London Borough of
Redbridge

LONDON BOROUGH OF REDBRIDGE

PENSION FUND

FUNDING STRATEGY STATEMENT

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Funding Strategy Statement

Appendices

The Funding Strategy Statement is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Redbridge Pension Fund ("the Fund"), which is administered by London Borough of Redbridge Council, ("the Council"). Where "the Council" is referred to throughout this document it is in its capacity as the Administering Authority of the Fund.

This FSS has been prepared by the Council in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2020.

1.2 What is the London Borough of Redbridge Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Council administers the London Borough of Redbridge Pension Fund to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

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

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Council has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member of the London Borough of Redbridge: you will want to be sure that the Council balances the need to pay employer contributions to the Pension Fund, with the other competing demands for Council money;
- a Council Tax payer: the Council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- 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.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. the assumptions which the Fund actuary currently makes about the future,

E. some more details about the actuarial calculations required,

F. a glossary explaining the technical terms occasionally used here.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix E).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding goal for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix D for more details of what assumptions we make to determine that funding goal;

2. Determine the timescale over which the employer should aim to achieve that funding goal. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding goal over that timescale, allowing for various possible economic outcomes over that timescale. See 2.3 below, and the table in 3.3 and Note (e) for more details.

2.2 What is each employer's contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However, over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public-sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Council has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally contractors that provide a service on behalf of a scheme employer. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix E).

1. The **funding goal** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding goal may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is the period over which the funding goal is achieved. A shorter timescale will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower timescale if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding goal over that timescale will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then, the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Council the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or surplus is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer-term issue.

2.6 How does the Fund recognise that contribution levels can affect the Council and employer service provision, and Council Tax?

The Council and the Fund's actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension fund contributions may result in reduced Council spending, which in turn could affect the resources available for Council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, generally through contracting Council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to its members, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice. Such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years. The Council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to the various employers, the Council takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Council will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

Where the Council has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund may permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding goal. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding goal, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the goal may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the MHCLG has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, and as the financial assumptions used for the formal 2019 valuation would suggest there is likely to be no impact on the value placed on the liabilities of the

Fund, the Fund has elected to make no allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Council is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding goal?
2. How long should the employer be permitted to reach that goal? This should be realistic but not so long that the funding goal is in danger of never actually being achieved.
3. What likelihood is required to reach that funding goal? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Council recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore, the Council reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three-step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon to achieve full funding;
- adjust the required likelihood of meeting the funding goal;
- permit an employer to participate in the Fund's stabilisation mechanism;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding goal, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of result in a lower level of future investment returns on the deficit employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

- it may take longer to reach their funding goal, all other things being equal.

Below (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.3 onwards sets out various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of Employer	Council	Academies	Designating Employers	Admission Bodies*
Funding Basis used (more details listed in Appendix D)	Ongoing participation basis, assumes long-term Fund participation		Ongoing participation basis, but may move to "gilts exit basis"	Ongoing participation basis but may use "gilts exit basis", assumes fixed contract term in the Fund
Primary Rate Approach	Refer to Appendix E - E2			
Stabilised contribution rate	Yes	No	No	No
Maximum Time Horizon	17 Years	17 Years	15 years or average future working lifetime if closed to new entrants	Outstanding contract term
Secondary Rate	% of payroll	% of payroll	Monetary amount	% of pay or fixed sum payment
Treatment of Surplus	Covered by stabilisation arrangement	Reflected in secondary rate	Contributions kept at Primary rate. Reductions may be permitted by the Council	Reduce contributions by spreading surplus over the remaining contract term
Likelihood of achieving full funding	66%	70%	66%	75%

* Where the Council recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit basis for Admission Bodies (that are not a Transferee Admission Body) and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) Stabilisation

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Council, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long-term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Council (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise, the stabilised details are as follows:

Type of employer	**Council**
Max contribution increase	+1% of pay
Max contribution decrease	-1% of pay

The stabilisation criteria and limits will be reviewed at the next formal valuation, to take effect from 1 April 2020 when it is possible that contribution increases will be required. However the Council reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum timescale starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Council would normally expect the same or a reducing period to be used at successive triennial valuations, but would reserve the right to propose alternative timescales, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a percentage of salaries. However, the Council reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding goal)

Each employer has its funding goal calculated, and a relevant timescale over which to reach that goal. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the timescale, the funding goal is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix E.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;

- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Council.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial notional asset share from the ceding Council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding Council at the date of academy conversion after fully funding deferred and pensioner members. The asset allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding goal outlined for Academies in the table in Section 3.3 above;

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change to reflect any amendments to MHCLG and/or DfE guidance or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Admission Bodies (ABs): For all ABs, the security must be to the satisfaction of the Council as well as the letting employer, and will be reassessed on an annual basis. See also Note (j) below.

The above approach reduces the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Admission Bodies)

A new AB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as the Council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial notional asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any cessation deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

The Council is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Council 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. Although in respect of Open schemes, a recent LGPS Regulation changes means that the Council has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case;
- 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;
- 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 Council 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, the Council will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Council will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body and any other factors the Council deems relevant. The Fund's Exit Credit Policy can be provided on request.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will make no allowance for the potential benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation and there will be other Fund administration expenses associated with the cessation, both of which the Fund may recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

Depending on the nature of the admission to the Fund, for Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Council 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 a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation 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.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases, the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis as described in Appendix D;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

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 may spread they payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. These will be treated on a case-by-case basis.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Council may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

3.5 Additional flexibility in return for added security

The Council may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Council.

Such flexibility includes a reduced rate of contribution, an extended timescale, or permission to join a pool with another body (e.g. the Council).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits 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). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. With the agreement of the Council the payment may be spread. Admission Bodies are not generally permitted to spread early retirement contributions.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise its continued operation.

Each employer may elect to use external insurance which has been made available by the Fund.

If an employer provides satisfactory evidence to the Council of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the Council notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Council may need to seek legal advice in such cases, as the employer would have no contributing members.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contributions and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Council, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement. This document is published on the Council's website.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix D) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility asset values. However, the actuary takes a long-term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value. It reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rates of employer contributions is set at an appropriate level to ensure both the solvency and the long- term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to achieve a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to aim for a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 17 years.

Absolute considerations include:

1. the extent to which the contributions payable is sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the current rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) 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 regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Council has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Council 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.

A2 Does the Council consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in July 2020 for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published, in September 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.redbridge.gov.uk

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to employee/pensioner representatives that are members of the Local Pension Board;

A full copy included in the annual report and accounts of the Fund;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three-year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, future changes to the FSS would need agreement by the Pension Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Compliance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.redbridge.gov.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Council should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Council and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Council, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. 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);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Council in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Council.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Council on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Council's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

PENSION FUND RISK AND CONTROLS

The Council evaluates the risks associated with the Pension Fund between the likelihood of the risk occurring versus the impact of the risk and this is rated using the following matrix:

RISK MATRIX

LIKELIHOOD
LOW TO HIGH

5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

IMPACT
LOW TO HIGH

PENSION FUND – KEY RISKS AND CONTROLS

C1. TYPES OF RISK

The Council has an active risk management programme in place. This measures that is has in place to control key risks are summarised under the following categories – Financial (investment and operational), Demographic, and Regulatory & Governance.

C2. INVESTMENT RISK

Description of Risk	**Summary of Control Mechanisms**		
	Inherent Risks		**Residual Risk**
Inappropriate long-term investment strategy. Asset Pooling –Strategic risk (pool does not offer products that matches strategy); Risk of over- capacity (performance deteriorates as manager is less nimble); Risk from transition costs (costs increase as asset transfer to the Pool, including the crystalising of any surplus/deficit); Political risk (such as pressure to invest in specific asset classes).	10	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance and setting managers' target relative to absolute returns or a Liability Benchmark Portfolio and not relative to indices. Maintain a good relationship with the London CIV regarding existing and new investment products. Monitor performance of investment managers on the London CIV platform and review any developments that may affect future performance, such as the retirement of key personnel. Close working with Investment Advisers to ensure any strategic changes are implemented in a timely manner.	8

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Fund assets fail to deliver returns in line with anticipated returns underpinning valuation of liabilities over the long-term.	12	Seek to set anticipated long-term returns on a relatively prudent basis to reduce the risk of under-performance. Analyse each employers' funding position at three yearly valuations. Close working with Fund's Actuary and Investment Advisers to ensure investment strategy will achieve long-term investment objective.	8
Fall in risk-free returns on Government bonds leading to rise in value placed on liabilities. This could have implication to Actuarial valuation results.	12	Seek to undertake inter-valuation monitoring particularly for employers on short-term contracts to reduce risk of accrued deficits at end of contract. This is perhaps more significant for the small employers that would have difficulty in paying large deficits upon cessation. Some investment in bonds helps to mitigate this risk	8

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		**Residual Risk**
Active investment manager under-performance relative to benchmark over medium term.	9	Short term (quarterly) investment monitoring to analyse market performance and active managers relative to their index benchmark. Maintain good communications with London CIV and Fund Managers to identify cause of under-performance and determine whether Fund Manager has changed its investment philosophy and no longer meets our requirements. Supplement with an analysis of absolute returns against those under-pinning the valuation.	6

C3. FINANCIAL RISKS - OPERATIONAL

Description of Risk	Inherent Risks	Summary of Control Mechanisms	Residual Risk
Strong reliance on external systems across all sections of Financial Services. Failure of systems could result in significant issues such as inability to make payments, process claims etc.	9	The Council's Business Continuity Procedures are reviewed periodically and aim to put measures in place to minimise the impact of system failure.	6
The Council is unable to recruit or retain experienced or suitably qualified staff to maintain service provision, leading to potential financial, regulatory and reputational issues. Failure to manage the costs of operating the various services provided to the Pension Fund within budget. Lack of adequate or inappropriate professional advice on strategies as well as decisions taken could impact on the level of financial and reputational risk	12	The Council has undertaken a review of the administration team and has regraded the posts to attract suitably experienced staff. The team have now recruited a manager, two experienced LGPS pension administers as well as a pensions trainee. The Council maintains a relationship with the LPFA to provides assistance on specific projects when required. The Council maintains a policy of segregation of duties to reduce the risk of fraud. Monitor the cost of administering the pension fund and report of any variances to the Pension Fund Committee. The separate contracts for Investment Advice and Actuarial Services ensures the advice given and can subject to challenge.	6

Description of Risk	Inherent Risks	Summary of Control Mechanisms	Residual Risk
Decisions made in respect of Financial Services, Treasury & Pensions can have a major financial impact on the Council and the Pension Fund. Lack of adequate or inappropriate professional advice on strategies as well as decisions taken could impact on the level of financial and reputational risk.	8	Corporate Finance is subject to regular review of its Treasury Management Practices by both internal and external auditors. Corporate Finance operates a policy of segregation of duties to reduce the risk of fraud. The pensioners payroll is managed by the pay and contracts team as opposed to the Pension Admin Team to avoid the risk of fraud.	4
A serious breach of the Data Protection Act could result from a number of possibilities such as computer hacking, carelessness or loss of laptops.	10	IT provides procedures and guidance to ensure employees remain compliant with the IT Policy on Cyber Security. Emailed sensitive data is sent via a secure system. The Council has a contract for the disposal of confidential waste. Ensuring appropriate access control measures are in place and monitoring all data sites and claims handling systems. Continuous monitoring and regular auditing. The Council uses a spam blocking service to minimise cyber disruption. The pension administration team are trained on Data Protection and GDPR.	6
Pension Overpayments arising due to the non-notification of death, re-employment or ceasing education.	6	Pension Administration Team work with NFI to identify cases. The Team are also signed up for "Tell Us Once", so that notifications of death are now no longer reliant just on notification by the next of kin. Timely notifications will reduce the risk of overpayments.	4

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		**Residual Risk**
Poor administration due to inaccurate data being provided by employers and payroll providers giving rise to financial and reputational risk, actuary setting appropriate contribution rates, inaccurate benefit statements, over-payment of benefits.	16	Work with employers to secure good quality data. Member self-service is in place and being actively promoted to enable members to update their records where appropriate and run their own "what if" calculations. Employers of the Fund need to understand the implications and consequences to the Fund and all the employers in the Fund from inaccurate data. Regular monitoring of data including contributions paid to ensure employers are using the correct contribution rate. Ensure employers are aware of the Administration Policy and seek to enforce the terms of Policy.	9
Failure to comply with Auto-Enrolment.	6	Ensure good communication with employers particularly those with Open Schemes.	3

C4. FINANCIAL AND DEMOGRAPHIC RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Pay and price inflation significantly more than anticipated.	4	Focus actuarial valuation process on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Hold some investment in index-linked bonds to help mitigate the risk. Employers pay for their own salary awards and will be advised of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	3
Insufficient funds to meet liabilities as they fall.	8	Cash-flow is monitored monthly and remains with a net inflow position for the foreseeable future.	3
Effect of possible increase in employer's contribution rate on service delivery and admission / scheduled bodies.	9	Seek feedback from employers during triennial valuation process on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rates.	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Orphaned employers give rise to added costs for the Fund.	4	The Fund seeks a bond or guarantor to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.	3
Period of Paying Pensions Lengthening (longevity of pensioners increasing).	12	Seek to set realistic longevity assumptions and consider some allowance for future increases in life expectancy. Fund Actuary monitors the combined experience of around 50 funds to look for early warnings of changes in longevity for setting assumptions.	9
Maturing Fund – the number of active contributing members declines relative to the number of retired employees. As pensionable pay decreases this has implications to the amounts paid to the Fund towards reducing the deficit. This can have significant implications to the smaller employers in the Fund, particularly as cessation valuations are required once an employer no longer has any active members.	12	Monitor as part of the valuation process. Give consideration to changing employer contributions to include a set of monetary value rather than just a percentage of pensionable pay. Consider inter-valuation reviews of the various employers particularly where active membership is rapidly decreasing. Discuss with Investment Advisers and Actuary regarding possible changes to the investment strategy.	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		**Residual Risk**
An employer in the Fund becomes financially unviable	3	The LGPS Regulations require new employers to the Pension Fund to provide either a bond or guarantee to cover the potential risk of the employer becoming insolvent. A template evaluating the risks associated by each employer will be prepared and monitored regularly.	2
Ill-health retirements significantly more than anticipated	9	Monitoring of each employer's ill-health experience on an on-going basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in. Monitoring the effect of the change in the Regulations resulting in assessing ill-health retirements tiers. Arrangements are available for employers to take out insurance cover with an external provider.	3

C5. REGULATORY AND GOVERNANCE RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		**Residual Risk**
Changes to Local Government Pension Scheme Regulations. Changes in national pension requirements and/or Inland Revenue rules.	12	Consider all consultation papers issued by the Government Departments and respond where appropriate. Ensure necessary training for the pension team and provide relevant information to employers Monitor the possible implications for the Fund and report where relevant. Consult with employers, where appropriate, on implications to changes in the LGPS Regulations.	9
London Borough of Redbridge failing to comply with the code of practice of the Pension Regulator and recommendations by the Scheme Advisory Board.	3	Monitor the Pension Regulator's Code of Practice. Consider all papers issued by the Scheme Advisory Board. The Local Pension Board has an oversight role in administration matters.	2
Time, cost and/or reputational risks associated with any CLG intervention triggered by the Section 13 analysis.	6	Take advice from Fund Actuary on position of Fund prior to valuation and consideration of proposed valuation approach relative to anticipated Section 13 analysis.	3
London Borough of Redbridge is unaware of structural changes in an employer's membership or that the employer is closing to new entrants.	3	Contributions are monitored monthly and therefore any changes in contribution levels can be challenged.	2

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
London Borough of Redbridge 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 deficit. An employer ceasing to exist with insufficient funding or adequacy of a bond. Actuarial or investment advice is not sought, or is not heeded, or provide to be insufficient in some way.	9	Contributions are monitored monthly and therefore any changes in contribution levels can be challenged. The risk is mitigated by a prudent admissions policy which: • Sets out the employer obligations clearly • Seeks a funding guarantee from another scheme employer, external body, or government. • Encourages the employer to take independent actuarial advice. • Requires vetting of financial standing. Periodically review the value of the bond where appropriate. The Council maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.	6

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the funding goal and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding goal at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose, the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding goal is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.

Details on the ESS assumptions and funding goal assumptions are included below (in D2 and D3 respectively).

D2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Annualised total returns									
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

D3 What assumptions are used in the funding goal?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding goal). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk-free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding goal.

Funding basis	**Ongoing participation basis**	**Low risk exit basis**
Employer type	All employers except closed Admission Bodies with no guarantor	Admission Bodies with no guarantor
Investment return assumption underlying the employer's funding goal (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.0% p.a.	Long term government bond yields with no allowance for outperformance on the Fund's assets

D4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding goal

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2022, followed by
2. 1% below the retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 1.0% (equivalent to the Consumer Prices Index (CPI) inflation assumption). This is unchanged from the previous valuation, which assumed a blended assumption equal to CPI.

b) Pension increases

Since 2011 CPI, rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding goal (all other things being equal).

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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding goal underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix E – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding goal for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix D for more details of what assumptions we make to determine that funding goal;

2. Determine the time horizon over which the employer should aim to achieve that funding goal. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding goal over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix D.

E1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a. the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see E2 below); plus

b. an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see E3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

E2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding goal for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix D. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding goal (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

E3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding goal assumptions (see Appendix D).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding goal relating to combined past and future service benefit accrual, including accrued asset share (see E5 below)

2. at the end of the determined time horizon (see 3.3 Note (c) for further details)

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") as noted in E2.

E4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;

2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

3. the effect of any differences in the funding goal, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;

4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;

6. the difference between actual and assumed increases to pensions in payment and deferred pensions;

7. the difference between actual and assumed retirements on grounds of ill-health from active status;

8. the difference between actual and assumed amounts of pension ceasing on death;

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required likelihood of achieving the funding goal.

E5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

E6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix F – Glossary

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding goal** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding goal at the end of the employer's time horizon. The main assumptions will relate to level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding goal, whereas more optimistic assumptions will give a lower funding goal.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS	The Local Government Pension Scheme, a public-sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix E for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public-sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix E for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations,

but in practice is particularly employed for large stable employers in the Fund.

Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.