Appendix B

Comments received to the proposed changes to the FSS consultation

A consultation was undertaken with all WYPF stakeholders (over 450 employers, members of JAG, Panel and Pension Board.). The consultation period was for 5 weeks.

10 responses were received which are shown below.

WYPF general comments on the consultation response are shown at 2.

1. Comments received

1 and 2. Members of JAG , Panel and Pension Board

- This sounds very sensible.
- Thanks Jayne I would be happy to accept Caroline's recommendation

3. West Yorkshire Fire

In response to the consultation of WYPF Funding Strategy Statement, I have no objections to the proposals

4. Wakefield District Housing

Thank you for issuing the consultation and inviting WDH to respond. We welcome the opportunity.

We feel that the timescales for responses or the approach to this consultation do not allow employers a meaningful opportunity to respond. It would be useful to have another meeting before July. The extended deadline to 7 January is not sufficient to resolve these challenges.

The impact on individual employers is not evident at all from what has been provided. There will inevitably be "winners" and "losers" from the changes, and we rightfully would want to know which group WDH are in. In the session it was mentioned that you had considered the changes on an intermediary and orphan employer and the impact was positive, are you able to clearly state the % of the impact on the contribution rate, and also clearly what factors are considered in determining this. Are you able to confirm whether the impact of the changes is positive for all contributing bodies compared to the existing FSS?

It is not clear under what circumstances the changes would present a negative situation for member bodies in comparison to the current FSS.

A consultation normally consists of questions that you are seeking respondents to comment on. The consultation is not clear what questions are being asked and therefore it is not clear what we are being consulted on.

Could you also clearly state the reasons for the proposed changes.

5. Bradford University

Given the complexities and detail of this, combined with our institution closing for just short of two full working weeks over Xmas, could we please extend the consultation deadline? It doesn't currently give us much opportunity to digest and give adequate consideration. We would also then have the opportunity to share and consult our own advisors if we feel the need, something this unusually short window doesn't really allow, practically.

6. Skills for Care

As an ongoing orphan employer, the presentation given on 14 December 2021 lacked enough detail for us to be able to make a meaningful response.
Whilst it was pleasing to see that the exit valuation basis is moving away from an approach targeting gilts yields to a longer-term risk basis it was not clear how the change to ongoing funding target will impact ongoing orphan employers. Slide 16 of the presentation stated that the final decision on parameters for ongoing orphan employers will be made at the 2022 valuation. It is therefore not possible for us to be able to give a view on any such changes.

The amount of time provided to discuss the proposed changes is unrealistically short and the information on the impact provided is insufficient.
The proposed changed the WYPF's FSS were announced by email on 30 November 2021 which included a draft of the new document. As the draft did not contain marked up changes it was time consuming to be able to identify the proposed changes. It was not until the presentation on 14 December 2021 that the proposed changes became clearer.
The consultation has asked for responses back by 4 January 2022, a period of 22 working days over the Christmas period when most people will be taking holiday. This seems an unrealistically short period of time for consultation on changes which could have a major impact on the funding of the pension scheme.
We request that the timescale for consultation is extended.

7. Leeds Becket University

We would like to thank the Fund for sharing the draft policy with us and entering into this consultation. We hope that this consultation and our response to it develops a more open and collaborative relationship with the Fund to best meet both ours and the Fund's objectives. However, we would like to make it clear that the short timescale for response (a little over a month, covering the festive period during which universities are closed for two weeks) was not suitably long for us to give this consultation the level of consideration that we would have liked, or that we feel it deserves given its importance. In future, we would hope to see longer consultations to allow us to give them the attention and thought required, and to facilitate an authentic and meaningful consultation.

We understand that the deadlines set by the Fund are related to meeting dates in January and July, but we do not see why it is not possible to hold an additional meeting at an interim date to approve changes to this very important Fund document.

Despite our comments above, in the limited time available to review the draft Funding Strategy statement we have provided our feedback, much of which highlights to need for more information.

This consultation appears to set out a very different way to assessing how much money the University (and other employers) will have to pay to the Fund from the 1st April 2023. This is clearly very important to us. However, we have found it very difficult to understand the likely impact on us, both at this valuation and at future times.
There are several important pieces of information that we would like to have had access to before providing an informed response.

1. A version of the FSS showing where it had changed versus the current version – this would make our review more straightforward.

2. A clear explanation for the reasons for the change. We acknowledge that this was given, to an extent, in the meeting on the 14th December, but this has not been clearly set out in writing and the timing of the meeting adds to our concerns around the consultation timescales overall.

3. An understanding on the likely impact on us as an individual employer of the Fund so that we can understand the size and direction of any financial change that would affect us.

4. There was an underlying message from the employer meeting that the changes were a way of avoiding a deterioration in funding levels at the next valuation, but this would appear to be simplification of what is clearly a complex change. No possible alternative approaches to achieving the same aim were raised.

Furthermore, it would be usual for a consultation to direct certain questions to its recipients. In this case there are no questions to answer, and it is not clear how you will collate and compare responses.

Notwithstanding the above comments about the lack of information required, we have reviewed the draft FSS and would like to provide the following comments for consideration by the Fund. In this section we concentrate on the changes. We raise our other points in a later section.

We acknowledge and appreciate that the Fund is trying to move away from measuring liabilities relative to long-term index-linked gilt yields, which are seen to be an inappropriate measure of future asset returns in the current economic climate. However, the change in approach feels that it has become much more complicated and is not straightforward for even an informed employer to understand.

While a stochastic approach can be more appropriate for measuring long-term risk, the Fund have not provided information in various areas, such as:

- How you will measure expected asset returns and volatility of those returns, which feel important to the overall process.
- Why this approach was chosen and whether the Fund considered alternative, more straightforward, adjustments to the funding model that could meet the Fund's aims of separating from gilts as a measure.
- This approach may be expected to improve results relative to the current approach at the present time, but what are the longer-term possibilities and risks of this approach?

Probability of funding success ("POFS")

We note that the current approach uses a POFS approach for the scheme as whole. As things stand there is already a lack of transparency around how this then leads to the setting of the discount rate for the various employer bodies.
Our understanding is that the Fund is moving from this approach to one where a POFS model is being used separately for employer groups. We do not necessarily object to this in principle (noting the complexity point above), however the probabilities assigned to the different risk categories, of 80%, 83% and 85% are very specific, and we would like to know how they were derived.

We understand that they have been "backed-out" to make sure that the resulting discount

rate is then similar to the one that had been used. However:
1. there is no transparency as to how this calculation has been carried out and at what date.
2. we consider that the POFS's should be considered as assumptions on a stand-alone basis. It does not feel very satisfactory for your actuaries to make assumption to fit a model.
3. It is not clear what the impact of the grouping is and how this will affect our discount rates.

In addition, and in relation to point 2 above, we are informed that the probabilities are high relative to other actuarial firms who use a similar approach. To provide a small selection of examples (more could be provided if required) the following "funding targets" are quoted in current Funding Strategy Statements of Hymans Robertson advised Funds:
- GMPF: 75%: link here
- West Sussex: 66%: link here
- Norfolk: 75% for all types of employer - link here

Finally, we have concerns that there seems to be an unopposed view that local authorities are considerably stronger than all other intermediaries, including universities, by virtue of their tax raising powers. Raising taxes is tightly regulated and as such, our perspective is that local councils are under much more financial pressure than many intermediaries. For this reason, automatically rating a university (or similar organisation) as higher risk, and potentially requiring materially higher contributions to compensate, doesn't make sense.

Leeds Beckett University is a longstanding strong and stable organisation, and we hope we will be judged on these merits in a fair and consistent manner.

We like to have more detailed explanation for recovery periods being less than the POFS time horizon. As a starting point these should be the same and if using shorter recovery periods is an introduction of prudence this should be made clear and quantified.
Alternative approaches to meeting the Fund's objectives
Your email to employers sent on the 30th November 2021 communicated that the main drivers for a change in approach are:
1. A belief that index- linked gilts are no longer value for money.
2. A commitment to maintaining a single investment strategy for all employers and desire for single funding approach.

On the first point, our reading of the current Funding Strategy Statement does not appear to require the discount rate for intermediate bodies to be fixed relative to long term yields on index-linked Government gilts. The only possible reference we see is in 5.6 where it states ***"for Admission Bodies whose liabilities are expected to be orphaned following exit … the Solvency Target will be set commensurate with assumed investment in Government bonds after exit"*** which is open to interpretation. For intermediate bodies using a gilts based adjustment to the discount rate gives a very different outcome to the discount rate that would be derived if a new valuation was run using the Funding Strategy Statement principles. Therefore, we wonder why a simple change in discount rate index to mirror the whole of fund approach could not be considered instead, perhaps through simple clarification of wording in the Funding Strategy Statement.
On the second point, we do not understand why a single investment strategy is critical

(particularly, as you say, when there is a very wide range of employer circumstances in the Fund), nor do we consider that these changes lead to a single funding approach over and above the current approach.
We would like to understand whether alternative approaches were considered by the Fund and reasons that they were not taken forward.

Other aspects of the FSS
Whilst not a part of the proposed changes, we consider the requirement to be an open employer in order to retain intermediate body status to be misplaced.
We understand that an employer who closes to new hires moves into a position whereby an eventual exit becomes apparent. However, this is likely to be over a very long time frame. In addition, the Deferred Debt provisions mean that an exit payment will not be required at that time.
In line with your new principles of looking at employers who are financially secure, we consider that employer benefit changes should be considered on their own merits and therefore that the strict requirement in the FSS should be removed.

Risk assessments
The risk assessment carried out by the Fund into Leeds Beckett University has increased in importance given that it now determines our funding requirements rather than being automatically in a particular bracket due to our status as a higher education body.
We would like to receive more information about how the information we provide is used to allocate us into a low/medium/high risk bracket, and what the process and timing for any negotiation or appeal would look like.
There is comment in the draft FSS about bodies who "are considered by the Administrative Authority to be sufficiently financially secure". We believe this is the first time this wording has been used, and so seek to understand how the Administrative Authority will make this assessment.

GAD review
The 2016 section 13 report by the Government Actuary's Department ("GAD") included as one of its five recommendations that the Scheme Advisory Board and fund actuaries should consider "how greater clarity and consistency of actuarial assumptions could be achieved" across funds. Its 2019 report (published November 2021) stated that this area still required progress and that they "encourage further discussion on how assumptions are derived based on local circumstances in valuation reports".
We do not find this change in keeping with this recommendation, as it is both diverging from what most other funds do (in our understanding) and also creates complexity and opaqueness that is not easy to replicate.
To emphasise this point, our actuarial advisers inform us that they are not in a position to be able to advise on the financial implications of the proposed changes based on the information provided, including the information given in the 14th December meeting. We think that leaves us in a disadvantaged position and so puts at risk your ability to fulfil your fiduciary duties to employers.

Closing remarks
We hope that you have found our input helpful.
We have several outstanding questions which we request that the Fund respond on, and

our main requests are:
1. that the Fund reconsider the tight timescales, including the date at which the JAG is planning to make a decision on the FSS;
2. that we are provided with more information as part of that process, so that we can consider the FSS in the required level of detail and provide a more informed view on the draft FSS as presented; and
3. that you share any decisions made or updates that follow the January JAG meeting as soon as possible.

8. Together Housing Group

The short timescale for response (a little over a month), covering the festive period during which many organisations are closed for up to two weeks, was not suitably long for us to give this consultation the level of consideration that we feel it deserves given its importance.

Further, there was no one from our business who was able to attend the employer call in the short notice, due to there being other important rearranged meetings at that time, which means that our needs as an employer in the Fund were not met.

We understand that the deadlines set by the Fund are related to meeting dates in January and July, but we do not see why it is not possible to hold an additional meeting at an interim date to approve changes to this very important Fund document.

For this reason, this letter sets out the information we believe would be required for this to be an authentic and meaningful consultation and is not a full formal response that we would like to provide in due course, on receipt of this additional information.

This consultation appears to set out a very different way to assessing how much money Together Housing Association (and other employers) will have to pay to the Fund from 1 April 2023. This is clearly very important to us. However, we have found it very difficult to understand the likely impact on us, both at this valuation and at future times.

There are several important pieces of information that we would like to have had access to before providing an informed response.

1. A version of the FSS showing where it had changed versus the current version – this would make our review more straightforward

2. A clear explanation for the reasons for the change. We acknowledge that this was given, to an extent, in the meeting on 14 December, which we were unable to attend, and nor has this not been clearly set out in writing either before or after the meeting.

3. An understanding on the likely impact on us as an individual employer of the Fund – so that we can understand the size and direction of any financial change that would affect us.

4. There was an underlying message from the employer meeting that the changes were a way of avoiding a deterioration in funding levels at the next valuation, but this would appear to be simplification of what is clearly a complex change. No possible alternative approaches to achieving the same aim were raised.

Furthermore, it would be usual for a consultation to direct certain questions to its recipients. In this case there are no questions to respond to and it is not clear how you will collate and compare responses.

Our two main requests are

1) That the Fund reconsider the tight timescales, including the date at which the JAG is planning to make a decision on the FSS
2) In the meantime, you provide more information to us and other employers as part of that process

9. Amey

Thank you for your email about the proposed changes to the fund's FSS. Amey operates three admission agreements with the WYPF (employers 238, 298 and 354) and our results from the 2019 valuation show that in all three cases our Funding Target was that of a "Scheduled and subsumption body". I note that the proposed changes to the FSS relate to *"when an employer exits the Fund and the liabilities are not transferring to a long-term employer (so are becoming "orphan")."* Hence the changes to the FSS might not apply to us, given that none of our admitted employers have been classified as Orphan admission bodies.

10. Incommunities

Unfortunately, the relatively short timescale for response (a little over a month, including the festive period), was not suitably long for us to give this consultation the level of consideration that we feel it deserves given its importance.

We understand that the deadlines set by the Fund are related to meeting dates in January and July which has driven this tight timescale.

We believe for the consultation to be meaningful, which we would like to provide in due course, requires further information so that we could form a considered response, for this reason, this email does not constitute a full formal response.

This consultation appears to set out a very different way to assessing how much money Incommunities (and other employers) will have to pay to the Fund from 1 April 2023. This is clearly very important to us. However, we have found it very difficult to understand the likely impact on us, both at this valuation and at future times.

There are several important pieces of information that we would like to have had access to before providing an informed response:

A version of the FSS showing where it had changed versus the current version – this would make our review more straightforward

- A clear explanation for the reasons for the change. We acknowledge that this was given, to an extent, in the meeting on 14 December, which I was unable to attend, and nor has this not been clearly set out in writing either before or after the meeting.
- An understanding on the likely impact on us as an individual employer of the Fund – so that we can understand the size and direction of any financial change that would affect us.

- I have been advised there was an underlying message from the employer meeting that the changes were a way of avoiding a deterioration in funding levels at the next valuation, but again, I have been advised this would appear to be simplification of what is clearly a complex change. No possible alternative approaches to achieving the same aim were raised.

Furthermore, it would be usual for a consultation to direct certain questions to its recipients. In this case there are no questions to respond to and it is not clear how you will collate and compare responses.

Based on the above, our two main requests are

That the Fund reconsider the tight timescales, including the date at which the Joint Advisory Group is planning to make a decision on the FSS

1) In the meantime, you provide more information to us and other employers as part of that process as set out above

If you can provide more information (as set out above), this would mean we can consider the FSS in the required level of detail and provide a more informed view on the draft FSS as presented.

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2. WYPF general response to the consultation comments.

Some of the comments we have received from employers are in relation to how the changes will directly affect their funding levels and contributions. The intention of the consultation exercise was to consult on the principals of the proposed strategy noting that we cannot say with certainty what the position for each employer will be at 31 March 2022.

The Fund was concerned about the contribution requirements which would flow from continuing to use gilt yields to place a value on the liabilities. We have therefore proposed a change in how the liabilities are calculated on exit and will be reviewing how the liabilities and contributions are calculated for employers subject to the ongoing orphan funding target as part of the 2022 valuation.

Ongoing funding target will depend upon the market conditions as at 31 March 2022. However given that the funding target is intended to target the exit position over time we would expect the proposed changes to lead to lower liabilities and lower contribution requirements. Please note however we do not know what the market conditions at 31 March 2022 so may not mean liabilities and contributions will be lower in 2022 than 2019.

We wanted to implement the proposed changes to the exit basis in advance of the 2022 valuation so as to provide immediate relief for any employers exiting over 2022 (since the FSS which will govern the 2022 valuation won't be approved by Joint Advisory Group (JAG) until January 2023). Given the Actuary's analysis based on market conditions as at 30 June 2021 suggested that the proposed changes would improve the exit funding position for any employers leaving orphan liabilities. We will be reviewing the FSS again as part of the 2022 valuation process and employers will have the opportunity to respond to that consultation, at which time we expect to have indicative results for the 2022 valuation available.

We do not believe it is in the interests of orphan employers to extend the consultation and hence delay the introduction of the proposed changes.

We believe that running a further consultation on proposals for the 2022 valuation later this year, once draft valuation results are available, with that consultation outcome being discussed at the January 2023 JAG meeting, will provide the opportunity for a robust and effective consultation.