Appendix A

Essex County Council Pension Fund

Funding Strategy Statement

This Statement has been prepared by Essex County Council (the Administering Authority) to set out the funding strategy for the Essex County Council Pension Fund (the Fund), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 and reissued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:-
    - the guidance issued by CIPFA for this purpose; and
    - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- The FSS must be revised and published whenever there is a material change in the policy on the matters set out in either the FSS or the SIP.

Benefits payable under the Local Government Pension Scheme (the Scheme) are guaranteed by statute and therefore the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations"). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the Actuary appointed by the Fund, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the Actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The Actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Actuary.

The purpose of this FSS 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 regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Funding Objectives and purpose of the Fund

The funding objectives of the Fund are:

- Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the Funding Strategy Statement
- To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible
- To have consistency between the investment strategy and funding strategy
- To manage employers' liabilities effectively, having due

consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives

- Maintain liquidity in order to meet projected net cash-flow outgoings

- Minimise unrecoverable debt on termination of employer participation

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and

- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), and, subject to forthcoming legislation, with effect from 1st April 2014 as defined in the LGPS 2014 Regulations.

4. Responsibilities of the key parties

Although a number of parties, including investment fund managers, investment advisers and external auditors, have responsibilities to the Fund, the key parties for the strategy are seen as the Administering Authority, each individual employer and the Fund Actuary.

The Administering Authority should:

- collect employer and employee contributions;

- invest surplus monies in accordance with the Regulations;

- ensure that cash is available to meet liabilities as and when they fall due;

- manage the valuation process in consultation with the Fund Actuary;

- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and

- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP when necessary.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)

- pay over all contributions, including their own as determined by the Fund Actuary, promptly by the due date;

- exercise discretions within the regulatory framework;

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain; and

- notify the Administering Authority promptly of all changes to membership or, other changes proposed, which affect future funding.

The Fund Actuary should:

- prepare valuations, including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and

- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. Solvency issues and target funding levels

To meet the requirements of the Administration Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay. The actuarial assumptions to be used in the calculation of the funding target are set out in the Appendix.

The key assumptions making up the funding strategy and as adopted for the 2013 actuarial valuation are that:

- our long-term aim is to achieve 100% funding of pension liabilities;

- the Scheme is expected to continue for the foreseeable future;

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term;

- we wish to minimise fluctuations in employers' contributions in order to assist them with their financial planning and to meet their financial responsibilities to the Fund;

- the Fund is still relatively immature in terms of its membership profile and we can therefore take advantage of that fact in setting our investment strategy;

- we have a large number of employing bodies with different characteristics including size and strength of covenant.

The effective date of the current actuarial valuation of the Fund is 31 March 2013. The preliminary results of the valuation indicate that overall the assets of the Fund represented 80% of projected accrued liabilities at the valuation date.

The Administering Authority after due consideration of all of the information available to it including consultation with the Fund Actuary and other interested parties, has adopted the following objectives to achieve the funding target:

- we will set employers' contribution rates to achieve 100% funding of liabilities in the long term;

- employer contribution rates will be made up of two separate elements:

    - an ongoing rate, as a percentage of pensionable pay, to meet the costs of future service (payable no later than the 19th day of the month following the month of relevant payroll run); and

    - a deficit recovery contribution, expressed in most instances as a cash sum, to recover any shortfall revealed by the actuarial valuation (payable as detailed in this Funding Strategy Statement);

- we will for the purpose of our administration, the calculation of contribution rates and for the setting of maximum deficit recovery periods, continue to deal with town and parish councils (T&PC) as a group. We will consider a cessation valuation policy for group employers. This will be subject to a separate consultation

    - we will set deficit recovery periods for the T&PC that as far as possible are likely to reduce the level of deficit during the inter-valuation period if all of the Actuary's assumptions prove correct.

- schools, including former grant maintained schools (but excluding Academies), will be treated as part of the local authority within whose area of responsibility they fall for the purpose of setting contribution rates and deficit recovery periods; any discretions in respect of these matters will fall to the local authority;

- schools that opt to become Academies become stand-alone employers in their own right but inherit responsibility for the share of scheme deficit attributable to the former school(s) from which they were formed and that share of scheme deficit will then be taken into account in calculating their separate contribution rate taking account of the Department of Communities and Local Government (DCLG) guidance on ~~recovery periods~~ setting academies' contribution rates.

  - for 2014/2015, pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/2014 employer contribution rate. A separate exercise will be undertaken with academies in due course to set appropriate contribution rates for 2015/2016 and 2016/2017. Where necessary, stability mechanisms described in this Statement may be used in the transition to the appropriate contribution rates.

- we will set objective and maximum deficit recovery periods for the remaining employers

  - the agreed deficit recovery periods will be set at levels that safeguard the interests of the Fund by having regard to the Fund's judgement of the strength of covenant and the financial stability of individual employers;

  - individual employers will, at the discretion of the Fund, be able to increase their deficit recovery period up to the maximum deficit recovery period subject to providing assurance of greater strength of covenant and financial stability. (e.g. guarantor employer consent, provision of a bond, a deposit, a parent company guarantee or other surety);

  - where a deficit recovery period greater than that of "average future working life" was applied at the 2010 valuation, the starting point for the deficit recovery period to be applied at the 2013 valuation is three years less than that previously applied. The Fund may, at its discretion, allow this three year period to be reapplied.

While a deficit exists, annual ~~deficit~~ contributions will not generally be reduced. This may result in a shorter deficit recovery period than the Objective

Objective and maximum deficit recovery periods for active employers (i.e. those employers with active members)

Category	Employer	Example	Objective	~~Draft~~ Maximum
A	Scheduled - major tax raising bodies	District Council, Fire Authority	2010 deficit recovery period less three years	30 years
~~B~~	~~Scheduled - Academies~~	~~Academies~~	~~2010 deficit recovery period less three years or deficit recovery period at post 2010 commencement~~	~~Recovery period of Essex CC/Southend BC/ Thurrock Council, as appropriate, according to the location of the Academy.~~
B	Scheduled - Academies	Academies	Pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/2014 employer contribution rates in 2014/2015. A separate exercise will be undertaken with academies to set contribution rates for 2015/16 and 2016/17.	
C	Scheduled - other	Further & Higher education corporations	2010 deficit recovery period less three years	27 years
D	Resolution	Town / Parish Councils	2010 deficit recovery period less three years	30 years
E	Transferee admission	Contractor	contract length or average remaining working life of employer's staff in LGPS, if shorter	contract length or average remaining working life of employer's staff in LGPS, if shorter
F	Community admission .1	Voluntary, not for profit, charities, housing associations	average remaining working life of employer's staff in LGPS	average remaining working life of employer's staff in LGPS
G	Community admission . 2	Employer providing evidence of financial security to the satisfaction of the Essex Pension Fund	average remaining working life of employer's staff in LGPS	20 years

1. The draft maximum deficit recovery periods are designed, where appropriate, to stabilise the amount of deficit contributions payable. It is not designed to allow for a reduction in contributions.

2. In addition, mitigations may be adopted to allow for affordability and stability of contributions as well as for transition to revised policies. These may include the stepped introduction of revised contribution rates.

3. The provision of financial security for Category G employers could include the agreement and provision of a guarantee by a Category A employer.

4. While a deficit exists, annual ~~deficit~~ contributions will not generally be reduced. This may result in a shorter deficit recovery period than the Objective.

5. Contributions generally will not be reduced below the future service rate.

6. Contributions are subject to the certification of the Fund Actuary.

- The Town &Parish Council employers' contributions will be phased over the 3 year period 2014/15 to 2016/17. ~~if necessary~~

- The 2014/15, 2015/16 and 2016/17 deficit amounts certified for each employer will reflect one of the following:

i. the actuarially assessed value of the annual deficit paid in twelve equal instalments monthly in arrears with each payment being due by the 19th day of the following month; or

ii. the actuarially assessed value of the annual deficit paid in one lump sum payment prior to 30 April of the specified year; or

iii. the actuarially assessed value of i) or ii) for all three years paid in 36 or 3, respectively, equal instalments; or.

~~iv.~~ the actuarially assessed value of paying the deficit for ~~two or~~ three years in one lump sum payment prior to 30 April 2014 ~~of the specified year.~~

- Individual employers retain the freedom to

    - make a lump sum payment prior to 1 April 2014, following agreement with the administering authority. The annual deficit amounts certified for financial years 2014/15, 2015/16 and 2016/17 will reflect the actuarially assessed value of making this payment, either utilising the payment over the three years or over the deficit recovery period;

    - decide to repay their share of the deficit over a shorter period should they so choose;

    - make additional payments to the Fund over and above the minimum employer contribution rates certified.

In determining the deficit recovery period(s) the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles;

- the need to balance a desire to attain the target as soon as possible against the major increases in the level of employers' contributions which a shorter period would require; and

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

- Reductions to the ongoing contribution rate (future service rate) may be stepped.

- Where an employer augments scheme benefits, immediate payment of the augmentation cost will be required to be made to the Fund;

- Where an employer allows an early retirement, for any reason other than ill health, that produces a strain cost, payment of the strain cost may be met either in the form of an immediate lump sum to the Fund, or by payment over three years to the Fund including interest;

- Levels of ill health will be monitored and will normally be reflected in assumptions at triennial valuations or sooner if deemed necessary

- Employers who are able to and have closed the Scheme to new members, or have had no new members in the previous two years to 31 March 2013, will have their employer contribution rate assessed on a closed basis at the triennial valuation.

- Where an employer is able to and closes the Scheme to new members, between valuations, the employer contribution rate may be reassessed on a closed basis and a revised certificate issued.

- In preparation for the cessation of an employer's participation in the Scheme:

  - The future service rate and deficit recovery contribution may be reviewed by the Fund Actuary and amended if required.

  - All community admission bodies will be allowed flexibility to elect to adopt a funding approach prior to termination in line with the "least risk" exit debt basis, if that is their preference.

  - In certain circumstances, subject to satisfactory surety, a formal plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer to manage payment of deficit up to and beyond the termination date.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer would be due to the Scheme as a termination contribution, unless it was agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer would be transferred within the Scheme to another participating employer. The basis of the termination valuation will be determined in consultation with the Fund Actuary.

  - In certain circumstances, subject to satisfactory surety, a formal payment plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer.

- All transferee admission bodies (i.e. "best value" contractors delivering services to scheme employers) will be accepted for admission into the Fund so long as all the necessary regulatory requirements for admission are satisfied, including those covering the assessment of the requirement for and provision of security to the satisfaction of the administering authority.

- In the case of a transferee admission body, or any participating employer acting as guarantor in the case of non-transferee admission bodies, implementation of an alternative funding basis or approach (including on termination) will be subject to agreement from the relevant guarantor body/scheme employer. Any special funding arrangements between the scheme employer and transferee admission body should be covered by the commercial arrangements, i.e. outside the Fund and not part of the admission agreement.

- Community admission bodies will be accepted for participation in the Fund, or otherwise, on a case by case consideration of the merits of admission and the associated risks to the Fund. In accordance, with regulatory requirements, a bond, indemnity, guarantee will be required for all community admission body cases, to the satisfaction of the administering authority.

    - For community admission bodies the Fund will consider application of special conditions or requirements as deemed appropriate.

- In the case where a contractor wishes to offer a broadly comparable scheme, rather than apply to become an admitted body of the Fund, standardised bulk transfer terms will be offered via the Actuary's Letter. The letter will be structured so as to target an asset transfer to the contractor's Broadly Comparable scheme such that it is equivalent to 100% of the past service liabilities reserved for by the Fund in respect of the transferring members' accrued service as at the date of transfer. The Fund will only agree to any variations in the standard in exceptional circumstances and with the prior agreement of the transferring scheme employer.

6. Link to investment policy

Funding and investment strategy are inextricably linked. The Investment Steering Committee (ISC) has been delegated with responsibility for investment strategy. The key investment objectives are *"to ensure the investment strategy is consistent with the funding objectives"* and "*to maximise investment returns within reasonable risk parameters".* The ISC determines investment strategy after taking professional advice.

Investment Strategy

The investment strategy is set out in the Fund's Statement of Investment Principles. This is available from www.essexpensionfund.org.uk.

In setting the investment strategy the ISC takes account of both the current funding level and the relative maturity profile of the Fund (the relative proportion of liabilities in respect of active, deferred and pensioner members). The asset allocation determined by the ISC sets the proportion of assets to be invested in equities, bonds and alternative assets. The resulting structure reflects the ISC's views on the appropriate balance between maximising the long term return on investments and minimising risk. The strategy is set for the long term, but reviewed regularly

The Fund's current investment strategy is as follows.

Equities	Manager	Target %
UK	LGIM	6.0
Regional	LGIM	18.0
Global	Marathon	35.0
	M&G	
	Longview	
	Baillie Gifford	
	RAFI	
Emerging	First State	5.0
Total		**62.0**

Bonds	Manager	Target %
Index-linked gilts	LGIM	2.5
Active Cash plus	GSAM	5.5
	M&G	5.5
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
Total		**13.5**

Alternatives	Manager	Target %
Property	Aviva	12.0
Private equity	Hamilton Lane	4.0
Infrastructure	M&G	6.0
	Partners Group	
Timber	Stafford	2.0
Loans	M&G	0.5
-	-	-
-	-	-
Total		**24.5**

In spring 2013, the Fund's investment consultants, Hymans Robertson undertook an assessment of the investment return expectations of the Fund's investment strategy. This concluded that the current central return expectation was 6.1% per annum.

Asset Split

The Fund does not account for each employer's assets separately. The Fund's Actuary is required to apportion the assets of the Fund between the employers at each valuation.

Consistency with Funding Basis

In the opinion of the Actuary, the current funding policy is consistent with the both investment strategy of the Fund, and the requirement to take a "prudent longer term view" of the funding of liabilities.

As at 31 March 2013 the discount rate used, in order to calculate the current value of future pension benefits payable is 5.8%.

7. Identification of risks and counter-measures

Awareness of the risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks.

The funding of defined benefits is by its nature uncertain. The funding strategy is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial valuation and beyond. This may require a subsequent contribution adjustment to bring the funding back into line with the target.

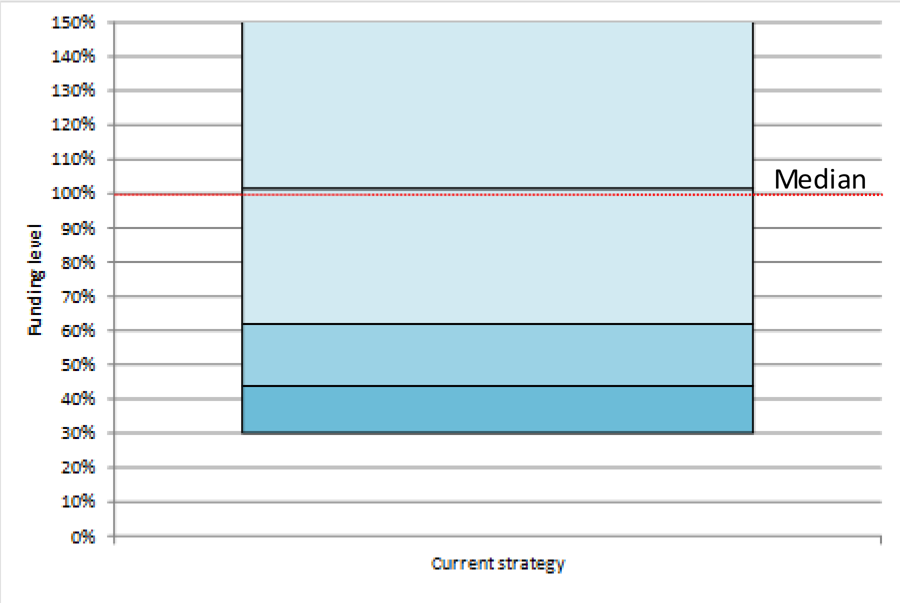
~~The chart below shows a "funnel of doubt" funding level graph (to be inserted), which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).~~

~~Insert "funnel of outcomes" chart~~

Impact of investment strategy

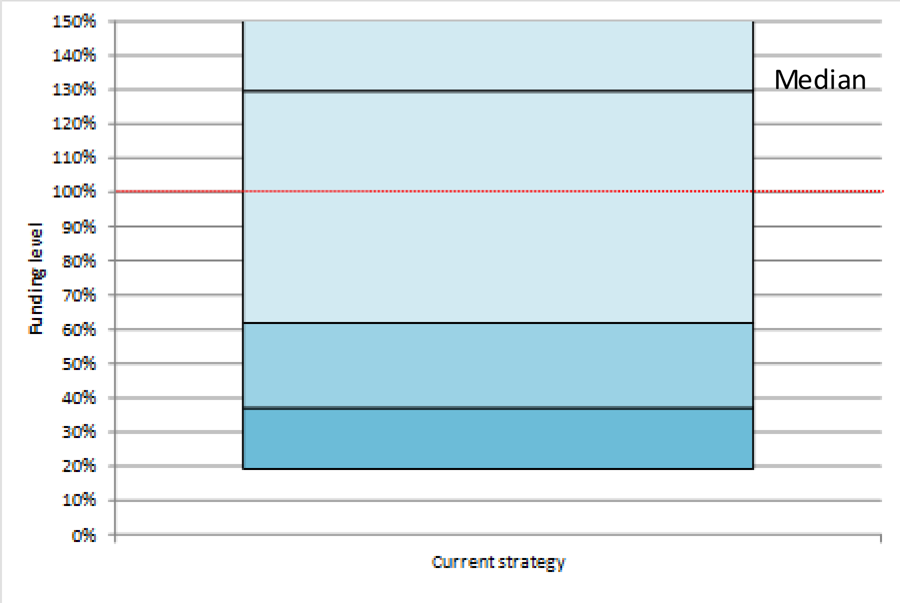
Charts A and B below show the projected range of outcomes for the funding level in 2025 and 2034 assuming that the current investment strategy remains in place for the full period (62% equities, 24.5% in alternatives and 13.5% in bonds). These are effectively slices across the funnel of outcomes at years 2025 and 2034, with the median line shown. We also mark the 100% funded line, which is the objective we are aiming to achieve.

Chart A: 2025 projection of current investment strategy



- In the 2025 projection, the median projection (the centre line of the lighter blue area) corresponds broadly to a 100% funding level. Therefore there is a 50/50 chance of being fully funded on the gilts + 1.5% p.a. basis by then.

Chart B: 2034 projection of current investment strategy



- In the 2034 projection, the median line is well above the 100% funded position on the gilts + 1.5% p.a. basis at that date. Therefore there is a significantly better than 50/50 chance of achieving the funding target with the current investment strategy and proposed contributions by the end of the recovery period. The actual probability of achieving the funding objective by the end of 21 year projection period is c.61%.

The Administering Authority has itself undertaken an exercise to identify those risks that are specific to the Fund and the measures to be taken to counter those risks.

The resultant risk assessment is attached to this FSS as Schedule A.

8. Monitoring and Review

In preparing this statement, the Administering Authority and the Essex Pension Fund Board has taken advice from Barnett Waddingham, the Fund Actuary, and has also consulted with its institutional investment advisers Hymans Robertson, and its independent investment adviser Keith Neale.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions and/or deviation in the progress of the funding strategy;
- if there have been significant changes to Fund membership, or LGPS benefits;
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy; and
- if there have been any significant special contributions paid into the Fund.

Schedule A

Essex County Council Pension Fund

Funding Strategy Risk Analysis

Essex Pension Fund Risk Register

Risk Area: Essex Pension Fund   Date: 12/02/2014

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	Within reasonable risk parameters, to achieve and thenthen maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	4	2	8	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.	2	2	4
Funding	Within reasonable risk parameters, to achieve and thenthen maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	4	3	12	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.	3	3	9
Funding	Within reasonable risk parameters, to achieve and thenthen maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and increases required in employers' contributions	3	3	9	Diversified investment structure and frequent monitoring against targets with potential for a change of managers where considered appropriate.	2	2	4
Funding	Within reasonable risk parameters, to achieve and thenthen maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F4	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	3	3	9	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.	2	2	4
Funding	Within reasonable risk parameters, to achieve and thenthen maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions	3	3	9	Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds 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.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F6	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant	4	3	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4

Essex Pension Fund Risk Register

Risk Area: Essex Pension Fund **Date:** 12/02/2014

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	4	3	12	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	3	2	6
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F8	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	3	2	6	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.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F9	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	3	3	9	Risk profile analysis performed with a view on the strength of individual employer's 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.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F10	Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cash flow requirements.	4	2	8	Ensuring that Fund concerns are considered by the Officers/Board as 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.	3	1	3
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F11	Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions	3	2	6	Ensuring that Fund concerns are considered by the Officers/Board as 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.	3	1	3

Essex Pension Fund Risk Register

Risk Area: Essex Pension Fund — Date: 12/02/2014

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	To manage employers' liabilities effectively, having due cisideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F12	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	3	3	9	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 (including guarantors as appropriate)	2	2	4
Funding	To manage employers' liabilities effectively, having due cisideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F13	Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)	3	3	9	At each triennial valuation pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	2	2	4
Funding	To manage employers' liabilities effectively, having due cisideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F14	Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer	3	4	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4
Funding	To manage employers' liabilities effectively, having due cisideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F15	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.	2	3	6	Follow the standardised approach to bulk transfers of liabilities as part of admission policy framework, complying with any statutory requirements and protecting the interests of the Fund's employers by measuring the solvency of the Fund and relevant employers before and after transfer.	2	1	2
Funding	To have consistency between the investment strategy and funding strategy	F16	Over or under cautious determination of employer funding requirements due to inconsistent approach or failing to recognise the impact of the investment strategy on funding	3	3	9	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.	2	2	4
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F17	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements	2	1	2

Essex Pension Fund Risk Register

Risk Area: Essex Pension Fund **Date:** 12/02/2014

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F18	Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.	2	1	2
Funding	Minimise unrecoverable debt on termination of employer participation	F19	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 in all other employers' contributions	4	3	12	Assess the strength of individual employer's covenant 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	3	2	6
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	4	3	12	Assess the strength of individual employer's covenant in conjunction with the 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	3	2	6
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F21	Employee participation in the Essex LGPS reduces (possibly in response to changes in contribution rate / benefit structure or changes in patterns of service delivery)	4	3	12	Communications 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.	3	2	6

Detailed assumptions used in calculating the funding target

Financial Assumptions	2013 % per annum
Discount Rate	5.8%
Retail Price Inflation (RPI)	3.5%
Consumer Price Inflation (CPI)	2.7%
Pension and Deferred Pension Increases	2.7%
Short Term Pay Increases	In line with the CPI assumption for the 2 years to 31 March 2015
Long Term Pay Increases	4.5%

Statistical Assumptions	2013
Post retirement mortality:	
Current mortality	S1PA tables
Mortality Projection	2012 CMI Model with a long term rate of improvement of 1.5% per annum
Retirement Ages	Each member retires at their weighted average "tranche retirement age", i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits If the member is over this retirement age, then it is assumed they will retire at their oldest tranche retirement age. If over the oldest tranche retirement age, the member is assumed to have a 1/3 chance of retiring in each of the next 3 years, and it is assumed all members will be retired by age 75.
Proportion Married	There is an 80%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits
Partner Age Difference	Males are 3 years older than their spouse and Females are 3 years younger than their spouse
Ill-health tiers	50% of ill-health retirements will be eligible for benefits based on full prospective service and 50% will qualify for a service enhancement of 25% of prospective service

Statistical Assumptions	2013
Commutation	It is assumed that members at retirement will commute pension to provide a lump sum of 60% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum of £1 of pension
50/50 Scheme Allowance	It is assumed that 10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme
Other Statistical assumptions	Same as used by Government Actuary's Department when LGPS reforms were designed and based on analysis of incidence of death, retirement and withdrawal for Local Authority Funds
	Sample rates shown below

Incidence per 1000 active members per annum								
	Death		Ill Health retirement		Withdrawal		Salary Scales	
Age	Males	Females	Males	Females	Males	Females	Males	Females
25	0.1	0.1	0.1	0.1	122.0	144.5	100	100
30	0.2	0.1	0.2	0.1	104.4	122.4	102	101
35	0.3	0.2	0.3	0.3	89.4	103.6	111	105
40	0.5	0.3	0.6	0.5	76.5	87.7	117	108
45	0.8	0.5	1.1	0.8	65.5	74.3	121	110
50	1.3	0.8	2.2	1.6	56.0	62.9	124	110
55	2.1	1.3	4.1	2.9	48.0	53.3	127	110
60	3.4	2.0	7.8	5.3	41.0	45.1	127	110
65	5.4	3.0	14.8	9.8	35.1	38.2	127	110