

## **Funding Risk Change Log**

Previous Risk No.	Revised Risk No.	Objective	Previous Risk Wording	Revised Risk Wording	Previous Mitigations	Revised Mitigations	Previous Risk Rating	Revised Rating	Comments
F1	F1	To prudently set levels of employer contributions that aim to achieve a fully funded ongoing position in the timescales determined in the Funding Strategy Statement	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	Failure to set and collect contributions sufficient to achieve a fully funded ongoing position in the timescales determined by the Funding Strategy Statement	Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. At each triennial valuation assess funding position and progress made to full funding. Full annual interim reviews to enable consideration of the position. A specific scorecard measure is in place on this matter.	1. At each triennial valuation, assess funding position and progress made to full funding. 2. Full annual interim reviews to enable consideration of the position. 3. A specific Scorecard measure is in place on this matter. Current measure 4.3.2 - % of contributing employers submitting timely payments. 4. Work with Employers to ensure they	4	6	.

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						understand their responsibilities. 5. Year-end reconciliation of Member data.			
F2	None	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	None	Annual reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.	None	9	None	Deleted – moved to investment risks
F3	None	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives)	None	Diversified investment structure and frequent monitoring against targets with potential for a change of managers where	None	4	None	Deleted – merged with Investment risks

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			which reduces solvency levels and increases required in employers' contributions		considered appropriate.				
F4	F2	To prudently set levels of employer contributions that aim to achieve a fully funded ongoing position in the timescales determined in the Funding Strategy Statement	Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	Monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis.	1. Longevity analysis is conducted by the Actuary at each valuation.	4	9	
F5	F3	To prudently set levels of employer contributions that aim to achieve a fully funded ongoing position in the timescales determined in the Funding Strategy Statement	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions	Demographic experience of Fund population is not in line with actuarial assumptions resulting in increases required in Employer contributions	Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds	1. EPF ensures the Employer pay the rates set at each valuation. 2. The Actuary provides a prudent assessment to allow for ill-health	4	3	

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					of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	cases within the calculations. 3. Any change in demographics are reviewed at subsequent valuations and any underfunding will be addressed.			
F6	F4	To recognise in drawing up the funding strategy the desirability of employer contribution rates that are as stable as possible	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional	1. EPF carries out an analysis at each triennial actuarial valuation to assess covenant and affordability	4	6	

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			and covenant	and covenant	basis. On-going dialogue with employers.	on a proportional basis. 2. A risk analysis is conducted at each triennial valuation by the Funds Actuary. 3. Ongoing monitoring of contributions to identify significant change and continuous dialogue with employers.			
F7	None	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	Mismatch in asset returns and liability movements result in increased employer contributions	None	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	None	6	None	Deleted

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F8	F5	To recognise in drawing up the funding strategy the desirability of employer contribution rates that are as stable as possible	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	Pay and price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	At each triennial actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in the short and long term.	1. EPF carries out an analysis at each triennial actuarial valuation to ensure that the assumptions adopted are appropriate and monitor actual experience. 2. Discussions with employers over affordability are held. 3. Discretions Policy to control discretionary costs.	4	6	
F9	None	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of	None	Risk profile analysis performed with a view on the strength of individual employer's	None	4	None	Deleted

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		as possible	the employers defaulting on their contributions		covenant being formed when setting terms of admission agreement (including bonds) and in setting term of deficit recovery whilst attempting to keep employers' contributions as stable and affordable as possible. Pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.				
F10	None	To recognise when drawing up its funding strategy the desirability of employer contribution rates	Adverse changes to LGPS regulations resulting in increases required in	None	Ensuring that Fund concerns are considered by the Officers/Board as	None	3	None	Deleted

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		that are as stable as possible	employers' contributions or Fund cash flow requirements.		appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.				
F11	None	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions	None	Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested	None	3	None	Deleted



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					parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.				
F12	None	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase	None	Ensure that employers are reminded of their responsibilities, monitor and send reminders of employers responsibilities re this where appropriate, investigate the adoption of an administration strategy to clarify employer responsibilities. Employer analysis work and officer dialogue with employers concerned	None	4	None	Deleted – merged with F13

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					(including guarantors as appropriate)				
F13	F6	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives	Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)	<p>Failure to:</p> <ul style="list-style-type: none"> <li>- recognise a weakening (strengthening) in an employer's covenant;</li> <li>- lack of, or inaccurate, information about an employer;</li> </ul> <p>leads to an inappropriate funding approach in respect of that employer</p>	At each triennial valuation pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	<p>1. EPF monitors and send reminders of employer's responsibilities.</p> <p>2. EPF carries out an analysis at each triennial actuarial valuation to assess covenant and affordability on a proportional basis.</p> <p>3. A risk analysis is conducted at each triennial valuation.</p> <p>4. Use of bonds and guarantees.</p> <p>5. Ongoing monitoring of contributions</p>	4	9	Amended to include previous F12 and F14.

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						to identify significant change and continuous dialogue with employers.			
F14	None	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer	None	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	None	4	None	Deleted – merged with F13
F15	None	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	Failure to ensure appropriate transfer is paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.	None	Follow the standardised approach to bulk transfers of liabilities as part of admission policy framework, complying with any statutory requirements and protecting the	None	2	None	Deleted

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					interests of the Fund's employers by measuring the solvency of the Fund and relevant employers before and after transfer.				
F16	F7	To ensure consistency between the investment strategy and funding strategy	Over or under cautious determination of employer funding requirements due to the impact of the investment strategy on funding	Funding strategy is inconsistent with Investment Strategy leading to adverse funding outcomes (over/under funding)	Measurement will look at expected return projections vs actuarial assumptions in order to test the continued appropriateness and consistency between the funding and investment strategy.	1. The Asset Liability is undertaken on a triennial basis. 2. The Funding Strategy and Investment Strategy are reviewed and monitored on a regular basis. The Funding Strategy is aligned with the Investment Strategy.	4	6	
F17	F8	Maintain liquidity in order to meet projected net cash-flow outgoings	Illiquidity of certain markets and asset classes and difficulty in realising	The Fund has insufficient cash to pay pensions as they fall due.	Holding liquid assets and maintain positive cash flows. Reviews	1. EPF ensures sufficient investment income is available to	2	3	Amended to incorporate F18

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			investments and paying benefits as they fall due		performed to monitor cash flow requirements	<p>supplement contribution income to meet benefit payments.</p> <p>2. This is reported to the PSB.</p> <p>3. A specific Scorecard measure is in place on this matter. To link to scorecard measure no.</p> <p>4. Limit on illiquid assets and levels of diversification from equities and bonds.</p> <p>5. Projection of expected cash flows and daily monitoring of cash.</p>			
F18	None	Maintain liquidity in order to meet projected net cash-flow outgoings	Unanticipated onset of cash-flow negative position, potentially requiring ad hoc	None	Holding liquid assets and maintain positive cash flows. Reviews	None	2	None	Deleted – merged with F17

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			repositioning of assets		performed to monitor cash flow requirements. In Spring 2015 the ISC agreed to divert a portion of UK equity dividend income (L&G) & property rental income (AVIVA) to supplement contribution income in order to meet pension benefit expenditure.				
F19	F9	To minimise unrecoverable debt on termination of employer participation	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee leads to unrecoverable debt residual liability falls on remaining employers.	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in	1. New employers joining the Fund are required to meet the Funds expectations , covenant, security and guarantee as set out in the Funding Strategy.	6	9	Amended to incorporate F20.

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			in all other employers' contributions		setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible. Same mitigations for both risks F19 & F20	2. Existing employers are required to meet the Funding Strategy and Actuarial Valuation obligations. 3. Monitoring of bonds and ongoing monitoring of Employer covenant.			
F20	None	Minimise unrecoverable debt on termination of employer participation	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on	None	Assess the strength of individual employer's covenant in conjunction with the	None	6	None	Deleted – merged with F19

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			cessation of participation in the fund		Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible				
F21	None	Maintain liquidity	Maintain	None	Communicati	None	6	None	Deleted



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		in order to meet projected net cash-flow outgoings	liquidity in order to meet projected net cash-flow outgoings		ons with both Employers and Employees over the benefits of the LGPS, both before and after any structural change. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.				
None	F10	To prudently set levels of employer contributions that aim to achieve a fully funded ongoing position in the timescales determined in the Funding Strategy Statement	None	The adoption of inappropriate assumptions causes the Fund to be listed in the GAD s13 report in a way that causes reputational damage.	None	1. In consultation with the Actuary, EPF determine an appropriate funding strategy that meets s13 requirements	None	6	New