

Scottish Borders Council Pension Fund
Funding Strategy Statement
February 2023

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Scottish Borders Council Pension Fund – Funding Strategy Statement

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1 Welcome to Scottish Borders Council Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Scottish Borders Council Pension Fund.

The Scottish Borders Council Pension Fund is administered by Scottish Borders Council, known as the administering authority. Scottish Borders Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2024.

There's a regulatory requirement for Scottish Borders Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact pensions@scotborders.gov.uk.

1.1 What is the Scottish Borders Council Pension Fund?

The Scottish Borders Council Pension Fund is part of the Scottish 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 is mainly for employers participating in the fund, because it sets out how money will be collected from them 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 employers like further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension 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 a Statement of Investment Principles (SIP) set by the administering authority. You can find the SIP at [link](#).

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those 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 policy is consistent with the investment strategy contained within the Statement of Investment Principles. 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 Scottish Borders Council Pension Fund?

The funding strategy reflects the specific characteristics of the 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 as they apply in Scotland.

Total employer contributions are made up of two 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

The primary rate also includes an allowance for the fund’s expenses.

The fund actuary uses a model to project each employer’s asset share over a range of future economic scenarios. The 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.

The fund permits the prepayment of employer contributions in specific circumstances. Please contact the Fund should you wish to consider the prepayment of contributions.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

* See [Appendix D](#) for further information on funding targets.

Type of employer	Scottish Borders Council Pool	Other Scheduled Bodies	Community admission bodies	Transferee admission bodies
Funding target*	Ongoing	Ongoing	Low-risk exit basis	Ongoing
Minimum likelihood of success	80%	80%	50%	80%
Maximum time horizon	20 years	20 years	Average future working lifetime	In line with the letting authority
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	% of pay	% of pay	Monetary amount if secondary rate is positive	Monetary amount if secondary rate is positive
Stabilised contribution rate?	Yes	Yes	No	No
Treatment of surplus	Covered by stabilisation arrangement		Permit reductions to primary contribution rate where calculated secondary rate is negative for closed employers	
Phasing of contribution changes	Covered by stabilisation arrangement		Up to 3 years	None

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 administering authority believes a stabilised approach is a prudent longer-term strategy for all employers who participate in the Scottish Borders Council Pool.

Table 2: current stabilisation approach

Type of employer	All stabilised employers
Maximum contribution increase per year	+1.5% of pay
Maximum contribution decrease per year	-1.5% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes. The administering authority may also permit a faster pace of contribution decreases where this meets the measures of success for funding strategy as set by the Fund’s officers. Similarly, where those measures of success can’t be met within the current stabilisation approach, the Fund may request a faster pace of contribution rate increases.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund’s policy is [available at link](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 Administering authority discretion

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

Additionally, the administering authority 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.



3 What additional contributions may be payable?

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

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 with the agreement of the Fund the payment can be spread over 5 years.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, a funding strain may arise. The impact on the employer's liabilities will be assessed at the next formal valuation which may result in an increase in contributions following the next formal valuation.

The Fund monitors ill-health strain amounts as they arise and will inform an employer where it is expected that a funding strain will arise due to ill-health early retirements.

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 tracks each individual employer's cashflows monthly, which are used to calculate employer's assets. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one 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 an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5.2).

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 benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for 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 asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's 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. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. 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.

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). More details on this are in Section 5.4 below.

5.2 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) 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. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

5.3 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

5.4 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

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

This must 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.

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

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

- the fund won't 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 won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- 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.

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 administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't 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
- termination of a deferred debt arrangement (DDA).

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

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is 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 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 can't pay the contributions due and the approach is within guarantee terms.

If the fund can't 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 cessation policy is available from the administering authority.

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 administering authority will obtain a revised rates and adjustments certificate showing the exit credit payable to the exiting employer.

Full details of the Fund's approach to cessation valuations can be found in the Fund's cessation policy available from the Administering Authority.

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 agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

More detail of the flexibilities available to employers on exit can be found in the Fund's cessation policy.

7.5 What if an employer has no active members?

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 will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis based on liabilities at the formal valuation .
- 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 based on asset share.

Employers who leave the Fund following the offer of a guarantee from Scottish Borders Council will have their assets and liabilities pooled with the Council.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires that the Government Actuary's Department must report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers on each of the LGPS Funds in Scotland. This report is 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:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

- (b) 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 administering authority may consider absolute and relative factors.

Relative factors include:

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

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. 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 and SPPA 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) to document the processes the administering authority 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*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority 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 issuing a draft version to participating employers and follow up meeting with Fund Actuary where requested.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.scottishborderscouncilpensionfund.org
- A copy included as part of Committee papers and available to all Committee and Board members including employee and pensioner representatives;
- A link to the document in the annual report and accounts of the Fund;
- Copies made available to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any 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 isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at www.scottishborderscouncilpensionfund.org

Appendix B – Roles and responsibilities

B1 The administering authority:

- 1 operates the fund and follows all LGPS (Scotland) 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 Statement of Investment Principles (SIP)
- 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 pension 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 administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

B3 The fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within 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 administering authority 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 Statement of Investment Principles (SIP) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the Statement of Investment Principles
- 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 administering authority 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 administering authority's own procedures
- 6 the SPPA/Scottish Ministers (assisted by the Government Actuary's Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority 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 terms of reference available [link]}}.

Details of the key fund-specific risks and controls are available by request from pensions@scotborders.gov.uk

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	Tax-raising or government-backed, no individual assessment required	n/a
College	A copy of audited accounts to be submitted, as soon as they are available, to confirm the internal controls they have in place for LGPS pension process in relation to our membership of the Scottish Borders Council Pension Fund.	Annual review on submission of audited accounts.
Admission bodies (including TABs & CABs)	A copy of audited accounts to be submitted, as soon as they are available, to confirm the internal controls they have in place for LGPS pension process in relation to our membership of the Scottish Borders Council Pension Fund.	Annual review on submission of audited accounts.

C3 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy.

The fund included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2023 valuation. The modelling results under the stress tests were slightly worse than the core results but 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 same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the

vast majority of the fund's assets and liabilities, 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 a Responsible Investment Policy Framework available at [Link](#) which includes details on Climate Change, this was last agreed by Pensions Committee in September 2021.

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 the contribution rate?

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 2023

		Annualised total returns							Inflation (CPI)	17 year real govt yield	17 year govt bond
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (Medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
5 Years	16 th %ile	2.7%	0.3%	1.1%	-0.7%	-1.3%	-0.6%	1.2%	1.0%	-0.2%	3.1%
	50 th %ile	3.5%	3.3%	3.3%	7.5%	7.3%	6.0%	4.0%	2.5%	0.7%	4.2%
	84 th %ile	4.3%	6.5%	5.5%	15.9%	16.0%	13.4%	6.5%	4.1%	1.6%	5.5%
10 Years	16 th %ile	2.5%	0.8%	2.4%	1.3%	1.1%	1.2%	2.7%	0.9%	-0.3%	2.7%
	50 th %ile	3.6%	2.8%	3.7%	7.5%	7.3%	6.2%	4.3%	2.5%	0.9%	4.1%
	84 th %ile	4.7%	5.1%	4.9%	13.5%	13.6%	11.5%	5.8%	4.1%	2.2%	5.9%
20 Years	16 th %ile	2.3%	1.0%	3.3%	3.0%	2.8%	2.7%	3.7%	0.7%	-0.5%	1.4%
	50 th %ile	3.7%	2.7%	4.1%	7.5%	7.4%	6.4%	4.7%	2.3%	1.3%	3.4%
	84 th %ile	5.4%	4.5%	4.8%	12.0%	12.2%	10.3%	5.8%	3.9%	2.9%	5.9%
Volatility (X yr)		0%	7%	6%	18%	19%	15%	8%	1%		

D3 What financial assumptions were 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	Level of investment return with likelihood of success as below
Ongoing basis	All employers except closed community admission bodies	80%
Low-risk exit basis	Community admission bodies closed to new entrants	90%

Discount rate (for funding level calculation as at 31 March 2023 only)

For the purpose of calculating a funding level at the 2023 valuation, a discount rate of 5.2% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 80% likelihood that the fund's assets will achieve future investment returns of 5.2% over the 20 years following the 2023 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 2.3% pa on 31 March 2023.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.7% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were 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 2022 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. The smoothing parameter used in the CMI model is 7.0.

A weighting of 0% has been applied to 2020 and 2021 data within the model to avoid overstating the impact of the covid-19 pandemic on future life expectancy. However a weighting of 25% has been applied for 2022 data reflecting emerging data on the longer term impact of the pandemic and a wider slow down in life expectancy improvements.

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 85% for males and 60% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. The dependant of a male member is assumed to be 2 years younger than him and the dependent of a female member is assumed to be 3.5 years older than her, and partner dependants are assumed to be opposite sex to members.
Commutation	65% of maximum tax-free cash
50:50 option	0.0% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.21	267.99	578.87	0	0	0	0
25	117	0.21	177.02	382.37	0.11	0.02	0.13	0.02
30	131	0.26	125.57	271.22	0.21	0.03	0.23	0.03
35	144	0.30	98.09	211.87	0.41	0.14	0.46	0.15
40	154	0.51	78.93	170.49	0.62	0.26	0.69	0.24
45	164	0.86	64.58	139.50	0.99	0.51	1.09	0.49
50	174	1.37	50.03	108.06	1.86	1.31	2.59	1.45
55	179	2.15	48.05	103.80	5.83	4.52	4.67	3.11
60	184	3.86	42.80	92.45	9.91	6.97	3.87	2.65

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT

		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.11	256.99	372.67	0	0	0	0
25	117	0.11	172.88	250.69	0.16	0.13	0.09	0.1
30	131	0.16	144.88	210.09	0.21	0.18	0.12	0.13
35	144	0.27	124.95	181.2	0.41	0.34	0.24	0.25
40	154	0.44	103.93	150.70	0.61	0.51	0.36	0.37
45	164	0.71	85.55	124.06	0.82	0.68	0.48	0.5
50	174	1.04	65.19	94.53	1.5	1.23	1.11	1.13
55	179	1.37	60.98	88.43	5.47	4.43	2.32	2.35
60	184	1.75	49.03	71.10	11.52	9.3	2.38	2.4

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

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

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

The discount rate is set equal to a prudent estimate of investment returns, specifically, that there is an 90% likelihood that the fund's assets will future investment returns

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.3% pa on 31 March 2023

Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

For the purposes of determining any payment to be made on exit from the Fund, the Fund will determine a lower and upper bound of assets that they are aiming to hold to meet future liabilities. Where assets held are lower than the lower bound, a cessation payment will be requested from the employer. Where assets held are higher than the upper bound, an exit credit will be paid to the employer. Full details can be found in the Fund's cessation policy.