

## 1. Introduction

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This is the Funding Strategy Statement (FSS) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser and is effective from 1 April 2014.

### 1.1 Regulatory Framework

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme Regulations 2013.
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

In publishing the FSS the Administering Authority has to have regard to guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA), most recently in 2012.

### 1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2017. More frequently, **Annex A** is updated to reflect any changes to employers.

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The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Mrs Caroline Roberts, in the first instance at [carolineroberts@gwynedd.gov.uk](mailto:carolineroberts@gwynedd.gov.uk) or on 01286 679128.

## 2. Purpose

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### 2.1 Purpose of FSS

The Department of Communities and Local Government (CLG) has stated that the purpose of the 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 desirability of maintaining **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the fund as a whole, recognising that there will sometimes be conflicting objectives that need to be balanced and reconciled.

This statement focuses on the best long-term interests of the fund and sets out how the Administering Authority will balance the objectives of affordability of contributions, transparency of processes, stability of employers’ contributions, and prudence in the funding strategy.

The requirement to maintain and publish a FSS is contained in LGPS Regulations

### 2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered.

The purpose of the Fund is to:

- receive contributions, transfer payments and investment income;
- pay scheme benefits, transfer values and administration costs.

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## 2.3 Responsibilities of Key Parties

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Annex B.

## 2.4 Aims of the Funding Strategy

The objectives of the Fund's funding strategy include the following:

- to ensure the long-term solvency of the Fund [and of the share of the Fund attributable to individual employers];
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

### **3. Solvency Issues and Target Funding Levels**

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#### **3.1 Derivation of Employer Contributions**

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “*future service rate*”; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*<sup>1</sup>, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years – the maximum deficit recovery period applicable to the largest employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer<sup>2</sup>. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.4.

At the 2013 valuation, the Administering Authority decided that any employer’s past service deficit adjustment would be expressed as a cash amount (rather than a percentage of pay) spread over an appropriate period. This move to cash deficit repayment contributions protects the Fund as it will continue to receive the right level of deficit contribution in the event of any future reduction in pay.

**Annex A**, contains a breakdown of each employer’s contributions following the 2013 valuation for the financial years 2014/15, 2015/16 and 2016/17. It also identifies which employers’ contributions have been pooled with others.

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<sup>1</sup> See Regulation 77(4)

<sup>2</sup> See Regulation 77(6)

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Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

If an employer is in a surplus position but the rate payable in 2013/14 is lower than the 2013 valuation future service rate, the minimum contribution rate they will pay for the financial years 2014/15, 2015/16 and 2016/17 is the 2013/14 rate.

## 3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

## 3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data we have provided the Actuary with for the purposes of this valuation. There is a consensus amongst actuaries that life expectancy will continue to improve in the future. However, there is no clear consensus about the pace of this improvement (and how long it will persist). The view of the actuarial profession is that the allowance for future longevity improvements should be at the discretion of each individual pension fund, after taking advice from their actuary.

Contributions may increase in future if life expectancy exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

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The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than the long term yield on fixed interest UK Government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset outperformance assumption (AOA) of 1.7% per annum is within a range that would be considered acceptable for the purposes of the funding valuation.

To reflect current expectations for short term pay growth, the Fund actuary has assumed a pay growth assumption of 1% per annum for 3 years from 31 March 2013, reverting to a long term assumption thereafter.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

## **3.4 Future Service Contribution Rates**

The future service element of the employer contribution rate is calculated on the ongoing funding basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

### **3.4.1 Employers that admit new entrants**

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the

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membership of employees matures (e.g. because of lower recruitment) the rate would rise.

The Projected Unit Method is described in the Actuary's report on the valuation.

## **3.4.2 Employers that do not admit new entrants**

Currently one Admission Body has closed the scheme to new entrants. It is expected that the closure will lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate would be expected to increase as the membership ages. In such cases the *Attained Age* funding method is adopted. This limits the degree of future contribution rises by paying higher rates at the outset.

Future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

## **3.5 Adjustments for Individual Employers**

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position. The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;



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- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

## **3.6 Asset Share Calculations for Individual Employers**

The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

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## 3.7 Stability of Employer Contributions

### 3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority targets the recovery of any deficit over a period which takes into account the risk status of employers and to a lesser extent the wider resource implications. The general principles followed are as follows:

| Type of Employer   | <i>Maximum</i> Length of Deficit Recovery Period  |
|--|---|
| Statutory bodies with tax raising powers.                                      | a period not exceeding 20 years.  |
| Community Admission Bodies with funding guarantees.                            | a period not exceeding 20 years.  |
| Further Education Colleges which are scheduled bodies and not admitted bodies. | a period not exceeding 15 years.  |
| Best Value Admission Bodies.   | the period from the start of the revised contributions to the end of the employer's contract.                             |
| Community Admission Bodies that are closed to new entrants                     | a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers |
| All other types of employer.   | a period equivalent to the expected future working lifetime of the remaining scheme members                               |

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

The deficit recovery will be expressed as a monetary value to be paid over the relevant period and a fixed amount will be paid each month.

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## 3.7.2 *Phasing in of Contribution Increases and Decreases*

Best Value Admission Bodies are not eligible for phasing in of contribution rises. For employers facing an increase in their contributions this will be phased in over period of 6 years subject to the Administering Authority's overall satisfaction relating to the security of the Fund. Similarly, any reductions in contributions will be phased down over 3 years.

Major bodies with tax raising powers will continue to pay the same contribution rate (expressed as a percentage of payroll) as their 2013/14 rate.

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary has modelled the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with statutory bodies with tax raising powers continuing to pay their 2013/14 contribution rate (expressed as a percentage of payroll), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

### **3.7.3 The Effect of Opting for Longer Spreading or Phasing-In**

Employers who are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

### **3.7.4 Pooled Contributions**

#### **3.7.4.1 Smaller Employers**

The Administering Authority has previously allowed smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service in the past. For the 2013 valuation these pools have been discontinued and each employer will receive their own individual contribution rate.

Smaller employers who were in the pools at the 2010 valuation and smaller employers who are closed to new entrants will be required to participate in ill-health retirement insurance. This will be arranged on a mandatory basis by the Fund. The employer's contribution to the Fund each year is used in part to pay that year's insurance premium so that the total employer contribution is unchanged.

#### **3.7.4.2 Other Contribution Pools**

Schools are also pooled with their funding Council.

Those employers that have been pooled are identified in **Annex A**.

### **3.8 Admission Bodies ceasing**

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;

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- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

## 3.9 Early Retirement Costs

### 3.9.1 *Non Ill Health retirements*

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

## 4. Links to Investment Strategy

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Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

### 4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2013, the asset allocation of the fund was as follows:

| <b>Asset Allocation</b> | <b>Benchmark<br/>%</b> | <b>Actual<br/>%</b> |
|-------------------------|------------------------|---------------------|
| Equities                | 72.5                   | 76.0                |
| Property                | 10.0                   | 8.9                 |
| Absolute Return Bonds   | 15.0                   | 13.3                |
| Infrastructure          | 2.5                    | 0.3                 |
| Cash                    | 0.0                    | 1.5                 |
| <b>TOTAL</b>            | <b>100.0</b>           | <b>100.0</b>        |

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from fixed interest bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

## 4.2 Consistency with Funding Basis

The current funding policy for the purpose of placing a value on liabilities at the triennial valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, is to assume that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than the long term yield on fixed interest UK Government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. The asset outperformance assumption has been increased from 1.4% per annum at the 2010 valuation to 1.7% per annum at 31 March 2013. This increase is in recognition of unusual economic conditions that have led to relatively low levels of bond yields. The Fund believes that these conditions are likely to be temporary. The level of the asset outperformance assumption will be reviewed again at the 2016 valuation.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a “prudent longer-term view” of the funding of liabilities (see para 3.1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers’ contributions. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

## 4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

## 4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index-linked bonds.



## **5. Key Risks & Countermeasures**

### **5.1 Types of Risk**

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- Investment;
- Employer;
- Liquidity/maturity;
- Liability
- Regulatory and compliance.

### **5.2 Investment Risk**

| <b>Number</b> | <b>Risk</b>   | <b>Summary of Control Mechanisms</b>   |
|---------------|---|--|
| I1            | Fund assets fail to deliver the required returns.<br><br>Active investment manager under-performance relative to benchmark. | <i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i><br><br><i>Analyse progress at three yearly valuations for all employers.</i><br><br><i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their benchmark. This is now supplemented with an analysis of absolute returns against those under-pinning the valuation.</i><br><br><i>This gives an early warning of contribution rises ahead. In the short term, volatility damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more</i> |
| I2            | Systemic risk with the possibility of interlinked and simultaneous financial market volatility                              | <i>The Fund has an investment strategy with risk spread over a number of asset categories.</i>   |
| I3            | Inappropriate long-term investment strategy.  | <i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</i>  |

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|    |   | <i>Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</i>   |
| I4 | Counterparty failure                                    | <i>The Fund uses independent custodians for the safe-keeping of investment assets to protect against failure of an investment manager.<br/><br/>Cash balances are invested in accordance with the Pension Fund Treasury Management Strategy Statement which prescribes the size and length of deposits with permitted counterparties.</i> |
| I5 | Specific risks associated with assets and asset classes | <i>The Fund holds a diversified portfolio of investments over asset classes, countries, currencies and individual stocks to mitigate these risks.</i>   |

### 5.3 Employer Risk

| <b>Number</b> | <b>Risk</b>  | <b>Summary of Control Mechanisms</b>  |
|---------------|--|---|
| E1            | The mix of employers changes significantly   | <i>The five secure scheduled bodies comprise 95 of the Fund's members.<br/><br/>The Administering Authority monitors membership movements on an annual basis.</i>                         |
| E2            | Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.                            | <i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i>  |
| E3            | Deteriorating patterns of early retirements.   | <i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i>   |
| E4            | 1) Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of | <i>The Administering Authority monitors membership movements on an annual basis.<br/><br/>The Actuary may be instructed to consider revising the Rates and Adjustments certificate to</i> |

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|    | <p>retirements).</p> <p>2) Administering Authority not advised of an employer closing to new entrants.</p>  | <p><i>increase an employer's contributions (under Regulation 78) between triennial valuations</i></p> <p><i>Deficit recovery contributions are expressed as monetary amounts and will be collected as monetary amounts from 1 April 2014.</i></p>   |
| E5 | <p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</p> | <p><i>In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers with Best Value contractors to inform it of forthcoming changes.</i></p> <p><i>It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</i></p>  |
| E6 | <p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>  | <p><i>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:</i></p> <ul style="list-style-type: none"> <li><i>• Seeking a funding guarantee from another scheme employer, or external body, wherever possible.</i></li> <li><i>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i></li> <li><i>• Vetting prospective employers before admission</i></li> <li><i>• Setting a minimum limit of 20 employees for prospective employers.</i></li> <li><i>• The Administering Authority will consider where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i></li> </ul> |

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## 5.4 Liquidity / Maturity Risk

| Number | Risk   | Summary of Control Mechanisms  |
|--------|--|--|
| M1     | Insufficient funds to meet liabilities as they fall due  | <i>The Fund currently has a positive cash flow and monitors the position regularly to ensure that sufficient funds are available to pay pensions and other costs.</i>  |
| M2     | Changes to the scheme which impact on the maturity profile and future opt-out rates  | <i>The actuarial valuation takes account of the planned changes to the scheme.<br/><br/>Actual changes in the maturity profiles and opt-out rates will be monitored against the assumptions.</i>   |
| M3     | Implications of spending cuts which will result in <ul style="list-style-type: none"> <li>• reduced membership,</li> <li>• reduced contributions</li> <li>• increased early retirements</li> </ul> | <i>Deficit recovery contributions will be collected as cash amounts, rather than as a percentage of pay, from 1 April 2014. The Fund continually monitors employer contributions for major changes and assesses the impact of any reductions.<br/><br/>Additional costs of early retirements will be payable by employers.</i> |

## 5.5 Liability Risk

| Number | Risk   | Summary of Control Mechanisms  |
|--------|--|--|
| L1     | Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. | <i>Some investment in bonds helps to mitigate this risk.</i>   |
| L2     | Pay and price inflation significantly more than anticipated.                                   | <i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds also helps to mitigate this risk.<br/><br/>Employers pay for their own salary awards.</i> |

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|    |                           |  |
|----|---------------------------|--|
| L3 | Pensioners living longer. | <p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>At the most recent valuation at 31 March 2013, analysis of current longevity specific to the Gwynedd Pension Fund was provided by Club Vita. In addition the actuary has made a separate allowance for future improvements. The allowance made at the March 2013 valuation was greater than allowed for at the last valuation in 2010. The actuary will continue to monitor emerging evidence of improvements from Club Vita and other sources and will advise at the next valuation (2016) what further allowance for future improvements is needed.</i></p> |
|----|---------------------------|--|

### 5.6 Regulatory and Compliance Risk

| Number | Risk   | Summary of Control Mechanisms   |
|--------|--|---|
| R1     | Changes to regulations, e.g. introduction of the new scheme in 2014  | <i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i>   |
| R2     | Changes to national pension requirements and/or HMRC rules e.g. annual pensions accrual rules for tax purposes | <p><i>It considers all consultation papers issued by the DCLG and comments where appropriate.</i></p> <p><i>The Administering Authority consults employers where it considers that it is appropriate.</i></p> |

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## Annex A – Employers’ Contributions, Spreading and Phasing Periods

Following the 2013 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2013 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer’s contributions from the ‘Common Contribution Rate’.

Some employers have indicated that they are considering their future membership of the Pension Fund. It will be necessary to amend the table below if individual employers decide to change or terminate their membership.

| CODE                          | Employer Name or Pool                     | Proposed Maximum Deficit Recovery Period (In years) | Phasing Period (In years) | Contribution Rates and Sums for the year ending |                        |                |                        |                |                        |
|-------------------------------|---|---|---------------------------|---|------------------------|----------------|------------------------|----------------|------------------------|
|                               |   |   |                           | FSR 31.03.15 %                                  | Deficit 31.03.15 £'000 | FSR 31.03.16 % | Deficit 31.03.16 £'000 | FSR 31.03.17 % | Deficit 31.03.17 £'000 |
| <b>Major Scheduled Bodies</b> |   |   |                           |   |                        |                |                        |                |                        |
| 100                           | Gwynedd                                   | 20  | S                         | 18.3  | 2,985                  | 18.3           | 3,015                  | 18.3           | 3,045                  |
| 200                           | Isle of Anglesey                          | 20  | S                         | 18.6  | 1,269                  | 18.6           | 1,282                  | 18.6           | 1,294                  |
| Pool                          | Conwy Pool                                |   |                           |   |                        |                |                        |                |                        |
| 300                           | - Conwy County Borough Council            | 20  | S                         | 19.1  | 1,280                  | 19.1           | 1,294                  | 19.1           | 1,306                  |
| 55                            | - Ysgol Emrys ap Iwan                     | 20  | S                         | 19.1  | 10.5                   | 19.1           | 10.7                   | 19.1           | 10.8                   |
| 56                            | - Eirias High School                      | 20  | S                         | 19.1  | 13.3                   | 19.1           | 13.5                   | 19.1           | 13.6                   |
| 57                            | - Ysgol Bryn Elian                        | 20  | S                         | 19.1  | 8.9                    | 19.1           | 9.0                    | 19.1           | 9.0                    |
| 58                            | - Ysgol Pen y Bryn                        | 20  | S                         | 19.1  | 7.1                    | 19.1           | 7.2                    | 19.1           | 7.3                    |
| <b>Major Admission Bodies</b> |   |   |                           |   |                        |                |                        |                |                        |
| 37                            | Careers Wales North West                  | FWL   | 6                         | 17.2  | 43                     | 19.4           | 48                     | 19.8           | 50                     |
| 38                            | Cwmni Cynnal                              | FWL   | 3                         | 17.0  | 72                     | 17.0           | 73                     | 17.0           | 74                     |
| 43                            | Snowdonia National Park                   | 20  | S                         | 19.5  | 70                     | 19.5           | 70                     | 19.5           | 71                     |
| 76                            | Cartrefi Conwy                            | FWL   | 0                         | 17.0  | 0                      | 17.0           | 0                      | 17.0           | 0                      |
| 77                            | Cartrefi Cymunedol Gwynedd                | FWL   | 0                         | 16.4  | 0                      | 16.4           | 0                      | 16.4           | 0                      |
| 78                            | Grwp Llandrillo Menai                     | 15  | 6                         | 18.8  | 118                    | 18.8           | 159                    | 18.8           | 200                    |
| 81                            | Police and Crime Commissioner North Wales | 20  | S                         | 16.3  | 827                    | 16.3           | 835                    | 16.3           | 844                    |
| <b>Other Scheduled Bodies</b> |   |   |                           |   |                        |                |                        |                |                        |
| 13                            | Caernarfon T.C.                           | 20  | 3                         | 15.4  | 1.1                    | 15.4           | 0.7                    | 15.4           | 0.2                    |
| 14                            | Menai Bridge T.C.                         | 20  | 6                         | 20.7  | 0.2                    | 20.7           | 0.4                    | 20.7           | 0.5                    |
| 16                            | Bangor C.C.                               | 20  | 6                         | 19.3  | 1.8                    | 19.3           | 2.6                    | 19.3           | 3.3                    |
| 17                            | Llangefni T.C.                            | 20  | 6                         | 21.6  | 0                      | 21.6           | 0.4                    | 21.6           | 0.6                    |
| 22                            | Beaumaris T.C.                            | 20  | 6                         | 23.0  | 0                      | 24.8           | 0                      | 26.6           | 0                      |
| 27                            | Holyhead T.C.                             | 20  | 6                         | 20.2  | 1.3                    | 20.2           | 1.5                    | 20.2           | 1.6                    |
| 28                            | Llandudno T.C.                            | 20  | 3                         | 16.3  | 1.3                    | 16.3           | 0.9                    | 16.3           | 0.6                    |
| 66                            | Tywyn T.C.                                | 20  | 6                         | 22.8  | 0                      | 24.5           | 0                      | 26.1           | 0                      |
| 68                            | Llanllfni C.C.                            | 20  | 6                         | 21.7  | 0                      | 22.3           | 0                      | 22.8           | 0                      |

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|                               |  | Proposed<br>Maximum<br>Deficit   |                                 | Contribution Rates and Sums for the year ending |                              |                      |                              |                      |                              |
|-------------------------------|--|----------------------------------|---------------------------------|---|------------------------------|----------------------|------------------------------|----------------------|------------------------------|
| CODE                          | Employer Name or Pool                            | Recovery<br>Period<br>(In years) | Phasing<br>Period<br>(In years) | FSR<br>31.03.15<br>%                            | Deficit<br>31.03.15<br>£'000 | FSR<br>31.03.16<br>% | Deficit<br>31.03.16<br>£'000 | FSR<br>31.03.17<br>% | Deficit<br>31.03.17<br>£'000 |
| 70                            | Towyn a Kinnel Bay T.C.                          | 20                               | 3                               | 14.2  | 1.8                          | 14.2                 | 1.0                          | 14.2                 | 0.2                          |
| 72                            | Abergele T.C.                                    | 20                               | 6                               | 19.5  | 0.5                          | 19.5                 | 0.6                          | 19.5                 | 0.6                          |
| 73                            | Colwyn Bay T.C.                                  | 20                               | 3                               | 17.4  | 1.7                          | 17.4                 | 1.3                          | 17.4                 | 0.9                          |
| 74                            | Blaenau Ffestiniog T.C.                          | 20                               | 6                               | 22.2  | 0                            | 23.2%                | 0                            | 24.2%                | 0                            |
| <b>Small Admission Bodies</b> |  |                                  |                                 |   |                              |                      |                              |                      |                              |
| 11                            | North Wales Society for the Blind                | FWL                              | 6                               | 18.3  | 6.4                          | 18.3                 | 8.2                          | 18.3                 | 10.1                         |
| 25                            | Cyd-Bwyllgor Claddu Caergybi                     | FWL                              | 6                               | 24.1  | 0                            | 25.0                 | 0.5                          | 25.0                 | 1.3                          |
| 34                            | Coleg Harlech                                    | FWL                              | 6                               | 19.1  | 21.3                         | 19.1                 | 30.3                         | 19.1                 | 38.9                         |
| 41                            | Cwmni'r Fran Wen                                 | FWL                              | 3                               | 13.7  | 6.9                          | 13.7                 | 5.4                          | 13.7                 | 3.8                          |
| 61                            | Conwy Voluntary Services                         | FWL                              | 6                               | 20.8  | 3.5                          | 20.8                 | 5.1                          | 20.8                 | 7.1                          |
| 62                            | Medrwn Môn                                       | FWL                              | 6                               | 19.7  | 6.3                          | 19.7                 | 7.9                          | 19.7                 | 9.6                          |
| 63                            | Mantell Gwynedd                                  | FWL                              | 0                               | 22.6  | 0                            | 22.6                 | 0                            | 22.6                 | 0                            |
| 64                            | Canolfan Cyngori Ynys Môn Citizens Advice Bureau | FWL                              | 6                               | 18.0  | 3.1                          | 18.0                 | 4.3                          | 18.0                 | 5.5                          |
| 67                            | Menter Môn                                       | FWL                              | 3                               | 15.9  | 39.1                         | 15.9                 | 31.9                         | 15.9                 | 25.4                         |
| 69                            | Conwy Citizens Advice Bureau                     | FWL                              | 6                               | 22.5  | 0.5                          | 22.5                 | 1.3                          | 22.5                 | 2.1                          |
| 71                            | CAIS   | FWL                              | 6                               | 23.9  | 0                            | 24.1                 | 6.7                          | 24.1                 | 13.7                         |
| 80                            | Jewsons Ltd                                      | FWL                              | 0                               | 18.0  | 0                            | 18.0                 | 0                            | 18.0                 | 0                            |

\*FWL = Future Working Lifetime

\*S = Statutory tax raising body – no increase in contribution rate

\*FSR = Future Service Rate

## **Annex B – Responsibilities of Key Parties**

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### ***The Administering Authority is required to:***

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

### ***The Individual Employer is required to:***

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.



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## *The Fund actuary should:-*

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.