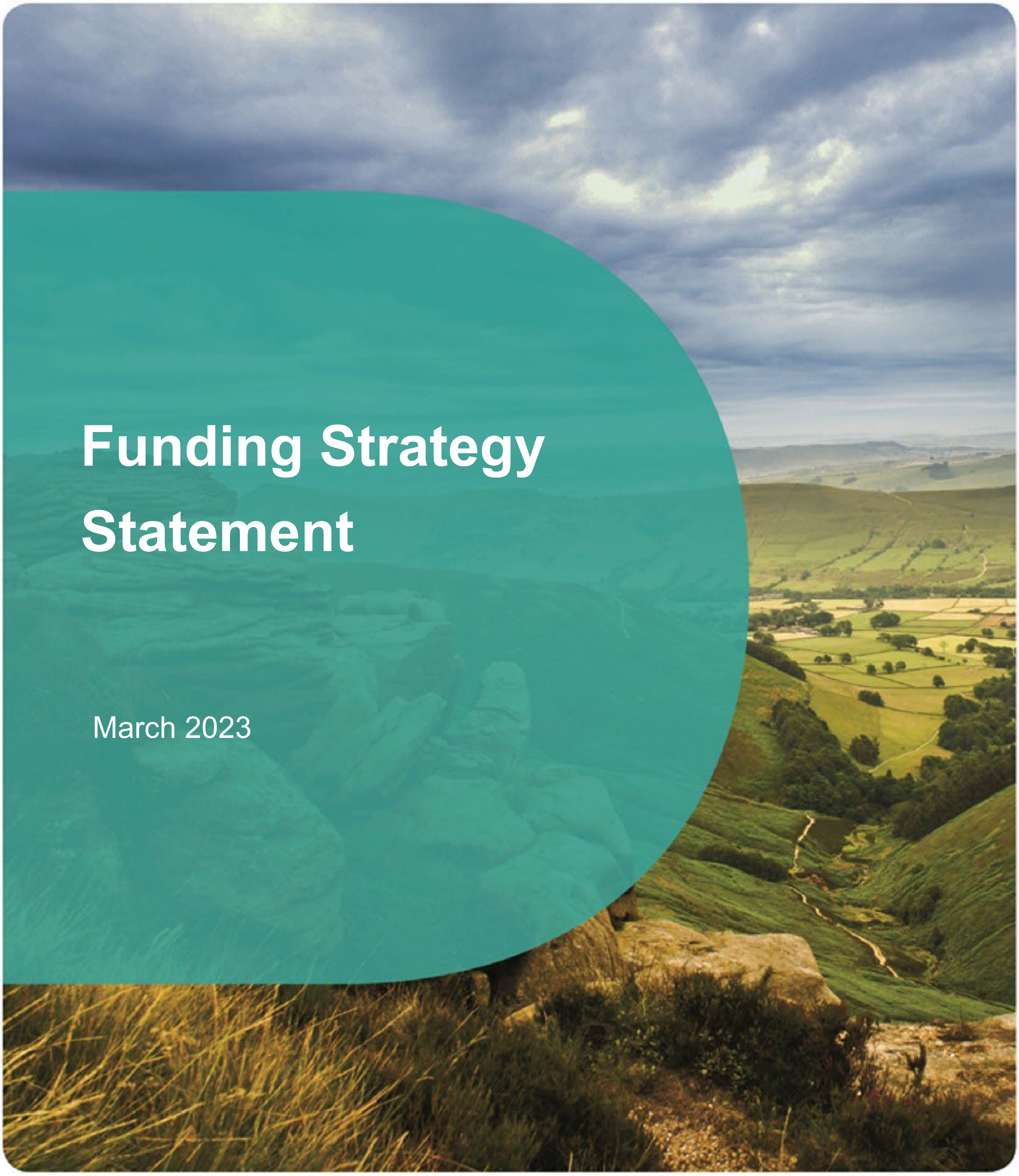
Derbyshire Pension Fund

Tel. 01629 538900
derbyshirepensionfund.org.uk



Funding Strategy Statement

March 2023

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

lgps

Contents

1 Welcome to our Funding Strategy Statement

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

Derbyshire Pension Fund is administered by Derbyshire County Council, known as the administering authority. Derbyshire County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 8 March 2023.

There's a regulatory requirement for Derbyshire County 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 Derbyshire Pension Fund at **pensions.regs@derbyshire.gov.uk**.

1.1 What is Derbyshire Pension Fund?

Derbyshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at **lgpsmember.org** or at **derbyshirepensionfund.org.uk**. 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 academies and 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.

Designating employers

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

Admission bodies

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

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

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

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets, and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at: **derbyshirepensionfund.org.uk/iss**

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. 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 (Go to Appendix A)

1.6 How is the funding strategy specific to Derbyshire 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.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution
- **an allowance for the Fund's expenses** – usually added into the primary contribution rate.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. More information on this model can be found in Appendix D. 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.

2.2 The contribution rate calculation

Table 2: Contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies				Designating employers	CABs		TABs
Sub-type	**Local authorities, police, fire**	**Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium**	**Academies**	**Colleges & universities**	**Town and Parish Councils (pooled)**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing, assumes long-term Fund participation					Ongoing, but may move to low risk exit basis where no guarantor in place		Ongoing, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	70%	70%	75%	70%	85% if ongoing (a lower likelihood may be applied where a guarantor is in place), 50% if low risk exit basis	85% if ongoing (a lower likelihood may be applied where a guarantor is in place), 50% if low risk exit basis	75%
Maximum time horizon	18 years	18 years	18 years	15 years	18 years	12 years	12 years	Lower of 12 years and outstanding contract term
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							

Type of employer	Scheduled bodies				Designating employers	CABs		TABs
Sub-type	**Local authorities, police, fire**	**Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium**	**Academies**	**Colleges & universities**	**Town and Parish Councils (pooled)**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Secondary rate	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll	% of payroll or monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Stabilised contribution rate?	Yes	Yes	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over 15 years	Reduce contributions by spreading the surplus over 18 years	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		Reduce contributions by spreading the surplus over the lower of 12 years and remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None

Where the Administering Authority recognises a fixed contribution rate agreement between a letting employer and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer ordinarily with no crystallisation of any deficit or surplus.

The Fund reserves the right to use a different likelihood of success for these bodies than stated in the table above if there are concerns in relation to their individual circumstances. In addition, a deterministic approach may be used for employers with a relatively short time horizon.

Go to Appendix D for further information on funding targets.

Derbyshire Pension Fund
County Hall, Matlock, DE4 3AH
derbyshirepensionfund.org.uk

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 adopts a stabilised approach to setting contributions for the employers noted in Table 1, which keeps contribution variations within a pre-determined range from year-to-year. These employers are large, secure, long-term employers who can better absorb the short-term funding level volatility over the longer term.

After taking advice from the Fund actuary, the administering authority believes a stabilised approach can still be viewed as a prudent longer-term strategy for these employers. For other employers, contribution increases, or decreases may be phased.

Table 1: current stabilisation approach

Type of employer	Local authorities, Police and Fire	Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Academies
Maximum contribution increase per year	+1% of pay	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay	-1% 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.

2.4 Reviewing contributions between valuations

The Fund may review and subsequently amend contribution rates between formal valuations where there has been 'significant change' to the liabilities or covenant of an employer. The purpose of any review is to establish the most appropriate contributions. A review may be instigated by the Fund or at the request of a participating employer and may lead to an increase or decrease in contributions.

The Fund would consider the following circumstances as a potential trigger for a review:

- in the opinion of the Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations, such as a material change in employer covenant

- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority

The costs of any review of an employer's funding position and contribution rate will be met by the employer.

Requests for an interim review of an employer's contribution rate will normally be limited to one per employer over a rolling twelve-month period and the proximity to the next formal valuation will be considered. Except in circumstances such as an employer nearing cessation, market volatility or changes to asset values will not be considered as a basis for an interim review of contributions.

The administering authority will require additional information to support a contribution rate review, which is likely to include:

- a copy of the employer's latest accounts and financial forecasting information
- sources of funding/details of any additional security being offered

The decision on whether to amend an employer's contribution rate rests with the Administering Authority following consultation with the Fund's actuary. The Administering Authority may need to consult with other fund employers as part of any review.

2.5 What is pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

With the exception of the Town and Parish Councils pool, employers in a pool maintain their individual funding positions, tracked by the Fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the Fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

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

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

If an employer leaves the Fund, except in the case of an employer in a full funding pool (such as the Town and Parish Council pool), the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- **Town and Parish Councils** – sharing experience and smoothing the effects of costly but rare events like ill-health retirement or deaths in service. The Town and Parish Council pool operates a full funding pool, for example, there is one pool of assets covering all of the Town and Parish Councils, with experience shared across the entire pool.
- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools or academies (for example, the academies within a Multi Academy Trust may operate as a contribution pool or a full funding pool).
- **Smaller TABs** – may be pooled with the letting employer.

2.7 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.

2.8 Prepayment of employer contributions

The Fund will consider requests from large, secure employers, with stable active memberships, to pre-pay certified primary and secondary contributions for a discounted sum calculated by the Fund's actuary. The discount will reflect the investment return that is assumed to be generated by the Fund over the period of the prepayment.

Employers considering making a prepayment should be aware that future investment returns are not guaranteed, and it is possible that the investment returns generated on prepayment amounts may be lower than the return that could be generated by the employer.

Where contributions expressed as a percentage of pay have been prepaid, the Fund will carry out an annual check to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the Rates & Adjustments certificate. If the actual experienced payroll is higher than estimated when calculating the prepayment amount, additional contributions may be required from the employer.

If the actual experienced payroll is lower than estimated when calculating the prepayment amount, no refund would be payable to the employer, the 'excess' would instead remain allocated to the employer's assets within the Fund.

The accounting treatment of any prepayment agreement should be agreed in advance between the employer and its auditor.

Derbyshire Pension Fund
County Hall, Matlock, DE4 3AH
derbyshirepensionfund.org.uk

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 in the year in which the strain is incurred.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

To mitigate this, employers may choose to use external insurance made available by the Fund.

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.

Each Fund employer has a notional share of the Fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The Fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole Fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

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 a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (Section 4.2).

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.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

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. Go to section 2 for further information on contribution rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

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

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

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

5.2 New academies

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

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

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

The council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy will pay contributions initially linked to council contribution rates. If they are part of a MAT, the new academy may be combined with the other MAT academies to set contribution rates at the subsequent triennial valuation. Alternatively, they may be fully pooled with the other MAT academies to share risks and costs.

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

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

5.3 New admission bodies as a result of outsourcing services

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

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

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

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, for example, 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.

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

5.5 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

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, which also guarantees their liabilities.

The Fund's Admission, Cessation and Bulk Transfer policy is available at:

derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

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
- a bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.

Where members transfer between employers within Derbyshire Pension Fund, the assets that will be transferred from the transferring employer's asset share to the receiving employer's asset share will depend on the circumstances of the member(s)' transfer. In particular:

- Section 5.2 explains how assets will be allocated to new academy schools when members transfer from the ceding employer at the academy conversion date.
- Section 5.3 explains how assets will be allocated to new transferee admission bodies when services are outsourced from a scheduled body.
- If an individual member changes his/her employment from one employer in the Fund to another employer in the Fund, assets equal to the individual's cash equivalent transfer value (using standard Club factors) will be transferred from the transferring employer to the receiving employer.
- For all other cases, the Fund's default approach will be to transfer assets equal to the transferring liabilities (assessed on the Fund's ongoing funding basis) from the transferring employer's asset share to the receiving employer's asset share, unless there are specific circumstances which would merit an alternative approach.

The Fund's Admission, Cessation and Bulk Transfer policy is available at

derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

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 are:

(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.

These are defined in Appendix D.

However, when carrying out the cessation valuation on the low-risk basis, the administering authority recognises the balance between protecting the Fund and the potential for being overly prudent. In addition, the Fund acknowledges the long-term and uncertain nature of pension funding. Therefore, if appropriate, when considering the amount of assets, a ceasing employer must leave behind in the Fund to pay for its members' benefits, the Fund will consider an upper and lower amount (or "corridor"). In other words, an employer will be deemed to have a deficit if the assets are below the lower amount and a surplus if the assets are above the higher amount (for example, there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

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 Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are recharged to employers via an invoice by the Fund. In exceptional cases, depending on an employer's circumstances, the Fund reserves the right to collect these costs using alternative means, for example, via adjustment to an employer's cessation surplus or cessation deficit, as appropriate.

The cessation policy is contained within the Admission, Cessation and Bulk Transfer policy which is available at:

derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities (after allowing for the 'corridor' approach in section 7.2 if appropriate) – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is contained within the Admission, Cessation and Bulk Transfer policy which is available at:

derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

7.4 How do employers repay cessation debts?

If there is a deficit, and again after allowing for the 'corridor' approach in section 7.2 if appropriate, full payment will usually be expected in a single lump sum or:

- spread over an agreed period if the employer enters into a Debt Spreading Agreement (DSA)
- 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.

The employer flexibility on exit policy is contained within the Admission, Cessation and Bulk Transfer policy which is available at:

derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

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 or DSA at the discretion of the Fund. 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. In the event that an employer is not absorbed into another Fund employer's funding pool, the other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will apportion the liabilities as set out in the Fund's Admission, cessation and bulk transfer policy.

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.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

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

8.2 Solvency

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

(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 on a standardised market-related basis where the funds' actuarial bases don't offer straightforward comparisons.

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the 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*".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was published on Derbyshire Pension Fund's website on 21 December 2022, with comments invited from all of the Fund's stakeholders; a link to the website was issued to all participating employers and to members of Derbyshire Pension Board. Further notifications were included in the Fund's December 2022 and January 2023 Employer Newsletters and a reminder email was sent to employers on 18 January 2023.

b) Comments were requested by 31 January 2023.

c) Following the end of the consultation period, the FSS was updated where required and then published on the Derbyshire Pension Fund website in March 2023.

A3 How is the FSS published?

The FSS is made available via the following routes:

- It is published on the Fund's website.
- A copy is sent by email to each participating employer in the Fund.
- A copy is sent by email to the members of Derbyshire Pension Board.
- The FSS is included in the Fund's Annual Report.
- A copy is sent by email to the Fund's independent investment adviser.
- Copies are 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 material amendments will be consulted on, agreed by the Pensions and Investment 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:

- Investment Strategy Statement
- Admission, Cessation and Bulk Transfer Policy
- Governance Policy and Compliance Statement
- Communications Policy

The Fund's Annual Report also includes up-to-date Fund information.

You can find all Fund documentation at: **derbyshirepensionfund.org**.

Appendix B – Roles and responsibilities

B1 The administering authority:

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

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

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

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

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

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund actuary to manage the valuation process

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

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

12 tells the actuary about changes which could affect funding

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

14 enables the local pension board to review the valuation process

B2 Individual employers:

15 deduct the correct contributions from employees' pay

16 pay all contributions by the due date

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

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

19 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

20 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's 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 Investment Strategy Statement (ISS) 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 ISS

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

4 governance advisers may be asked to advise the 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 Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

Details of the key fund-specific risks and controls are set out in the Fund's Risk Register which is available from **pensions.regs@derbyshire.gov.uk**.

The role of the local pension board is set out in the Board's terms of reference available at: **derbyshirepensionfund.org.uk/pensionboard**

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 has put in place an Employer Risk Management Framework to identify, manage and monitor the risks associated with employers with the aim of reducing the exposure of all Fund employers to risk of the failure, wind-up, or cessation of a scheme employer with an unpaid funding deficit.

C3 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy, the Fund has included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 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 Framework and a separate Climate Strategy, both of which were agreed by the Pensions and Investments Committee in November 2020.

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 2022

		Annualised total returns															
		Cash	Index Linked Gilts (medium	Fixed Interest Gilts (medium)	UK Equity	Private Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Unlisted Infrastructure Equity	Developed World Equity	Multi Asset Credit (sub inv grade)	Corp short BBB	Corp Medium BBB	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	0.8%	-1.9%	-0.3%	-0.4%	-1.2%	-0.6%	-2.5%	-1.1%	0.7%	-0.6%	1.7%	1.3%	0.0%	1.6%	-1.7%	1.1%
	50th %'ile	1.8%	0.2%	1.1%	5.7%	9.4%	4.4%	5.8%	4.9%	5.9%	5.6%	3.5%	2.7%	1.9%	3.3%	-0.5%	2.5%
	84th %'ile	2.9%	2.4%	2.4%	11.6%	20.1%	9.5%	14.4%	10.9%	11.2%	11.6%	5.2%	3.9%	3.6%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.0%	-1.5%	0.7%	1.7%	2.4%	1.4%	0.1%	1.2%	2.6%	1.6%	2.8%	2.2%	1.3%	1.2%	-0.7%	1.3%
	50th %'ile	2.4%	0.1%	1.5%	6.2%	10.0%	5.0%	6.3%	5.6%	6.55	6.1%	4.4%	3.5%	2.5%	2.7%	1.1%	3.2%
	84th %'ile	4.0%	1.9%	2.2%	10.6%	17.6%	8.9%	12.8%	10.1%	10.6%	10.8%	6.0%	5.0%	3.6%	4.3%	2.7%	5.7%
40 years	16th %'ile	1.2%	-0.3%	1.5%	3.2%	4.7%	2.6%	2.1%	2.6%	3.9%	3.2%	3.6%	2.6%	2.3%	0.9%	-0.6%	1.1%
	50th %'ile	2.9%	1.2%	2.3%	6.7%	10.3%	5.5%	6.8%	6.1%	7.0%	6.6%	5.3%	4.2%	3.4%	2.2%	1.3%	3.3%
	84th %'ile	4.9%	3.1%	3.5%	10.2%	16.1%	8.8%	11.7%	9.8%	10.3%	10.2%	7.1%	6.2%	4.9%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	2%	7%	6%	18%	30%	15%	26%	18%	15%	18%	6%	4%	7%	3%		

Derbyshire Pension Fund
County Hall, Matlock, DE4 3AH
derbyshirepensionfund.org.uk

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	Margin above risk-free rate
Ongoing basis	All employers except closed community admission bodies	1.8% (or margin consistent with treatment on joining the Fund for transferee admission bodies)
Low-risk exit basis	Community admission bodies closed to new entrants (D5)	A margin consistent with the investment return achievable with a 90% likelihood over the next 20 years

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

For the purpose of calculating a whole fund funding level at the 2022 valuation, a discount rate of 3.8% pa applies. This is based on a prudent estimate of investment returns, specifically, that there is an 77% likelihood that the Fund's assets will achieve future investment returns of 3.8% pa over the 20 years following the 2022 valuation date.

For certain employers that will cease based on a different discount rate from above, the funding levels have been calculated with reference to the relevant discount rate approach.

Pension increases and CARE revaluation

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

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

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% 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 produced by detailed analysis and tailored to fit the Fund's membership profile.

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

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

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 80% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	60% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	343.66	731.71	0.00	0.00	0.00	0.00
25	117	0.17	227.00	483.32	0.00	0.00	0.00	0.00
30	131	0.20	161.06	342.88	0.00	0.00	0.00	0.00
35	144	0.24	125.84	267.86	0.10	0.07	0.02	0.01
40	150	0.41	101.32	215.59	0.16	0.12	0.03	0.02
45	157	0.68	95.17	202.46	0.35	0.27	0.07	0.05
50	162	1.09	78.45	166.70	0.90	0.68	0.23	0.17
55	162	1.70	61.78	131.34	3.54	2.65	0.51	0.38
60	162	3.86	55.06	117.02	6.23	4.67	0.44	0.33

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	PT
20	105	0.10	264.32	373.90	0.00	0.00	0.00	0.00
25	117	0.10	177.85	251.55	0.10	0.07	0.02	0.01
30	131	0.14	149.09	210.83	0.13	0.10	0.03	0.02
35	144	0.24	128.67	181.90	0.26	0.19	0.05	0.04
40	150	0.38	107.09	151.34	0.39	0.29	0.08	0.06
45	157	0.62	99.94	141.21	0.52	0.39	0.10	0.08
50	162	0.90	84.26	118.92	0.97	0.73	0.24	0.18
55	162	1.19	62.87	88.83	3.59	2.69	0.52	0.39
60	162	1.52	50.67	71.50	5.71	4.28	0.54	0.40

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:

1. The discount rate used for calculating the exit position will be on a lower-risk basis than the ongoing funding basis, specifically additional prudence will be applied to the assumption. This will be determined via a higher likelihood that the Fund's assets will achieve the required future investment returns over the 20 years following the date of the calculation.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. 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.

When the 'corridor' approach (as described in Section 7.2) is being used to determine the final cessation valuation, an upper and lower amount is required. The actuary will calculate these amounts by changing the discount rate to reflect the Fund's views of the maximum and minimum amount of assets required to pay for the benefits of the ceasing employer's members and will represent the bounds of the corridor. These two values will be based on the likelihood of the Fund's assets achieving certain future investment returns over the 20 years. The likelihoods used for the lower and upper bounds of the 'corridor' are 85% and 95% respectively.

Ongoing basis

Where there is a guarantor (for example, in the case of contractors where the local authority guarantees the contractor's admission in the Fund), the ongoing basis will apply.

The financial and demographic assumptions underlying the ongoing basis are equal to those set for calculating contribution rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.