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This is the Funding Strategy Statement (FSS) of the Cheshire Pension Fund.

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson, and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2008.

1.1 Regulatory Framework

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which LGPS administering authorities were required to prepare a FSS by 31 March 2005 and now update as appropriate. The key requirements relating to the FSS in the regulations are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
  - FSS guidance produced by CIPFA
  - its statement of investment principles published under Regulation 9A of the Local Government Pension Scheme (management and Investment of Funds) Regulations 1998 (as amended).
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.
- The Fund’s actuary must have regard to the FSS as part of the fund valuation process.

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members (net of returns from the Fund’s investments). The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.
The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Administration Regulations 2008 (regulation 35);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years as part of the cycle of triennial valuations the most recent being completed 31 March 2008.

The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Stephan van Arendsen, Senior Manager, Corporate Finance on 01244 973727 or Nick Jones, Fund Accountant on 01244 972652 or you can contact the Cheshire Pension Fund as follows

Cheshire Pension Fund,
Cheshire West and Chester Council,
HQ, Nicholas Street,
Chester, CH1 2NP

Email pensions@cheshirewestandchester.gov.uk
2. Purpose

2.1 Purpose of FSS

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. This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme’s liabilities.

2.2 Purpose of the Fund

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

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex A.

2.3 Aims of the Funding Policy

The objectives of the Fund’s policy include the following:

- to ensure the long-term solvency of the Fund and of the share of the Fund attributable to individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits to employers) for an appropriate level of risk;

to help employers recognise and manage pension liabilities as they accrue;

to minimise the degree of short-term change in the level of each employer’s contributions where the Administering Authority considers it reasonable to do so;

to use reasonable measures to reduce the risk to other employers and ultimately to the Fund from an employer defaulting on its pension obligations; and

to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.
3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- the estimated cost of future benefits being accrued after the triennial valuation date, referred to as the “future service rate”; plus

- an adjustment for the level of funding (or “solvency”) of accrued benefits at the valuation date, known as the “past service adjustment”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund’s actuary is required by the regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation. It combines the future and past service elements and is expressed as a percentage of the pay of employees within the scheme. For the purpose of calculating the Common Contribution Rate, the Fund’s past service deficit is currently spread over a period of 20 years.

The Fund’s actuary is also required to adjust the Common Contribution Rate to reflect the individual positions of each employer within the Fund. It is this adjusted contribution rate which employers are actually required to pay. The sorts of individual factors considered are discussed in Section 3.5.

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

For some employers it may be agreed to pool contributions, see Section 3.7.3.

Annex A contains a breakdown of each employer’s contributions following the 2007 valuation for the financial years 2007/08, 2008/09 and 2009/10 and the Fund’s Common Contribution Rate. It also identifies which employers’ contributions have been pooled with others.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer’s decision in addition to the contributions described above.
Employers’ contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

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

‘Solvency” for ongoing employers is defined as the extent to which the market value of Fund assets matches the value placed on the Fund’s accrued benefits on the actuary’s ongoing funding basis. The percentage by which the assets match the liabilities is known as the funding level. As at 31 March 2007, and based on the funding assumptions set out in this FSS and in the formal valuation report, the funding level for the Cheshire Pension Fund as a whole was 85%.

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

The Fund operates the same target funding level for all ongoing employers, of seeking to ensure that assets match 100% of accrued liabilities valued on an ongoing basis. The time horizon of the funding target for Best Value Admission Bodies will vary depending on the defined duration of their participation within the Fund.

Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund’s investments. The assumed return from bonds is used as the basis for valuing the Fund’s accrued liabilities. As the Fund has a funding deficit the Fund is seeking additional returns to recover this position and aims to achieve this by investing in other assets including equities, property, and alternative investments.

The investment return assumption makes allowance for anticipated additional returns from these assets in excess of bonds. There is, however, no guarantee that assets will out-perform bonds. The risk of performance not matching expectations is greater when measured over short periods such as
the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

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

Given the very long-term nature of the pension liabilities, a long term view of prospective returns from other (non bond) assets is taken. For the 2007 valuation, it is assumed that the Fund’s mix of investment assets will deliver at total fund level an additional return of 1.6% a year in excess of the return available from investing in government bonds at the time of the valuation.

The same financial assumptions are currently adopted for all participating employers.

3.4 Future Service Contribution Rates

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

3.4.1 Employers that admit new entrants

The employer’s future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method of valuation. This method calculates the contribution rate which meets the cost of benefits accruing in the year after the valuation date.

If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) or pay increases are above those assumed, the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.
To give more long term stability to such employers’ contributions, the Attained Age funding method is adopted. This method anticipates the ageing of the membership and, for a closed employer, would lead to a stable total contribution rate if the assumptions are borne out in practice. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in more detail in the Actuary’s report on the valuation.

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

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer’s asset share.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to the following factors over the period between each triennial valuation

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

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.
The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation, including, but not limited to:

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

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

The Fund will be working with employers to facilitate monitoring of actual performance against these factors in between valuations.

### 3.6 Stability of Employer Contributions

#### 3.6.1 Deficit Recovery Periods

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

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

<table>
<thead>
<tr>
<th>Type of Employer</th>
<th>Maximum Length of Deficit Recovery Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory bodies with tax raising powers</td>
<td>a period to be agreed with each employer not exceeding 20 years</td>
</tr>
<tr>
<td>Community Admission Bodies</td>
<td>a period of 15 years</td>
</tr>
<tr>
<td>Transferee Admission Bodies</td>
<td>the period from the start of the revised contributions to the end of the best value contract.</td>
</tr>
<tr>
<td>Community Admission Bodies that are closed to new</td>
<td>a period to be agreed with each employer not exceeding 15 years</td>
</tr>
<tr>
<td>entrants whose admission agreements continue after last active member retires</td>
<td></td>
</tr>
<tr>
<td>All other types of employer</td>
<td>a period of 15 years</td>
</tr>
</tbody>
</table>

This maximum period is used in calculating each employer's minimum contributions. Employers may opt to pay higher regular contributions than these minimum rates.
Deficit contributions can be expressed as a percentage uplift to future service contributions or as cash sums. The Administering Authority has offered both these options to employers. In the former approach any reductions in the size of an employer's pensionable payroll could result in under payments of deficit contributions which may result in additional costs at subsequent valuations.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for the 2007 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.6.2 Surplus Spreading Periods

For prudence, stability and to recognise the potential for increased costs if the key funding assumptions are not met any employers deemed to be in surplus will not be permitted to reduce their contributions below the cost of accruing benefits (the future service rate).

The exception to this policy is Transferee Admitted Bodies where the key objective is to ensure a balanced funding position at the end of the Best Value contract. If a Transferee Admitted body is deemed to be in surplus they can spread the surplus element over the remaining contract period and pay a contribution rate which may be lower than the cost of accruing benefits.

3.6.3 Phasing in of Contribution Rises

The Administering Authority may offer employers the option to phase in any increased in required contribution rates. Employers will wish to be aware that phasing in contribution increases will slow the speed of deficit recovery from that assumed in the valuation.

Transferee Admission Bodies are not eligible for phasing in of contribution rises due to the obligation to achieve a balanced funding position at the end of the Best Value/PFI contract.

Other employers may opt to phase in contribution rises as follows:

- for scheme employers phasing in the rise in employer contributions over a period of three or four years;
- for admission bodies phasing in the rise in contribution rises over a period of three years.
- In exceptional circumstances an employer may with the agreement of the administering authority and the actuary extend the phasing beyond the periods noted above.
3.6.4 Phasing in of Contribution Reductions

Any contribution reductions can be taken (subject to the comments in 3.6.2) with immediate effect.

3.6.5 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will recover any funding deficit over a longer period and this may lead to greater costs at the next valuation (depending on the Fund’s actual demographic and financial performance relative to the valuation assumptions set out in the valuation report and the FSS).

3.7 Pooled Contributions

3.7.1 Smaller Employers

The Administering Authority will allow smaller Parish and Town Councils to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies and Transferee Admission Bodies are not permitted to participate in a pool. Best Value Admission Bodies are also ineligible for pooling.

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

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors expire at the end of the best value contract.

Admission Agreements for other employers are generally assumed to be open-ended until benefits have been paid out in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point subject to the terms of the Agreement.

If an Admission Body’s admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special closing valuation to determine whether there is any funding surplus or deficit.
The assumptions adopted to value the departing employer’s liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For Community Admission Bodies that elect to voluntarily end their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment. At its absolute discretion, the Administering Authority may require this payment to be paid in full at closure or may agree to a phased payment which would be subject to review at each triennial valuation.
3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements
The actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health.

Employers are required to pay additional contributions wherever an employee retires (other than for ill health reasons) before attaining the age at which the valuation assumes that benefits are payable. The costs of these are specified in the Regulations and in the early retirement cost factors advised by the Actuary.

It is assumed that members’ benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer’s consent to retire. The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as a one off payment to the Fund immediately on awarding the early retirement with the exception of the statutory bodies with tax raising powers that can phase the payments over a period of a maximum of 5 years.

3.9.2 Ill health monitoring
The Fund will monitor each employer’s, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirement in any financial year exceeds the allowance at the previous valuation, the Fund will seek advice from the actuary as to whether the employer should pay additional contributions to the Fund. These may, depending on the circumstances, be calculated on the same basis as apply for non ill-health cases or by way of an uplift to employer contribution rates.
4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, advised by the Pensions Investment Panel and its investment advisor.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund’s Statement of Investment Principles¹ and the Fund’s asset allocation at 30 June 2009 is summarised below

<table>
<thead>
<tr>
<th></th>
<th>Proportion</th>
<th>Benchmark Index</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>25.0</td>
<td>FTSE All Share</td>
</tr>
<tr>
<td>Overseas</td>
<td>37.0</td>
<td></td>
</tr>
<tr>
<td>Global (unconstrained)</td>
<td>12.25</td>
<td>MSCI World index</td>
</tr>
<tr>
<td>North America</td>
<td>6.75</td>
<td>FTSE World All World</td>
</tr>
<tr>
<td>Europe ex UK</td>
<td>7.50</td>
<td>FTSE AWD N America</td>
</tr>
<tr>
<td>Japan</td>
<td>4.50</td>
<td>FTSE AWD Europe ex UK</td>
</tr>
<tr>
<td>Pacific ex Japan</td>
<td>2.50</td>
<td>FTSE AWD Japan</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>1.50</td>
<td>FTSE AWD Asia Pac. ex Japan</td>
</tr>
<tr>
<td>Bonds</td>
<td>14.0</td>
<td>Merrill Lynch Sterling Broad</td>
</tr>
<tr>
<td>Property</td>
<td>9.0</td>
<td>CAPS Property</td>
</tr>
<tr>
<td>Private Equity</td>
<td>5.0</td>
<td>LIBID 7 Day</td>
</tr>
<tr>
<td>Secured Loans</td>
<td>5.0</td>
<td>LIBOR 1 month</td>
</tr>
<tr>
<td>Global Tactical Asset Allocation</td>
<td>3.0</td>
<td>LIBID 3 month</td>
</tr>
<tr>
<td>Cash</td>
<td>2.0</td>
<td>LIBID 7 Day</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The investment strategy is set for the long-term, but is reviewed every year, to ensure that it remains appropriate to the Fund’s liability profile and prevailing investment opportunities. The Administering Authority has adopted a customised (rather than peer group) benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds, and property.

¹ A copy of the SIP is available at [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org) or by contacting the Cheshire Pension Fund (see 1.2 for contact details)
The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds if it is assumed that index linked liabilities are a match for the expected growth in fund liabilities. However liabilities grow by more than inflation (e.g. longevity improvements, pay inflation, career progression etc). The Fund therefore needs additional returns over those available from bonds to keep pace with this growth. The Fund also needs to recover the current funding deficit.

The Fund’s asset allocation benchmark therefore includes a significant holding in equities and other assets in the pursuit of long-term higher returns than those available from index-linked bonds.

The same investment strategy is currently followed for all active employers.

The administering authority is minded to set up a small separate sub fund of orphaned employers (employers with no active members or seeding employer still making ongoing contributions) which has a separate, low risk, high bond allocation investment strategy. At 31 March 2007 this represents around 2% of the Funds total assets.

The Administering Authority has launched a review of the approach of a single investment strategy for active employers and, with advice from the Actuary and Investment Advisor, is exploring the potential advantages and disadvantages of varying the investment strategy. This may enable some employers e.g. those with high current funding levels to opt for different equity/bond mixes from the current Fund total. This will vary the anticipated future return taken into account in setting individual employer contribution rates.

The potential benefits of multiple investment strategies need to be assessed against the costs. These issues will be further discussed with employers to assess the impact of alternative investment strategy options.

### 4.2 Consistency with Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund’s investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.
It is therefore normally appropriate to restrict the degree of change to employers’ contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the purpose of the triennial funding valuation at 31 March 2007 and setting contribution rates effective from 1 April 2008, the Fund actuary has assumed that future investment returns earned by the Fund will exceed the return on government bonds by 1.6% per annum over the long term. The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset out performance assumption (AOA) of 1.6% per annum is within a range that would be considered acceptable for the purposes of the funding valuation. The same financial assumptions are adopted for all ongoing employers.

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and asset returns may fall short of this target. The stability measures described in Section 5 will damp down, but not remove, the effect on employers’ contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of investment returns so any shortfall will fall to be addressed in the next valuation.

4.3 Balance between risk and reward

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

5.1 Types of Risk

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

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term</td>
<td>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress annually and at three yearly valuations for all employers.</td>
</tr>
<tr>
<td>Inappropriate long-term investment strategy</td>
<td>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Proposing to examine feasibility of allowing some form of employer-specific investment strategy. Measuring performance relative to liabilities not solely relative to indices.</td>
</tr>
<tr>
<td>Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities</td>
<td>Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.</td>
</tr>
<tr>
<td>Active investment manager under-performance relative to benchmark</td>
<td>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</td>
</tr>
<tr>
<td>Pay and price inflation significantly more than anticipated</td>
<td>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning.</td>
</tr>
<tr>
<td></td>
<td>Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</td>
</tr>
</tbody>
</table>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies

Seek feedback from employers on scope to absorb short-term contribution rises.

Mitigate impact through deficit spreading and phasing in of contribution rises.

Consider potential scope of different investment strategy/asset mix

### 5.3 Demographic Risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensioners living longer.</td>
<td>Set mortality assumptions with some allowance for future increases in life expectancy. Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding. Employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</td>
</tr>
<tr>
<td>Actual demographic experience different to valuation assumptions</td>
<td>Inter valuation monitoring and reporting to employers</td>
</tr>
<tr>
<td>Deteriorating patterns of early retirements</td>
<td>Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored.</td>
</tr>
</tbody>
</table>
### 5.4 Regulatory

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees</td>
<td>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</td>
</tr>
<tr>
<td>Changes to national pension requirements and/or Inland Revenue rules</td>
<td>It considers and responds to all consultation papers issued by the ODPM and encourages employers to comment where appropriate.</td>
</tr>
<tr>
<td></td>
<td>The Administering Authority will inform employers of its views. Copies of submissions will be provided to employers</td>
</tr>
</tbody>
</table>

### 5.5 Governance

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements)</td>
<td>The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.</td>
</tr>
<tr>
<td>Administering Authority not advised of an employer closing to new entrants.</td>
<td>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer’s contributions (under Regulation 78) between triennial valuations.</td>
</tr>
<tr>
<td></td>
<td>Deficit contributions can be expressed as monetary amounts (see Annex A).</td>
</tr>
<tr>
<td>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</td>
<td>In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.</td>
</tr>
<tr>
<td></td>
<td>It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</td>
</tr>
</tbody>
</table>
An employer ceasing to exist with insufficient funding or adequacy of a bond.

The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.

The risk is mitigated by:

- Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.
- Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.
- Vetting prospective employers before admission.

Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed. Offering lower risk investment strategies – with higher employer contributions - for Best Value Admission Bodies to reduce the risk of volatile contributions and a significant debt crystallising on termination.

**Monitoring and Review**

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with its investment advisor and employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), including:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
• if there have been significant changes to the Scheme membership, or LGPS benefits

• if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy

• if there have been any significant special contributions paid into the Scheme.
Annex A – Responsibilities of Key Parties

The Administering Authority should-

- determine the investment strategy for the Fund
- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund’s actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund’s performance and funding and amend FSS/SIP
- inform employers on arrangement for managing the Fund’s affairs and consult on key changes

The Individual Employer should-

- deduct contributions from employees’ pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should-

- prepare valuations including the setting of employers’ contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.