City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 22 March 2022

AC

Subject: Funding Strategy Statement (FSS)

Summary statement:

Changes to the Funding Strategy Statement follow a review of how liabilities are calculated for non tax-raising bodies whose liabilities become 'orphan 'on exit. The FSS was approved at the January meeting of the Joint Advisory Group.

Recommendation

The Local Pension Board note the changes to the Funding Strategy Statement.

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Director WYPF

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Portfolio:

[Insert where appropriate]

Overview & Scrutiny Area:

[Insert where appropriate]

1. Background

1.1 WYPF's current approach, which we understand is common in other Local Government Pension Scheme Funds, is to calculate the exit liabilities by reference to the yield on index-linked gilts. Whilst this approach has served the Fund well over many years, we decided to ask Aon, the Fund's actuary carry out a thorough review of this approach, prompted by two key factors:

- The Fund does not believe that current index-linked gilt prices represent value for money, particularly given they haven't really fallen following the announcement that RPI will be linked to CPIH from 2030 (which means pay-outs from index-linked gilts will fall because CPIH is lower than RPI by virtue of differences in how the two measures are calculated). Following discussions with the Fund Actuary we therefore felt that it was appropriate to reconsider our approach of calculating orphan exit liabilities assuming they would be backed by index-linked gilts

- The Fund is committed to maintaining a single investment strategy which applies to all employers and we wanted to explore if and how we could refine our strategy such that a consistent methodology is used to calculate the funding target for all employers

2. Changes to WYPF approach and updates to the Funding Strategy Statement

2.1 The change of approach is to derive a discount rate (investment return assumption) using the same methodology as for contributions for the tax-raising bodies, i.e. setting a solvency target and then determining the discount rate which gives us a suitable chance (probability) of meeting that funding target over a defined period based on modelling carried out by the Fund Actuary taking account of the Fund's investment strategy.

2.2 It should be noted, however, that whilst the Fund moves to a consistent methodology we will continue to operate different funding targets depending on the level of risk posed to the Fund. In particular, we will continue to operate a much more prudent funding target when employers exit leaving orphan liabilities than is adopted for setting contributions for tax-raising bodies. We believe this is appropriate, noting that once an employer has exited and paid any exit deficit it is not possible to ask for more money from that employer if experience leads to a deficit arising on those liabilities in future. This prudent approach is intended to reduce the risk that tax raising employers will be asked to make additional contributions in future to cover any deficit arising on orphan liabilities.

2.3 We have also considered the consequent implications for the funding targets adopted for the purpose of setting contributions for the non-tax-raising employers whose liabilities would become orphan should they exit the Fund. In particular, there is no rationale for setting the discount rates for the intermediate and orphan funding target by reference to gilt yields. For these funding targets, we will adopt a similar methodology to that used to set contributions for the tax-raising bodies – a risk-based approach which allows for the Fund's long-term investment strategy – but with a higher level of prudence to reflect the additional risk to the Fund posed by these types of employers, and/or the likelihood and expected timing of their exit from the Fund.

3. Consultation exercise

3.1 The Local Government Pension Scheme (LGPS) Regulations 2013 require:

- An administering authority must, after consultation with such persons it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

- The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

3.2 A consultation exercise was started on 30 November 2021 with all stakeholders on the proposed changes to the Funding Strategy Statement. The consultation closed on the 7 January 2022.

3.3 As part of the consultation exercise a meeting was held with a group of employers who will be most affected by these changes. On 14 December all Intermediate and Orphan employers were invited to a meeting with the Funds Actuary and WYPF officers to talk through the proposed changes and also allowed employers and their advisors to ask questions for further clarification.

3.4 The changes to the Funding Strategy Statement are highlighted on Appendix A.

3.5 A summary of the responses to the consultation exercise with all stakeholders (all employers, Members of JAG, Panel, Pension Board) and Officers of the Fund are shown at Appendix B.

4. Recommendation

The Local Pension Board note the changes to the Funding Strategy Statement.

5. Appendices

- Appendix A – Funding Strategy Statement
- Appendix B – Comments received from stakeholders