Draft Funding Strategy Statement Consultation

1.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement, and consult interested parties on its contents.

1.2 The draft Funding Strategy Statement has been consulted on with all stakeholders with a closing date of the 10 January.

The Fund received two responses to the consultation which are shown below.

- **1st Comment**

We refer to the email from David Parrington on 11 December 2019, with a link to a copy of the draft 2019 FSS and also refer to my email to Tracy below. As we have discussed with Tracy, our proposed contributions following the preliminary results of the 2019 valuation represent a very substantial increase in both the primary contribution rate and the total cost, which in terms of the consultation response seem to go against the requirements stated in the draft FSS for the scheme actuary "*to have regard to the desirability of maintaining as nearly constant a primary rate of employer contribution as possible*", and for the Administering Authority "*to bring stability to employers' total contributions through gradual increases (or decreases) phased in over a number of years*".

We would like to suggest as part of the consultation that the actuarial methodology and/or assumptions be changed to deliver the desired stability of contribution rates or, if this is not deemed appropriate, perhaps the FSS could be re-drafted to reflect the actual experience of participating employers? We cannot be the only employer facing a substantial increase in cost this year. Could WYPF publish a table showing the rates of primary and total contributions for employers following the 2019 valuation, with a comparison showing the equivalent figures following the 2016 valuation?

WYPF response

Thank you for your e-mail.

I acknowledge your comments on the Funding Strategy Statement, however it is necessary consider our aim "to keep employer contribution rates to be as constant as possible" in full, i.e. without taking undue risks and also maintaining solvency of the Fund. As an admission body whose liabilities are expected to be orphaned following exit we have to take a more prudent approach.

As stated in the Funding Strategy Statement, where initial valuation results show that employer contributions need to change, the increase or decrease may be implemented in steps. For the 2019 valuation our general rule is that the stepping of employers contributions can be over a period of up to 6 years.

We could arrange a meeting to discuss further however it should be noted that we would not be able to agree to you paying employer contributions that would deteriorate your funding position, i.e. the primary contribution rate plus the interest on the deficit.

As part of the valuation exercise the Fund's actuary is required to issue an Employers Contribution Rates and Adjustment Certificate. The Employers Contribution Rates and Adjustment Certificate is contained in the valuation report produced by the actuary. A copy of the 2016 valuation report can be found on our Website and a copy of the 2019 valuation report will be added to the Website on completion of the valuation exercise in April.

Please find below details of my availability for a meeting:

Week Commencing 13/01/2020 - All day Wednesday;
Week Commencing 20/01/2020 – All Monday, Tuesday and Wednesday; and
Week Commencing 27/01/2020 – Any day.

- **2nd Comment**

More generally, board members need to see the advice from the Actuary before they can comment on the assumptions (it'd be helpful to circulate that in conjunction with the FSS).

In addition, on all the Recovery Plan stuff, it is very difficult to comment without understanding how it will impact on the various Employers. – it'd be helpful if you could outline the board's power in this regard for me. I.e. is it the board who sets this FSS and the future service rates for Employers, or is it the administrating authority with consultation from the board?

In terms of specific comments, I'd like to suggest the following In Section 3:

The current paragraphs need reordering, the first objective has to be to pay benefit in full.

Specific amendments suggestions (as they are currently numbered).
3.1.1. add: "for Local Authorities where were the covenant is strong, should be open to spreading surplus over a number of years even if that means reducing rates over the medium term."

WYPF response

Decisions about assumptions and recovery period etc are made at each valuation at a meeting held between the Funds Actuary and a Joint Advisory Group Valuation Sub Group (the sub group is made up of Chair and Deputy Chair of Joint Advisory group).

This meeting was held on the 23 September 2019 where the preliminary whole of fund results were reviewed and the final assumptions were agreed. The information provided by the Actuary at this meeting included an explanation in the movement of past service deficit/surplus and change in primary and aggregate contribution rates.

The assumptions agreed at that meeting (and which are stated in the Funding Strategy statement) have been used to calculate the funding position of the Fund at 31.3.2019 at 106 %. The main decisions agreed were to use a 75% Probability of Funding Success, a discount rate of 4.35% and retaining a recovery period of 22 years – given the Fund/ main employers are in surplus it is more prudent to retain this than reduce and amortise a surplus over a shorter period.

Many thanks for your comments about Section 3.