually but may, for the purposes of setting contribution rates, be combined with those of the other academies in the MAT.
- Academies must consult with the Fund prior to carrying out any outsourcing activity. The Fund also expects academies to obtain permission (and evidence it) from the Education & Skills Funding Agency (ESFA) before agreeing to act as guarantor for any outsourcing.
- the Fund will generally not consider receiving additional academies into the Fund as part of a consolidation exercise.

E5 Policies

E5.1 Admission to the Fund

As set out in Section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding Council's active members, having first allocated the Council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in Section 2 of the FSS) and the transferring membership. If an academy is joining an existing MAT within the Fund, then it may pay the MAT contribution rate (which may or may not be updated as a result - see below).

E5.2 Multi-academy trusts

Asset tracking

The Fund's current policy is to individually track the asset shares of each academy within the Fund. Where a MAT exists, the individual asset shares may be pooled together to provide a pooled funding level or for setting a pooled contribution rate.

Contribution rate

Typically, the Fund certifies contribution rates at individual academy level and does not pool at MAT level for contribution rate purposes. However, if the MAT requests and the Fund agrees, a pooled contribution rate may be calculated for the MAT (which is effectively an average rate of all the underlying individual academies in the MAT). This pooled rate would then be paid by all academies within the MAT. If an academy is joining an existing MAT (within the fund) which is paying a pooled contribution rate, in general, the transferring academy will pay the certified contribution rate of the MAT it is joining. At the discretion of the Fund, a new contribution rate for the MAT may be calculated by the Fund actuary to allow for the impact of the transferring academy joining the MAT.

Academies leaving a MAT

As set out in Section 5.2 of the FSS, if an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. The asset share of that academy (as tracked individually) will be transferred to the new MAT in full, noting that this may be more (or less) than 100% of the transferring liabilities.

E5.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, and neither is paying a pooled contribution rate, there will typically be no impact on contribution rates as they are set at individual academy level. If one or both of the MATs are paying a pooled contribution rate, the merged MAT may request (subject to the Fund's agreement) to pay a new pooled contribution rate. The pooled rate will typically be calculated as an average rate of all the underlying individual academies in the MAT.

E5.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the Fund actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in E5.2 above.
- In all other circumstances a cessation valuation will occur as set out in Section 7 of the FSS and, following payment of any cessation debt or settlement of any exit credit, Section 7.5 of the FSS would then apply going forward.

E5.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the Fund, they would need to seek approval from the Secretary of State to consolidate their liabilities (and assets) into one LGPS Fund. It is the Fund preference that academies do not seek to consolidate and the Fund would generally not be supportive of any application to join the Fund, due to the level of additional administrative work.

If an academy (or MAT) did seek to consolidate into another LGPS fund the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

E5.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract if it is acting as a guarantor to the admission.

It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the Fund's pass-through policy (see Appendix F to the FSS).

In all cases, it is necessary to seek approval from ESFA before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

Where a Local Authority school outsources to another organisation and subsequently converts to an academy (or joins a MAT), any outsourced contracts at the point of conversion will be treated by the Fund as having been let by the academy. The obligation to pay for transferring members benefits will revert to the academy (or MAT) at the end of the contract.

E5.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (e.g. for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (e.g. academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

E6 Related Policies

The Fund's approach to admitting new academies into the Fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?". Other policies that apply are:

- Bulk transfer policy

- Cessation and Exit Credits policy

Appendix F – Policy on pass-through

Staffordshire Pension Fund

Policy on pass-through

Effective date of policy	1 April 2023
Date approved	31 March 2023
Next review	31 March 2025

Introduction

The purpose of this policy is to set out the Fund's approach to admitting new contractors into the Fund on a pass-through basis.

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

F1 Aims and objectives

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

- to set out the Fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under a pass-through arrangement; and
- to outline the process for admitting new contractors into the Fund.

F2 Background

Employees outsourced from Local Authorities, Police and Fire Authorities or from academies (regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the Local Authority, Police Authority, Fire Authority or the academy) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

F3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013[3] (as amended) set out the way in which LGPS Funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the Fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

[3] https://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php

- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the Fund.

F4 Statement of principles

This statement of principles covers the admission of new contractors to the Fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- Where a new contractor has 10 members or fewer, and a contract period of 5 years or less, the Fund's default approach is for the employer to participate in the Fund on a pass-through basis. For the avoidance of doubt, this would apply to contracts established by councils, police & fire authorities, and academies ("the letting authority").
- The contractor's pension contribution rate will be set in line with Section F5.2 (see below).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and other demographic experience under its pass-through arrangement.
- Pass-through will only be applicable for outsourcings from academies where they can evidence that approval to act as guarantor has been sought from and approved by the Education and Skills Funding Agency.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements (including those as a result of redundancy), augmentations and above average pay awards.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the Fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass though agreement will be documented by way of the admission agreement between the Fund, the letting authority, and the contractor.
- Should a letting authority outsourcing a contract with 10 members or fewer, and a contract period of 5 years or less, wish to operate a different approach (e.g. a "stand-alone" basis with no risk sharing) the Fund will permit this at its sole discretion.
- Should a letting authority outsourcing a contract with 11 members or greater, and/or a contract period greater than 5 years, wish to operate a pass-through approach, the Fund will permit this – and incorporate the pass-through terms in the admission agreement – at its sole discretion. Alternatively, letting authorities and contractors may operate a pass-through agreement by entering into a separate side agreement. However, the Fund will not be party to this agreement and will not treat the admission agreement as though it incorporates the side agreement terms unless this is agreed by all parties and is appropriate.
- All existing admission agreements are unaffected by this policy.

The Fund is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

F5 Policy and process

F5.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The Fund and the Fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

F5.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the total contribution rate payable by the letting authority (at the time of the contract award) and will not change for the duration of the new employer's contract. Where the letting authority's contribution rate is expressed as a percentage of payroll plus a monetary amount, the monetary amount will be converted to a percentage of payroll to determine the total contribution rate. The Fund can advise letting authorities and contractors the relevant contribution rate at the time of the contract award.

F5.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the Fund.

A cessation valuation is required when a contractor no longer has any active members in the Fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains, augmentations and/or above average pay awards at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is agreed between the letting authority and the contractor and typically is as follows:

Risks	Letting authority	Contractor
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual	✓	
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual	✓	
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual	✓	
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals than expected	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package	✓	
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓
Award of additional pension or augmentation		✓

F5.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the Fund's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed contribution rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the Pension Fund risk relating to contractors, it is the Fund's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The Fund expects employers to seek approval to the treatment of pension costs from their auditor.

F5.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Fund.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy. Such agreements would typically be based on the funding strategy statement in place at the time.

F5.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations and excessive salary growth (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in section F5.2.
- **Initial notification to Pension Fund Officers** – The letting authority must contact the Fund when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The Fund must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority must immediately advise the Fund of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the Fund that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Fund, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the Fund and possibly its legal advisors.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the Fund. It is at this point the Fund can start to receive contributions from the contractor and its employee members (backdated if necessary).
- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

F5.7 Costs

Contractors being admitted to the Fund under a pass-through agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the Fund.

F6 Related Policies

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

The treatment of new employers joining the Fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

The treatment of employers exiting the Fund is set out in the in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the Fund?" and its Policy on Cessations (Appendix H to the FSS)

Appendix G – Policy on bulk transfers

Staffordshire Pension Fund

Policy on bulk transfers

Effective date of policy	1 April 2023
Date approved	31 March 2023
Next review	31 March 2025

Introduction

The purpose of this policy is to set out the Staffordshire Pension Fund's approach to dealing with the bulk transfer of scheme member pension rights in to and out of the Fund in prescribed circumstances.

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

G1 Aims and Objectives

Bulk transfer requests will be considered on a case by case basis, ensuring that:

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

When considering any circumstances where bulk transfer provisions might apply, however, the Fund will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007).

G2 Background

Bulk transfers into and out of the Fund can occur for a variety of reasons, namely:

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

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

G3 Guidance and regulatory framework

G3.1 Local Government Pension Scheme Regulations 2013

When considering any circumstances involving bulk transfer provisions, the Fund will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement;
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value;
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a club scheme, who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the Fund.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

G3.2 Best Value Authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all “Best Value Authorities” in England (which therefore applies to all local authorities in England). The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

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

G3.3 Academies and Multi-Academy Trusts

New Fair Deal, introduced in October 2013, applies to academies and multi academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result, it would not be expected the Fund would have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi academy trusts.

G3.4 Other employers

For all other scheme employers – who are not subject to the requirements of Best Value Direction or New Fair Deal - there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services, although any successful contractor is free to seek admission body status in the Fund, subject to complying with the Fund’s requirements (e.g. having a bond or guarantor in place).

It is our understanding that there is no specific provision giving protection to past pension accrual in either the Best Value Direction or new Fair Deal (albeit if the individual remains in their original scheme, then their past service rights are automatically protected). In the absence of a bulk transfer agreement, therefore, the Fund would not expect to pay out more than individual cash equivalent transfer amounts, in accordance with appropriate GAD guidance.

G4 Statement of Principles

The Fund's policy is drafted on the basis of the following key principles:

- where a group of active scheme members joins (or leaves) the Fund, the Fund's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits;
- the Fund's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated based on the appropriate cash equivalent transfer values. However, the scheme employer whose funding position will be affected by the transfer will always be consulted on the transfer terms before the Fund agrees to any arrangement;
- a bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations;
- a bulk transfer out which is greater than the value of the past service liabilities of the transferring members assessed on the Fund's ongoing funding basis, may require the transferring employer's Fund contributions to increase between valuations; and
- service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.

G5 Policy

The following table sets out a summary of the various scenarios for the transfer into and out of the Fund, together with the Fund's policies relating to bulk transfers. In the remainder of this section, we set out the Fund's policies in relation to a number of subsidiary areas associated with bulk transfers.

Scenario		Bulk transfer mechanism	Policy	Methodology
Machinery of Government from a Club Scheme	In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits	The pension credit awarded to members transferring in will be calculated in line with the **Club transfer-in formulae**.
	Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the **Club transfer-out formulae**.
Broadly Comparable scheme or Machinery of Government where scheme is treated as a non-Club scheme	In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the **non-Club transfer-in formulae**.
	Out	< 2 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the **CETV transfer-out formulae**.
		2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the **CETV transfer-out formulae**.

Scenario		Bulk transfer mechanism	Policy	Methodology
Inter-fund transfer (transfer between the Fund and another LGPS Fund)	In	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	On receipt of a transfer value (calculated in line with the **CETV transfer-out formulae**), the Fund will award the member a pension credit on a day-for-day basis.
	In	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the transferring Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual cash equivalent transfer values calculated using the **Club transfer-out formulae**. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis.
	Out	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	The transfer value paid to the receiving fund will be calculated in line with the **CETV transfer-out formulae**.
	Out	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer a transfer value that is equal to the total of the individual cash equivalent transfer values calculated using the **Club transfer-out formulae**. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.

Notes:

- There may be situations where a transfer amount accepted in respect of a transfer in is less than is required to fully fund the transferred in benefits on the Fund's ongoing basis. In such cases the Fund reserves the right to require the receiving employer to fund this deficit (either by lump sum or increase in ongoing employer contributions) ahead of the next formal valuation.

- Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- For transfers out, in exceptional circumstances the Fund's policy may be altered to reflect specific issues of the transferring employer (e.g. the cessation of the transferring scheme employer).

G6 Practicalities and process

G6.1 Adjustment to transfer payment or payment date

In the normal course of events payment of a bulk transfer value will occur well after the actual transfer of employment.

Regulation 92(1) specifically refers to the actuary to the paying scheme being able to adjust the transfer amount for the period between the transfer date and payment date.

Bearing in mind the overriding principle of minimising the risk to the Fund of paying out more in the bulk transfer than the Fund holds in assets which are attributable to the transferring liabilities, the most appropriate adjustment would be to use the actual returns achieved on the Fund's assets over the appropriate period.

G6.2 Format of transfer payment

Ordinarily payment will be in cash, with discretion delegated to the Assistant Director for Treasury & Pensions to agree alternatives.

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

G6.3 Impact on transferring employer

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

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

G6.4 Consent

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

G6.5 Approval process

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

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

G6.6 Non-negotiable

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

G6.7 Costs

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

G7 Related Policies

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

Appendix H – Policy on cessations

Staffordshire Pension Fund

Policy on cessations

Effective date of policy	1 April 2023
Date approved	31 March 2023
Next review	31 March 2025

Introduction

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

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in Section H5).

H1 Aims and Objectives

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

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

H2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Fund will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

H3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64[4]) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the Fund is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer.
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the Fund is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it

[4] https://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php#r64

requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the Fund.

- Regulation 64 (2ZAB) – the Fund must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  - a) Notify its intention to make a determination to-
    - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer.
    - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the Fund and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the Fund must have regard to the following factors-
  - a) The extent to which there is an excess of assets in the Fund relating to that employer in paragraph (2)(a)
  - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  - c) Any representations to the Fund made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  - d) Any other relevant factors.

- Regulation 64 (2A) & (2B) – the Fund, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining Fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the Fund may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

- Regulation 64 (7A-7G) – the Fund may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the Fund may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A[5] of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under

[5] https://www.lgpsregs.org/schemeregs/tpregs2014/timeline.php#r25A

the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

This policy also reflects statutory guidance[6] from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide[7] that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

H4 Statement of Principles

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

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund;
- the Fund's preferred approach is to request the full payment of any cessation debt (an exit payment by the employer), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section H5.1 below). This would extinguish any liability to the Fund by the exiting employer; and
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

H5 Policies

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

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 30 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see section H5.2 below).

In circumstances where there is a surplus, the Fund will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see section H5.3 below).

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

[6] https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk/outcome/guidance-on-preparing-and-maintaining-policies-on-review-of-employer-contributions-employer-exit-payments-and-deferred-debt-agreements
[7] https://lgpsboard.org/index.php/empflexm

H5.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low-risk basis[1]	Shared between other Fund employers
Colleges & Universities	Low-risk basis	Shared between other Fund employers
Academies[2]	Low-risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis / contractor exit basis[3]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low-risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low-risk basis	Shared between other Fund employers (if no guarantor exists)

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

[2] Further details about academy cessations are set out in the Fund's policy on academies (see Appendix E).

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

Risk-based cessation approach

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

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

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

The likelihoods used to determine the forecasted future investment returns when assessing the liabilities under the corridor approach are:

- Lower: 85% likelihood

- Upper: 95% likelihood

H5.2 Repayment flexibility on exit payments

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

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

- The agreed spread period is no more than three years, unless security is provided, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the Fund with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within 28 days of the employer receiving confirmation of the amount of exit payment due. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund will take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund reserves the right to require that the exiting employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Assistant Director for Treasury & Pensions, in consultation with the Chair, if an urgent decision is required between Committee meetings.
- All costs of the arrangement are to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

Deferred debt agreement (DDA)
When an exiting employer is unable to pay the required cessation payment as a single lump-sum, the Fund's preferred policy is to spread the payment via a deferred spreading arrangement (DSA). However, in the event

that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A))[8].

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

The Fund may consider a DDA where all the following circumstances apply:

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

The Fund will normally require:

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

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

- The employer enrols new active Fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The Fund serves a notice on the employer that the Fund is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. the employer is now largely fully funded on a low-risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.

[8] https://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php#r64

- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

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

H5.3 Exit credit policy

The Fund's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020[9].

In making a determination as to the value of any exit credit payable, which may be zero, the Fund will consider:

- the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.
- the proportion of surplus arising as a result of the exiting employer's employer contributions.
- in the case of an Admission Body that is an exiting employer, any representations made by the Admission Body (and any other parties notified, as set out above) which may include information as to any risk sharing agreements in place, any guarantor arrangements, any specific agreement between scheme employers, and any such other representations relevant in the specific case.
- any other relevant factors.

Admitted bodies

1 No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations, and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund.

2 No exit credit will normally be payable to any admission body who participates in the Fund via a pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph 3 below.

3 The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the Fund) of the admission body ceasing participation in the Fund.

[9] https://www.legislation.gov.uk/uksi/2020/179/made

4 In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in paragraph 3, the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the Fund.

5 Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

6 If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

7 If an admitted body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

8 The decision of the Fund is final in interpreting how any arrangement described under paragraphs 3, 5, 6 and 7 applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

1. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

2. Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

3. The decision of the Fund is final in interpreting how any arrangement described under 1 and 2 applies to the value of an exit credit payment.

4. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

5. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

1. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

2. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position, the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

3. If the employer enters into an arrangement or a 'deferred debt agreement' with the Fund, over such period of time as the Fund considers reasonable, to pay the exit payment, no exit credit will be payable at any future date in relation to that specific agreement, unless the agreement explicitly requires it.

4. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

5. The final decision will be made by the Assistant Director for Treasury and Pensions, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

6. The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations, the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

7. The guidelines above at point 5 in the 'Admitted bodies' section, and at points 1 and 2 in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions, then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

8. None of the above should be considered as fettering the Fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However, it is important to bear in mind that each and every potential exit credit case will be considered by the Fund on its own merits, and the Fund will make its discretionary decision on that basis.

Disputes

If a party involved in the exit credit process set out in this policy wishes to dispute the Fund's determination, this must be routed through the Fund's internal dispute resolution procedure[10] (IDRP).

If the relevant party is still unhappy with the exit credit determination, having gone through all the stages of the IDRP, they may be able to take a complaint to the Pensions Ombudsman.

H6 Practicalities and process

H6.1 Responsibilities of ceasing employers

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

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically as much notice as possible is required with 3 months being a minimum) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).

[10] https://www.staffspf.org.uk/Employers/Internal-dispute-resolution-procedure/Internal-dispute-resolution-procedure.aspx

- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Fund which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

H6.2 Responsibilities of Fund

The Fund will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

H6.3 Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the Fund will act in accordance with the exit credit policy above. If payment is required, the Fund will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six-month timeframe, the Fund requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The Fund is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

H6.4 Responsibilities of the Fund Actuary

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

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

H7 Related Policies

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

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

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

Appendix I - Glossary

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The assumption used to calculate future benefit payments in today's money. The rate is an estimate of the future expected investment returns earned by the Fund's assets.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually

	be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.

Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.