



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

Report to:	Pensions Committee
Date:	16 March 2023
Subject:	Lincolnshire Pension Fund - Funding Strategy Statement and 2019 Valuation Report

Summary:

This paper brings the Funding Strategy Statement and the draft 2022 Valuation report to the Committee for approval. The 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 2022 and the employer contribution rates payable for the three years to March 2026.

Recommendation(s):

That the Committee

- 1) discuss the report and consider whether any further information is required; and
- 2) approve the Funding Strategy Statement and the 2022 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 Committee in September 2022, and the final draft 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 the rates and adjustments certificate, as part of the Valuation report at appendix B.

3. The purpose of the FSS is:
 - Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
 - Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
 - Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
 - Take a prudent longer-term view of funding those liabilities.

4. The funding objectives are to:
 - Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
 - Ensure the solvency of the Fund;
 - Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
 - Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
 - Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

5. The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund, over an appropriate period. For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:
 - The past service funding level of the Fund is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
 - The future service funding rate (also referred to as the primary rate) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

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 explains the approach the Fund has taken for dealing with the uncertainty arising from the McCloud and Sargeant court cases and their potential impact on the LGPS benefit structure.

7. The key risks, around financial, demographic, climate, maturity, regulatory, employer and governance issues, and the controls in place are detailed in Risks and Counter Measures at page 24 of the FSS.
8. The FSS should 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 2022, alongside their individual schedules of results detailing their contribution rates for the three years to March 2023. All employers were invited to a virtual presentation from the Fund Actuary, held in late November, giving employers the opportunity to comment or question the FSS or their contribution rates. In addition, individual surgeries were offered to discuss any specific issues. No feedback from employers on the FSS consultation has been received.
10. The draft Valuation report (appendix B) summarises the approach that has been taken, 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 5 of the valuation report. There are a few employers that joined the fund since 31 March 2022 where contribution rates are still being calculated, but these will be included once agreed.
11. All employers returned signed declarations confirming the contribution rates and any secondary payments that they will pay for the three years to March 2026.

Conclusion

13. The Funding Strategy Statement has been reviewed following the 2022 Triennial Valuation and has been updated to take account of the process used to finalise employer contribution rates, included within the draft Valuation report.
14. The FSS has been sent to all employers, alongside their contribution rates, for consultation, and no comments or feedback has been received.
14. The Committee are asked to approve the FSS and the draft Valuation report. Once approved, they will be published on the website.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

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 2022 Valuation Report and Employer Contribution Rates

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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