

**FUNDING
STRATEGY
STATEMENT**



STRATHCLYDE PENSION FUND

Prepared in conjunction with actuarial valuation as at: 31st March 2017

For publication: 1st April 2018



STRATHCLYDE PENSION FUND

FUNDING STRATEGY STATEMENT

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The council delegates this responsibility to the Strathclyde Pension Fund Committee. The council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee in the private sector. This statement sets out the approach to funding which the committee adopts in light of those duties.

Further background details are set out in Schedule 1 of this statement.

2. Purpose of the Funding Strategy Statement (FSS)

Preparation and publication of the FSS is a regulatory requirement. The stated purpose 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 desirability of maintaining as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how the administering authority balances the potentially conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

3. Aims and Purpose of the Pension Fund

The Fund is the vehicle for the delivery of scheme benefits.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income;
- invest monies in accordance with policy formulated by the administering authority; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

The aims of the Fund are to:

- ensure that sufficient resources are available to meet all liabilities as they fall due;
- manage employers' liabilities effectively;
- seek investment returns within reasonable risk parameters; and
- enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the employers and taxpayers while achieving and maintaining fund solvency and long term cost efficiency.

The objectives of the funding strategy are consistent with these aims. The objectives are set out in Schedule 2 of this statement.

The aims of the pension fund can only be achieved if all parties involved in its operation exercise their statutory duties and responsibilities conscientiously and diligently.

4. Responsibilities of Key Parties

The Fund is a multi-employer arrangement with over 180 participating employers. The administering authority manages the Fund to deliver the scheme benefits and to ensure that each employer is responsible for its own liabilities within the Fund.

The responsibilities of the key parties involved in management of the Fund are set out in Schedule 3 to this statement.

5. Solvency and Long Term Cost Efficiency

Employer contribution rates are required to be set at an appropriate level to ensure the solvency of the Fund and long term cost efficiency of the scheme.

In this context:

- **solvency** means that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise; and
- **long-term cost-efficiency** implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

These requirements are reflected in the funding objective.

6. Funding Objective

The funding objective is to achieve the funding target over the target funding period.

- The funding target (amount of assets compared to liabilities expressed as a percentage) is at least 100% using appropriate actuarial assumptions.
- The target funding period and recovery period for any deficit is the weighted average future working lifetime of the active membership – currently around 14 years.
- There are many inherent uncertainties in the funding process and a wide range of possible outcomes. It is acknowledged that the actual funding level will fluctuate as a result.
- The funding strategy targets at least a 2/3rds probability of achieving the target, and a higher probability where possible.

For the Fund as a whole and for ongoing employers the funding level will be measured on an ongoing actuarial basis, taking advance credit for investment returns above the risk-free rate indicated by long-dated UK gilt yields.

For employers whose participation in the Fund is to cease the funding level will be measured on a more prudent cessation basis and contribution rates will be set accordingly.

The approach to funding strategy for individual employers including the policies on admission and cessation is set out in Schedule 4.

7. Contributions Strategy

The contributions strategy aims to ensure that the target funding level is achieved at both Fund and employer level in a manner which is fair and affordable for employers.

For ongoing employers with a good covenant the Fund will adopt measures to stabilise the contribution rate and will seek to limit changes in the rate payable by them.

For employers with a less secure covenant or where participation in the Fund may cease, rates and adjustments will be set to minimise risk to the Fund and its other employers.

The contributions strategy is set out in Schedule 5 to this statement.

8. Links to Investment Strategy set out in the Statement of Investment Principles (SIP)

The investment strategy is set for the long-term but is monitored continually and reviewed every 3 years using asset-liability modelling to ensure that it remains appropriate to the Fund's liability profile.

The Fund initially applies a single investment strategy for all employers but may apply notional or actual variations after agreement with individual employers.

Details of the investment strategy are set out in the Fund's Statement of Investment Principles which is available at www.spfo.org.uk

9. The Identification of Risks and Counter Measures

Risk management is integral to the governance and management of the Fund at a strategic and operational level. The Fund actively manages risk and maintains a detailed risk register which is reviewed on a quarterly basis.

Details of risk management are set out in the Fund's Risk Policy and Strategy Statement which is available at www.spfo.org.uk

The key financial, demographic, regulatory, and governance risks are set out in Schedule 6 to this statement

10. Actuarial Valuation as at 31st March 2017

Key figures from the actuarial valuation as at 31st March 2017 are set out in Appendix 7.

Schedules:

1. Background
2. Objectives of the Funding Strategy
3. Responsibility of Key Parties involved in management of Fund
4. Funding Strategy for individual employers
5. Contributions Strategy
6. Key financial, demographic, regulatory and governance risks
7. Statistical Appendix: key figures from the 2017 actuarial valuation

Schedule 1



Background

1.1 Preparation

This Funding Strategy Statement (FSS) has been prepared by the Administering authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and other interested parties. This FSS has been prepared in conjunction with the actuarial valuation of the Fund as at 31 March 2017.

This statement applies to the No 1 Fund only. A separate statement is produced for the Strathclyde (No.3) Fund.

1.2 Regulatory framework

Preparation and publication of a Funding Strategy Statement is a requirement of regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2014.

The FSS forms part of a framework which includes:

- The Public Service Pensions Act 2013;
- the Local Government Pension Scheme (Scotland) Regulations 2014 and other LGPS regulations;
- guidance issued or endorsed by Scottish Ministers including the *CIPFA Guide to Preparing and Maintaining a funding strategy statement in the Local Government Pension Scheme*
- actuarial factors issued by the Government Actuary's Department (GAD);
- the Rates and Adjustments Certificate, which is appended to the triennial actuarial valuation report; and
- the Fund's Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, and provides recommendations to the Administering authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.3 Funding mechanism

Members' accrued benefits are guaranteed by statute. Members' contributions are set by the regulations at a rate which covers only part of the cost of accruing benefits. Investment income meets a further part of the cost. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these benefits are funded and on practical measures to ensure that employers pay for their own liabilities.

1.4 Measurement and monitoring of funding position

The funding position is formally measured every three years in the triennial actuarial valuation.

The administering authority carries out detailed monitoring of investment performance on a quarterly and annual basis via its Investment Advisory Panel. This includes comparison of investment returns relative to the assumed growth in the liabilities, and review of a quarterly funding projection provided by the actuary. Summary monitoring reports are considered by the Strathclyde Pension Fund

Committee and are publicly available via the Fund's (www.spfo.org.uk) and the Council's (www.glasgow.gov.uk) websites. Performance is also reported at the Fund's Annual Meeting.

1.5 Reviews of FSS

The FSS is reviewed in detail at least every three years in conjunction with triennial actuarial valuations being carried out. The next full review is due to be completed by 31 March 2021.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. Queries regarding the FSS should be addressed to Strathclyde Pension Fund Office, email spfo@glasgow.gov.uk or call 0345 890 8999.

Schedule 2



Objectives of the Funding Strategy

2.1 Scheme Objectives

The objectives of a funded scheme include:

- allocating and safeguarding assets to ensure that pensions can be paid as promised; and
- reducing the level and variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The funding mechanism should also minimise any intergenerational transfer of liabilities.

2.2 Funding Strategy Objectives

The objectives of the funding strategy include the following:

- to ensure the solvency of the Fund and the solvency of individual employers' share of the Fund;
- to ensure the long term cost efficiency of the scheme in order to secure as far as possible its affordability to employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to provide a framework for the investment strategy of the Fund;
- to help employers recognise and manage pension liabilities as they accrue;
- to inform employers of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of each employer's contributions where the administering authority considers it reasonable to do so;
- 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; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

Schedule 3



Responsibilities of Key Parties

3.1 Administering Authority

The administering authority is responsible for:-

- managing the Strathclyde Pension Fund in accordance with the regulations;
- collecting employer and employee contributions;
- investing surplus monies in accordance with the regulations;
- ensuring that cash is available to meet benefit payments when they fall due;
- managing the valuation process in consultation with the Fund's actuary;
- preparing and maintaining a Funding Strategy Statement (FSS) and a Statement of Investment Principles (SIP), both after proper consultation with interested parties;
- monitoring all aspects of the Fund's performance and funding; and
- working with employers to achieve the funding aims and objectives.

3.2 Employers

Each individual Employer is responsible for:-

- funding all liabilities relating to their employees within the Fund;
- deducting contributions from employees' pay correctly;
- paying all contributions, including their own as determined by the actuary, promptly by the due date;
- exercising discretions within the regulatory framework and in accordance with their own policies;
- making additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain;
- notifying the administering authority promptly of all actual membership changes including scheme joiners and leavers;
- providing the administering authority with accurate member data including payroll data; and
- notifying the administering authority promptly of any proposed changes to membership which may affect future funding.

3.3 Fund Actuary

The actuary is responsible for:-

- completing valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the regulatory framework;
- producing cash flow data to inform asset liability modelling;
- providing regular inter-valuation monitoring information; and
- preparing advice and calculations in connection with new employers, exiting employers, bulk transfers and individual benefit-related matters as required.

Schedule 4



Funding Strategy for Individual Employers

4.1 Employer Risk

Employers vary in size, membership profile, source and security of funding, and length of participation in the Fund. In developing the funding strategy and policies, the administering authority seeks to address the different funding risks of the different employers or groups of employers.

4.2 Participating Employers

Employers fall broadly into 3 categories:-

Scheduled Bodies have a statutory right to participate in the scheme by merit of being listed in Schedule 2 of the 2014 scheme regulations. Scheduled bodies include local authorities, joint boards, further education colleges and other statutory bodies.

Community Admission Bodies (CABs) are not-for-profit organisations which participate in the scheme as a result of an admission agreement with the administering authority. They include a diverse range of public sector bodies with some connection or community of interest with a scheme employer.

Transferee Admission Bodies (TABs) are contractors which provide a service for or on behalf of a scheme employer.

4.3 Employer Groups

For funding purposes employers in the Fund are divided into the following groups of organisations sharing the same broad characteristics and risk profiles.

- Scheduled bodies with tax raising powers (and associated bodies),
- Colleges and scheduled bodies without tax raising powers,
- Transferee admission bodies,
- Other admitted bodies open to new entrants,
- Other admitted bodies closed to new entrants, and
- Employers with no contributing members.

A full list of employers and their grouping is set out in an appendix to the actuarial valuation report.

4.4 Employer Liabilities and Asset Tracking

Employer liabilities can be evaluated directly by the actuary at any time based on membership data. Individual employer assets have been apportioned to each employer since 31 March 2002. Prior to that date, each employer was considered to have the same funding level as the whole Fund

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers on the basis of their notional share of assets and their notional investment strategy.

4.5 New Employers

4.5.1 Admissions Policy

New bodies are admitted to participate in the Fund in accordance with the provisions of the regulations and with legal and actuarial advice.

The regulations include specific requirements for a risk assessment, bond, indemnity or guarantee. These are designed to protect the Fund and its employers from the risk of default by a new employer.

In assessing new employers for admission to the fund the interests of existing employers will take priority.

4.5.2 Opening Funding Position

Where a new employer will have employees with existing service in the Fund, an opening funding position will be established. This may be on a fully funded basis at the point of transfer, a share of Fund or other basis depending on the circumstances and subject to agreement between the parties to the admission agreement. An initial employer contribution rate will be set accordingly.

4.6 Transfers

4.6.1 Individual Transfers

Transfers of liabilities where members have moved between employers within the Fund occur automatically within the actuarial process. The employer to whom service is transferred becomes responsible for all past service liabilities and receives a notional transfer of assets on a cash equivalent transfer value basis.

Individual transfers to and from other schemes within the public sector transfer Club are processed at the member's request in accordance with the provisions of the Local Government Pension Scheme regulations and associated guidance.

4.6.2 Bulk transfers

When a group of employees joins the Fund as part of a bulk transfer from another fund or scheme, the administering authority's objective is to ensure that the Fund does not accept an ongoing funding deficit in respect of the transferring employees, i.e. the Fund will not usually accept a bulk transfer unless the transfer amount is at least sufficient to meet the value of the benefits being transferred, calculated on the ongoing funding basis as set out in this strategy statement. When a group of employees leaves the Fund as part of a bulk transfer to another scheme, the administering authority's objective is to protect the funding position in respect of the remaining members and employers (i.e. the transfer amount offered in respect of the transferring employees should be at most 100% of the transferring liabilities calculated on the transfer date on the ongoing funding basis). A transfer amount of less than 100% of the transferring liabilities may be offered in order to minimise any deficit in the employer's remaining liabilities in the Fund. An additional employer contribution may be required as part of this process.

4.7 Cessation Policy

4.7.1 Exiting Employers

Employers' participation in the Fund is generally assumed to be open-ended. However, there are circumstances where an employer's participation ceases and it becomes an exiting employer. These include:

- where the employer no longer has an employee contributing towards the Fund;
- where either party voluntarily terminates the admission agreement by giving an appropriate period of notice to the other party (or parties);

- the employer ceasing to be eligible under the regulations to participate in the Fund;
- the insolvency, winding up or liquidation of the employer;
- any breach by the employer of any of its obligations under the admission agreement that they have failed to remedy to the satisfaction of the Fund; or
- a failure by the employer to pay any sums due to the Fund within the period required by the Fund.

4.7.2 Exit Payments

An exiting employer is liable under the regulations to pay an exit payment after which no further payments are due from that employer in respect of its liabilities. In establishing the amount of the exit payment the administering authority will seek to protect the interests of other employers remaining in the Fund from the likelihood of any material loss emerging in future in respect of the exiting employer's liabilities.

This may require the actuary to adopt valuation assumptions which are more prudent than those used for ongoing employers, such as a minimum risk investment return and increased allowance for future longevity improvements. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis, and could give rise to significant payments being required. The administering authority will determine the appropriate assumptions having taken advice from the Fund's actuary.

4.7.3 Exit Payment Arrangements

Any exit payment will usually be calculated as a single capital sum for immediate payment. In the first instance payment of this sum, less any amount recoverable from a bond or indemnity, will be sought from the exiting employer. Alternative payment arrangements will be considered and may be implemented subject to agreement of suitable terms. These include:

- where the exiting employer has a guarantor which is a participating employer in the Fund, the assets and liabilities of the exiting employer may be transferred to the account of the guarantor and the exit payment recovered through ongoing contributions by the guarantor;
- where the exiting employer has a guarantor which is not a participating employer in the Fund, payment will be sought from the guarantor;
- payment by instalments over a number of years may be agreed; and
- the Administering Authority may agree to accept alternative security against the exit debt to facilitate a more flexible payment arrangement which may include re-assessment of the debt at subsequent triennial valuations.

4.7.4 Unpaid Amounts

In the event that the Fund is not able to recover the exit payment in full directly from the exiting employer or from any guarantor, bond or indemnity, the unpaid amounts will be shared amongst all of the remaining employers in the Fund. The Fund will take all reasonable steps to avoid this situation by enforcing the exit debt on the departing employer and actively working with employers to manage the exit process.

4.7.5 Exit Management and Planning

SPF will actively manage the exit process by:

- seeking to identify exiting employers ahead of the likely exit date;
- setting contribution rates to anticipate any imminent exit; and

- engaging with employers on the exit payment and other arrangements.

Employers are encouraged to contact SPF well in advance of any planned exit.

Schedule 5



Contributions Strategy

5.1 LGPS Regulations

The LGPS 2014 regulations adopt the terminology primary rate and secondary rate. The actuary's report on the valuation is required to include a Rates and Adjustments certificate which specifies for each employer:

- the primary rate of the employer's contribution; and
 - the secondary rate of the employer's contribution,
- for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

5.1.1 Primary Contribution Rate

The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members. This was previously referred to as the employer's future service rate.

5.1.2 Secondary Contribution Rate

The secondary rate of an employer's contribution is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should be increased or reduced by reason of any circumstances peculiar to that employer.

5.2 Actuarial Considerations

In setting rates the actuary must have regard to-

- the existing and prospective liabilities arising from circumstances common to all those bodies;
- the desirability of maintaining as nearly constant a primary rate as possible;
- the current version of the administering authority's funding strategy mentioned in regulation 56 (funding strategy statements); and
- the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

5.3 Risk-Based Contributions

Strathclyde Pension Fund's strategy and the methodology adopted by the Fund actuary incorporate a risk-based approach which allows for thousands of possible future economic scenarios when assessing the likelihood of contributions being sufficient to meet both the accrued and future liabilities over a given time horizon for the Fund and for each employer.

5.3.1 Risk Methodology

Setting contribution rates using a risk-based approach requires SPF and the Actuary to consider the following factors for each employer:

Factor	Assessment
The employer's funding target.	100% for all employers. On the ongoing basis for most, but a cessation basis for employers whose participation in the Fund may cease imminently.
The employer's target funding period.	The weighted average future working

(time horizon)	lifetime of the employer's active membership.
The employer's covenant.	For the 2017 actuarial valuation SPF commissioned PwC to complete a high level covenant risk assessment of each of the Fund's employers. The assessment was based on the employers' published financial statements and produced 2 key performance indicators for each employer: <ul style="list-style-type: none"> ▪ a balance sheet KPI and ▪ an earnings KPI Each KPI provided a broad measure of the financial cover the employer had available to meet its SPF liabilities. The KPIs were incorporated into the actuarial process.
An appropriate likelihood of meeting the funding target within the time horizon (<i>likelihood of success</i>)	Set in a range from a minimum 66% to a preferred 75% depending on the factors above together with affordability and stability considerations.

5.3.2 Other Risk Factors

The Fund aims to achieve stability of contributions as far as possible, but securing solvency and long-term cost efficiency are over-riding regulatory requirements. This may lead to greater variation in rates for some employers, particularly in the following circumstances:

- where the employer is a transferee admission body;
- where the employer does not admit new entrants to the Fund;
- where the employer seems likely to cease participation in the Fund over the short to medium term;
- where the strength of the employer covenant is considered to be weak;
- where there has been a substantial transfer of members and hence liabilities to or from the employer which, in the opinion of the administering authority and the Fund actuary, warrants individual treatment;
- where the employer's underlying membership data is not fit for the purposes of the actuarial valuation; and
- in any other circumstances, where the experience of an employer has been out-of-line with that of the Fund as a whole, and an individual adjustment is deemed to be appropriate by the administering authority and the Fund actuary.

5.3.3 Employer Grouping

Certain employers may be grouped together for the purposes of setting contribution rates. Assets and liabilities will still be identified separately but adjustments may be applied to ensure that grouped employers pay a similar total rate (primary rate plus secondary rate). This allows greater stability through shared covenant and actuarial experience. Grouping will usually apply where employers are related or linked by a common guarantee – e.g. a local authority and its arm's length organisations.

5.3.4 Main Employer Group

The main employer group includes the 12 local authorities which participate in the Fund, associated employers such as arm's length external organisations which share their covenant, and other employers which are assessed as having a strong covenant or low risk profile.

5.3.5 Individual Adjustments

Individual adjustments or secondary contribution rates, where they apply, are based on the following principles.

- For employers in surplus and not close to cessation any adjustment will usually be expressed as a percentage of pensionable pay.
- For employers in deficit or closed to new membership any adjustment may be expressed in monetary terms.
- Any adjustment should not reduce the total rate payable (primary rate plus secondary rate) below the employer's total rate payable in 2017/18.

5.3.6 Phasing in of adjustments

Adjustments will usually apply equally over the 3 years of the intervaluation period but may be phased in over the 3 years where:

- the employer's liabilities are guaranteed by another Fund employer or the Government; and/or
- the employer will be open to new entrants for the foreseeable future and the administering authority is satisfied with the strength of the employer's covenant.

Any phasing in of adjustments should not reduce the total amount payable over the 3 years.

5.3.7 Rates and Adjustments Certificate

The rates and adjustments set for each employer are detailed in the Rates and Adjustments Certificate which forms an Appendix to the actuary's report on the triennial valuation. These are minimum required payments. Employers may make additional payments or make payment in advance of the due date by prior agreement with the administering authority.

5.4 Early Retirements

The actuary's funding basis assumes that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Premature retirement therefore incurs an additional actuarial cost.

5.4.1 Non ill health retirements ("Strain on the Fund" costs)

Employers are required to pay a "strain on the fund" cost whenever an employee retires before attaining the age at which the valuation assumes that benefits are payable. This is in addition to the contributions described above. Strain on the Fund costs must be paid as a lump sum payment at the time of the employer's decision or by limited instalments shortly after the decision. Strain costs are usually based on standard tables, but individual factors may be applied in certain circumstances.

5.4.2 Ill Health Retirement

The actuary's funding basis makes some allowance for premature retirement on grounds of ill health. Each employer's actual ill health retirement experience impacts on their liabilities and net funding calculation. This may be reflected in an employer's contribution rate, particularly if their experience exceeds the allowance made by the actuary. The Fund monitors each employer's, or group of employers', ill health

experience but does not currently levy additional “strain on the fund” contributions in respect of ill health retirements. This approach may change in future.

5.4.3 Ill Health Insurance

Employers may enter into an insurance contract to provide cover for the cost of ill health retirements. With the agreement of the Fund’s actuary, the cost of such a contract may be offset against the employer’s contributions to the Fund.

5.5 Security

Whilst all contributions are usually payable in cash, the Fund may accept alternative forms of security to be held against any funding deficit in lieu of immediate cash contributions. This might include a bond or indemnity, group, parent company or funder guarantee, or some form of contingent asset. Any such arrangement would require to be agreed with the Administering Authority and fully documented.

Schedule 6



Key Funding Risks & Controls

Risk ID	Description	Probability (/5)	Impact (/5)	Residual Risk Rating (/25)
SPFO5	<p>Pay and price inflation significantly more or less than anticipated.</p> <p>Impact: increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer contribution rates.</p> <p>Controls: Actuarial valuation; inter-valuation monitoring; some inflation protection in assets.</p>	4	3	12
SPFO31	<p>Employers' failure to carry out statutory functions including submission of member data and contributions to SPFO.</p> <p>Impact: missing, incomplete and incorrect records on pensions administration system; causes difficulties in establishing liabilities at employer level.</p> <p>Controls: Regular communication with employers and their staff; regular data monitoring; individual record checks at points of significant transaction; periodic bulk data checking by actuary; Member Records team within SPFO; Administration Strategy.</p>	4	3	12
SPFO01	<p>Fund's investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.</p> <p>Impact: long-term underfunding; potential increase in employer contribution rates.</p>	2	5	10

<p>SPFO7 Controls: risk-return investment strategy based on asset liability modelling; performance of both assets and liabilities is monitored quarterly; strategy development is discussed every quarter by the Investment Advisory Panel and reviewed fully every 3 years; actuarial valuation anticipates long-term returns on a relatively prudent basis.</p> <p>Pensioners living longer than anticipated in actuarial valuation or other demographic experience out of line with actuarial assumptions.</p> <p>Impact: increase in liabilities; underfunding; potential increase in employer contribution rates.</p> <p>Controls: set mortality assumptions with some allowance for future increases in life expectancy; Fund participates in <i>Club Vita</i> to monitor mortality experience; prudence in other demographic assumptions; cost cap introduced in LGPS 2015 will limit impact.</p>			
<p>SPFO9 Changes to scheme regulations and other pensions legislation.</p> <p>Impact: increasing administrative complexity, communications challenges, increase in member opt-outs; pressure on cash flow and funding requirements.</p>	3	3	9
<p>SPFO13 Employer default. Employers ceasing to exist with insufficient funding or adequacy of a bond, or with liabilities for unfunded discretionary payments; or administering authority failure to enforce the debt.</p> <p>Impact: residual liability falls on remaining employers, potential termination of unfunded payments.</p> <p>Controls: regulations; Funding Strategy; admissions policy and process; guarantees from existing Scheme employers; covenant review;</p>	4	2	8

<p>pre-payment wherever possible; monitoring of contributions; in-depth membership analysis via actuarial valuation; employers required to advise of any structural changes.</p>			
<p>SPFO49 Cash Flow Failure</p> <p>Impact: insufficient cash available to pay pensions or meet investment commitments.</p> <p>Controls: regular cash flow projections; daily monitoring of bank accounts; investment income monitoring.</p>	<p>2</p>	<p>3</p>	<p>6</p>

Schedule 7



Statistical Appendix: Key Figures from the 2017 actuarial valuation

For a detailed explanation of the figures in this Appendix, see the actuary's report on the valuation of the Fund as at 31st March 2017.

Fund Valuation

	31 Mar 2011 (£m)	31 Mar 2014 (£m)	31 Mar 2017 (£m)
Past Service Liabilities	11,642	14,788	18,761
Market Value of Assets	11,322	13,949	19,699
Surplus/Deficit	(320)	(839)	939
Funding Level	97.3%	94.3%	105.0%

Employer Contribution Rates

Primary Rate	Secondary Rates		
01 Apr 2018 – 31 Mar 2021	2018/19	2019/20	2020/21
27.1%	-7.4%	-7.4%	-7.4%

Note: this is the whole Fund (or average) employer contribution rate. Rates payable by individual employers are set out in the actuary's report on the valuation.

Funding Period

	31 Mar 2011	31 Mar 2014	31 Mar 2017
Average Future Working Lifetime	9.7 years	12 years	14 years

Financial Assumptions

	31 Mar 2011 (%)	31 Mar 2014 (%)	31 Mar 2017 (%)
Pre-retirement Discount rate	5.9	5.1	3.7
Post-retirement Discount rate	5.5	4.7	3.3
Salary Increases	5.1	4.5	3.6
Price Inflation (Pensions Increase)	2.8	2.7	2.4

Investment Returns (Over 20 years)

	Expected Return (% p.a.)	Volatility (1 st year)
Index Linked Gilts	1.7	9
Fixed Interest Gilts	2.8	12
Corporate Bonds	3.6	14
UK Equity	6.3	16
Overseas Equity	6.1	20
Private Equity	7.6	28
Commercial Property	4.3	15
Absolute Return Bonds	4.3	8

High Yield Debt	5.0	9
Infrastructure	5.5	16

Assumed Life Expectancy at Age 65

	Actives & Deferreds		Pensioners	
	Male	Female	Male	Female
2011 Valuation	23.3	25.3	21.0	23.4
2014 Valuation	24.8	26.2	22.1	23.6
2017 Valuation	23.4	25.8	21.4	23.7

Note: figures for non-pensioners assume they are aged 55 at the valuation date.

Membership

	31 Mar 2011	31 Mar 2014	31 Mar 2017
Employees	84,917	87,233	93,481
Deferred Pensioners	45,774	46,383	55,848
Pensioners	64,745	69,664	73,802
Total	195,436	203,280	223,131

Maturity

	31 Mar 2011 Liabilities		31 Mar 2014 Liabilities		31 Mar 2017 Liabilities	
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Employees	5,763	49.5	6,920	46.8	9,057	48.3
Deferred Pensioners	1,156	9.9	1,569	10.6	2,233	11.9
Pensioners	4,723	40.6	6,299	42.6	7,470	39.8
Total	11,642	100	14,788	100	18,761	100

Payroll

	31 Mar 2011	31 Mar 2014	31 Mar 2017
Employees			
Number	84,917	87,233	93,481
Pensionable Pay (£000)	1,739,536	1,773,028	1,924,038
Average (£)	20,485	20,325	20,582
Deferred Pensioners			
Number	45,774	46,383	55,848
Deferred Pension (£000)	73,722	87,301	102,072
Average (£)	1,611	1,882	1,828
Pensioners			
Number	64,745	69,664	73,802
Pension (£000)	313,083	382,832	414,454
Average (£)	4,835	5,495	5,616