

South Yorkshire Pension Fund
Funding Strategy Statement
September 2022

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Effective date	
Date approved	
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1 Welcome to South Yorkshire Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for South Yorkshire Pension Fund.

The South Yorkshire Pension Fund is administered by the South Yorkshire Pensions Authority (the Authority), known as the administering authority. The Authority worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

There's a regulatory requirement for the Authority 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 person@lgpsfund.gov.uk

1.1 What is the South Yorkshire Pension Fund?

The South Yorkshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. 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 [\[link\]](#).

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 (see [Appendix A](#))

1.6 How is the funding strategy specific to the South Yorkshire 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
- The primary rate also includes an allowance for the **fund's expenses**.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. 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.

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy on prepayments is detailed in Appendix K.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs	
	Sub-type	Local authorities, police, fire	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis	Ongoing, but may move to low-risk exit basis	Contractor exit basis, assuming fixed-term contract in the fund	
Minimum likelihood of success	70%	70%	70%	70%	70%	x%	
Maximum time horizon	16 years	16 years	16 years	16 years (guarantee)	As per for open employers (or average)	16 years (limited to remaining)	

Type of employer	Scheduled bodies			CABs and designating employers		TABs	
	Sub-type	Local authorities, police, fire	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
					11 years (no guarantee)	future working lifetime, if less)	lifetime of the contract)
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						
Secondary rate	Monetary amount						
Stabilised contribution rate?	Yes	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Reduce contributions where appropriate, but total contributions will generally not be reduced relative to the current total rate in payment.	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		Reduce contributions by spreading the surplus over the remaining contract term	
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Phasing of increases to secondary contribution rates may be permitted.	Phasing of increases to secondary contribution rates may be permitted.		None	

* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

** See [Appendix D](#) for further information on funding targets.

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 may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	Councils	Mayoral Combined Authority	Police and Fire	HE / FE institutions
Maximum contribution increase per year	+0.5% of pay	+1.0% of pay	+1.5% of pay	+2.0% of pay
Maximum contribution decrease per year	-0.5% of pay	-1.0% of pay	-1.5% of pay	-2.0% of pay

The criteria outlined in the table above are expected to apply until at least 31 March 2026, at which point a long term stabilisation mechanism of $\pm 0.5\%$ per annum is expected to apply.

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 amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in Appendix H. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The administering authority operates funding 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 this type of pooling arrangement, employers do not target full funding at exit. While the fund receives the contributions required, the risk that employers will be entitled to a surplus payment on exit increases.

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.

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, 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?

The following pooling arrangements exist in the Fund:

- **Academies** – Multi Academy Trusts (MATs) are groups of Academies managed and operated by one proprietor. The Fund's default position is that the combined funding position and average contribution requirements will apply (unless the MAT requests separate contribution rates). Notwithstanding this, the Fund will continue to track the constituent academies separately on an approximate basis.

- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools.
- **Smaller TABs** – may be pooled with the letting employer (for example as part of a pass through arrangement).

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.

The fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the fund's prepayment policy detailed in Appendix K.

2.8 Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs (aside from ill-health retirement costs which are already insured for eligible employers) being insured with a third party or internally within the Fund. More detail on how the Fund currently insures ill health costs for eligible employers is set out in Appendix L.

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 are required to pay additional contributions called strain payments.

Employers are required to make strain payments as an immediate single lump sum.

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.

The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment.

The treatment of any ill-health retirement strain cost emerging will vary depending on the type of employer:

- For those employers who participate in the ill-health insurance captive, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.
- For those employers who don't participate in the ill-health captive, the primary rate payable includes an allowance for ill-health retirement costs. Any ill-health retirement strain costs emerging will form part of the contribution rate assessment for the employer at the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer

The administering authority's approach to help manage ill-health early retirement costs was put in place on 1 October 2014 and this is reviewed at each formal valuation.

The Fund's policy of managing ill health retirement risk is detailed in Appendix L.

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.

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.

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. See section 2 for further information on 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 included in the fund's admissions policy in Appendix E.

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 (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the school's share of the historic local authority deficit prior to its conversion. This deficit is calculated as the capitalised secondary contributions (over the time horizon) the school would have made to the Fund had it not converted to academy status, subject to a minimum asset share of nil and a maximum asset share equal to the value of the transferring liabilities.

The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a MAT, in which case the new academy will pay the MAT contribution rate.

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

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.

The Fund's full policy on academy participation is detailed in Appendix I.

5.3 New admission bodies as a results 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.

The Fund's policy is to require all new admission bodies to be set up with a pass-through arrangement.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg 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.

The Fund's admissions policy is detailed in Appendix E.

7 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
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The Fund's bulk transfer policy is available in Appendix G.

8 What happens when an employer leaves the fund?

8.1 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.

8.2 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 is below. These are defined in [Appendix D](#).

- (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.

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 deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is available in Appendix F.

8.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – 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 Fund's policy on exit credit policy is included in the cessation policy in Appendix F.

8.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- 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 Fund's policy on employer flexibilities is included in the cessation policy in Appendix F.

8.5 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/DSA. 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. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at the formal valuation.
- 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.

9 What are the statutory reporting requirements?

9.1 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.

9.2 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.

9.3 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 fund's actuarial bases don't offer straightforward comparisons.

Appendices

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'.

The consultation process included issuing a draft version to participating employers and attending an open employers' forum.

A3 How is the FSS published?

The FSS is emailed to participating employers and employee and pensioner representatives. Summaries are issued to members and a full copy is included in the fund's annual report and accounts and the Fund's website. Copies are freely available on request and sent to investment managers and independent advisers.

This could include:

- publishing on the administering authority's website
- publishing on social media
- local publicity, for example in local authority newsletters
- sending copies to each employer
- sending a summary statement to all scheme members
- including the full statement or summary in final accounts
- adding the FSS to the agenda of pension fund AGMs
- sending copies to members of the local pension board

- sending copies to employee/pensioner representatives
- sending copies to investment managers and independent advisers
- making copies freely available on request.

The FSS is published at [\[URL\]](#).

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 amendments will be consulted on, agreed by the Pensions 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 statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at [\[URL\]](#).

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:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 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 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 below.

C2 Financial risks

The financial risks are as follows;

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

C3 Demographic risks

The demographic risks are as follows;

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds. Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with

ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

The Fund's ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix L).

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements.

Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge. With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

C4 Regulatory risks

The key regulatory risks are as follows;

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme. Typically these would be via the Cost Management Process although in light of the McCloud discrimination case there can be exceptional circumstances which give rise to unexpected changes in Regulations
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

C5 Governance risks

Governance risks are as follows;

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk

C6 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 assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	{Detail of initial covenant assessment}	{Detail of monitoring arrangements}
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	{Detail of initial covenant assessment}	{Detail of monitoring arrangements}
Designating employers	{Detail of initial covenant assessment}	{Detail of monitoring arrangements}

C7 Climate risk and TCFD reporting

The fund included climate scenario stress testing in the contribution modelling exercise for the stabilised 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 Policy Framework and a separate Climate Change Policy, both of which were last agreed by Pensions Authority in mmmm yyyy.

C8 Local Pension Board

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Board seeks to assist the South Yorkshire Pensions Authority to maintain effective and efficient administration and governance. The LPB comprises both Scheme members, retired and active, together with employer representatives. Employer representation is not restricted to the four large local Councils.

It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

The Board is now supported by an Independent Adviser in order to ensure that it can provide effective challenge to the Authority and its officers

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									Inflation (CPI)	17 year real yield (CPI)	17 year yield
		Cash	Index Linked Gilts (medium)	UK Equity	Overseas Equity	Private Equity	Property	Infrastructure Equity	Multi Asset Credit (sub inv grade)	Global High Yield Debt			
10 years	16th %ile	0.8%	-1.9%	-0.4%	-0.7%	-1.2%	-0.6%	-1.1%	1.7%	0.6%	1.6%	-1.7%	1.1%
	50th %ile	1.8%	0.2%	5.7%	5.6%	9.4%	4.4%	4.9%	3.5%	3.4%	3.3%	-0.5%	2.5%
	84th %ile	2.9%	2.4%	11.6%	11.7%	20.1%	9.5%	10.9%	5.2%	5.8%	4.9%	0.7%	4.3%
20 years	16th %ile	1.0%	-1.5%	1.7%	1.5%	2.4%	1.4%	1.2%	2.8%	2.1%	1.2%	-0.7%	1.3%
	50th %ile	2.4%	0.1%	6.2%	6.1%	10.0%	5.0%	5.6%	4.4%	4.2%	2.7%	1.1%	3.2%
	84th %ile	4.0%	1.9%	10.6%	10.8%	17.6%	8.9%	10.1%	6.0%	6.4%	4.3%	2.7%	5.7%
40 years	16th %ile	1.2%	-0.3%	3.2%	3.1%	4.7%	2.6%	2.6%	3.6%	3.1%	0.9%	-0.6%	1.1%
	50th %ile	2.9%	1.2%	6.7%	6.5%	10.3%	5.5%	6.1%	5.3%	5.1%	2.2%	1.3%	3.3%
	84th %ile	4.9%	3.1%	10.2%	10.2%	16.1%	8.8%	9.8%	7.1%	7.2%	3.7%	3.2%	6.1%
	Volatility (Disp) (1 yr)	2%	7%	18%	19%	30%	15%	18%	6%	8%	3%		

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 transferee admission bodies and closed community admission bodies	2.3%
Low-risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Ongoing basis

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

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.45% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 70% likelihood that the fund's assets will future investment returns of 4.45% over the 20 years following the 2022 valuation date.

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 average CPI inflation over the next 20 years 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 0.6% 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 a bespoke set of VitaCurves 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 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0% of members will choose the 50:50 option.

Males

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	242.58	487.81	0	0	0	0
25	117	0.17	160.24	322.22	0	0	0	0
30	131	0.2	113.69	228.58	0	0	0	0
35	144	0.24	88.83	178.58	0.1	0.07	0.02	0.01
40	150	0.41	71.52	143.73	0.16	0.12	0.03	0.02
45	157	0.68	67.18	134.98	0.35	0.27	0.07	0.05
50	162	1.09	55.38	111.14	0.9	0.68	0.23	0.17
55	162	1.7	43.61	87.56	3.54	2.65	0.51	0.38
60	162	3.06	38.87	78.01	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.1	211.45	280.42	0	0	0	0
25	117	0.1	142.28	188.66	0.1	0.07	0.02	0.01
30	131	0.14	119.27	158.13	0.13	0.1	0.03	0.02
35	144	0.24	102.94	136.43	0.26	0.19	0.05	0.04
40	150	0.38	85.67	113.51	0.39	0.29	0.08	0.06
45	157	0.62	79.95	105.91	0.52	0.39	0.1	0.08
50	162	0.9	67.41	89.19	0.97	0.73	0.24	0.18
55	162	1.19	50.3	66.62	3.59	2.69	0.52	0.39
60	162	1.52	40.53	53.62	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

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 explained below:

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
- 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.
- 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.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the expected returns over the period of 16 years based on a 70% probability.