ANNEX B

March 2014

Essex County Council Pension Fund

Funding Strategy Statement – EXTRACT

Contents

This annex is an extract (section 5) of the Funding Strategy. The full Strategy can be found at *http://www.essexpensionfund.co.uk/themes/essex/scheme%20documents/Funding%20strategy%20statement%202013.pdf*

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 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 setting academies' contribution rates.

- for 2014/2015, pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/14 ongoing contribution rates in 2014/15. Deficit amounts payable in 2014/15 will be the annual rate for 2013/2014 plus the standard 4.5% increase in line with the Actuary's long term pay increase assumption. 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 contributions will not normally 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	Maximum
A	Scheduled - major tax raising bodies	District Council, Fire Authority	2010 deficit recovery period less three years	30 years
B	Scheduled - Academies	Academies	Pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/14 ongoing contribution rates in 2014/15. Deficit amounts payable in 2014/15 will be the annual rate for 2013/2014 plus the standard 4.5% increase in line with the Actuary's long term pay increase assumption. 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 contributions will not normally be reduced. This may result in a shorter deficit recovery period than the Objective.

5. Contributions normally 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.

- 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 three years in one lump sum payment prior to 30 April 2014.

- 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.