

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Lincolnshire Pension Board
Date:	19 March 2020
Subject:	Lincolnshire Pension Fund - Funding Strategy Statement and 2019 Valuation Report

Summary:

This paper brings the Funding Strategy Statement and the draft 2019 Valuation report to the Board for consideration. This statement sets out how the Pension Fund aims to become fully funded over the long term, whilst considering affordability, transparency, stability and prudence, and the Valuation shows the funding position as at 31 March 2019 and the employer contribution rates payable for the three years to March 2023.

Recommendation(s):

That the Board note the Funding Strategy Statement and the 2019 Valuation report.

Background

1. The Funding Strategy Statement (FSS) (draft attached as appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation. The initial Valuation outcome was presented to the Board in October 2019, and the final report detailing the funding position and the employer contribution rates payable to for the three years to March 2023 is attached at Appendix B.
2. As employees contributions are set by the Government, employers must pay the balance of any cost in delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities. The final agreed contribution rates for employers are shown in appendix B.
3. The purpose of the FSS, as defined by the Ministry of Housing, Communities and Local Government (MHCLG), is:

- to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as **nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.

4. The aim of this funding policy is:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

5. A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
 2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
 3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.
6. The FSS also includes mechanisms for dealing with employers ceasing, ill-health retirements and early retirement costs. In addition to these normal

events, the FSS also explains the approach the Fund has taken for dealing with the uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure.

7. The key risks, around financial, demographic and governance issues, and the controls in place are detailed in appendix C of the FSS.
8. The FSS should to be read alongside the Triennial Valuation Report, the Investment Strategy Statement and the Governance Compliance Statement to provide a full overview of the Fund's governance structure.
9. The FSS was sent to all employers in the Fund for consultation in mid-November 2019, alongside their individual schedules of results detailing their contribution rates for the three years to March 2023. Four employer sessions with the Fund Actuary were held in late November, giving employers the opportunity to comment or question the FSS or their contribution rates. No feedback from employers on the consultation has been received.
10. The draft Valuation report (appendix B) summarises the approach that has been undertaken, the results at a Fund level, and a sensitivity analysis showing how the funding level would move should certain assumptions change, e.g. CPI or life expectancy. The individual employer rates are included at Appendix 3.
11. All employers returned signed declarations confirming the contribution rates and any secondary payments that they would pay for the three years to March 2023.
12. There are three areas in the draft that are awaiting further information – a comment on the March 2020 position (p11), the date of the final Valuation report (p20) and appendix 4 (p28) which is the GAD Section 13 dashboard , and will be available shortly. These will be completed before the report is published ahead of 31 March 2020 deadline.

Conclusion

13. The Funding Strategy Statement has been reviewed following the 2019 Triennial Valuation and has been updated to take account of the process used to finalise employer contribution rates, included within the draft Valuation report.

Consultation

a) Have Risks and Impact Analysis been carried out??

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund - Draft Funding Strategy Statement
Appendix B	Draft 2019 Valuation Report and Employer Contribution Rates

Background Papers

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.