

## Draft Funding Strategy Statement

Contact Officers

Nancy Leroux, 01895 250353

Papers with this report

Appendix A

### SUMMARY

The Fund is required under the Local Government Pension Scheme regulations to maintain and publish a Funding Strategy Statement (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.

This report provides some background to the development of this FSS and seeks approval from Pension Committee to consult on the contents with Fund employers.

### RECOMMENDATIONS

**It is recommended that Pensions Committee agree the draft Funding Strategy Statement for consultation with scheme employers, subject to minor drafting clarifications which are colour highlighted.**

### INFORMATION

This draft FSS has been prepared by the Administering Authority of the London Borough of Hillingdon Pension Fund in collaboration with the Fund's actuary, Hymans Robertson LLP.

The Fund needs a FSS as employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. It is investment returns which 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 Administering Authority has balanced the conflicting aims of:

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

There are also regulatory requirements for an FSS, which are detailed [Appendix A](#) of the FSS.

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.

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.