Appendix B

ASSET SHARE POLICY

JANUARY 2023

West Midlands Pension Fund

BACKGROUND

The West Midlands Pension Fund (like all funds in the Local Government Pensions Scheme) is not a legally sectionalised arrangement by employer under the LGPS regulations. The *Asset Share Policy* outlines how the Fund allocates total Fund assets to employers in order to provide a notional employer asset share, for employer funding and accounting purposes.

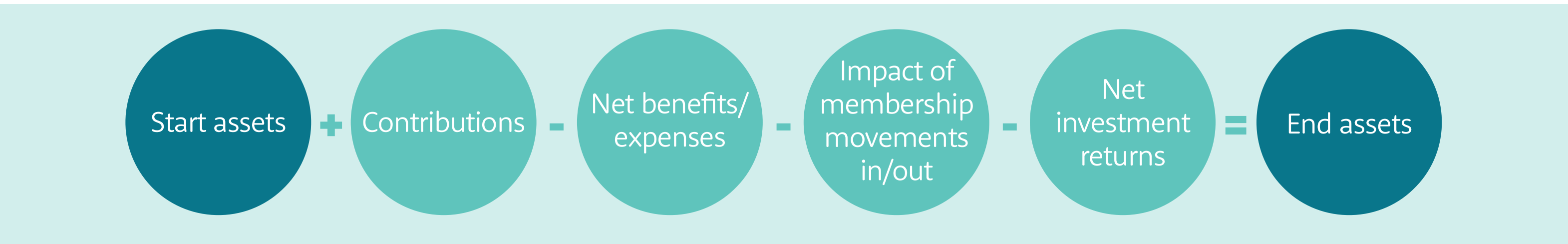
West Midlands Pension Fund has two Admitted Body Separate Funds (ABSFs) to which this policy is not relevant and does not apply as they are single employer ABSF (see Appendix B for further details).

For employers in scope of this policy, an employer's allocated asset share is calculated on a notional basis, taking into account the circumstances of that employer, in order to assess that employer's contributions (including on termination) as per the LGPS Regulations. Employer asset shares are considered formally and most in-depth at each triennial actuarial valuation with interim review and updates where required by employer or Fund event. Employer asset share values will move (most significantly) in line with the total Fund assets, according to Fund investment strategy and market movements. Subject to individual employer funding, membership size and experience; cashflow and events can cause changes in the employer asset share over time.

The Fund's Actuary assesses this asset share in line with the policies agreed with the Administering Authority. The Fund's Asset Share Policy sets out the principles adopted by the Fund which are routinely reviewed and informed by common practices adopted across all LGPS Funds. This document will be formally reviewed at least at each triennial actuarial valuation.

There is therefore no separately audited asset statement in relation to each employer's own asset share within the Fund and an employer does not formally get allocated the underlying assets. The assets remain the property of the Fund and are simply notionally allocated to employers as referred to above. This is of particular importance in the context of accounting figures where the Fund will be unable to provide individual audited assets statements.

What are the key factors that can influence an employer's asset share?
In simple terms an employer's asset share at a certain point in time will typically be determined by:



In practice, there are a number of other factors that need to be taken into account and these are explained in more detail in this policy together with the main circumstances when an asset share will need to be determined to inform calculations and assessment undertaken by the Fund Actuary.

It is also important to note that it is often necessary to make some practical approximations in the timing of employer cashflows and allocation of investment returns when deriving the asset share for employers. Equally, employer may see material changes in their asset share when members move between employers in the Fund and a notional intrafund transfer of assets is made.

In attributing the overall investment performance of the assets of the Fund to each employer, a pro-rata principle is adopted, in accordance with the applicable investment strategy

The Asset Share for an employer in the Fund during its participation in the Fund will be determined according to the event and purpose of the asset value as follows:

Event	Purpose
Admission to the Fund	Determine initial balance sheet/contribution
Triennial Actuarial Valuation	Inform decision-making on contribution requirements
Employer Accounting	For employers to include in their accounts
Bulk Transfers	To determine value of payments to/from the Fund, or between employers in the Fund.
Inter-Valuation Funding Updates	To assist with employer budget setting and/or inform decision-making on contribution requirements
Cessation	To determine potential exit payment to/from the outgoing employer.

ADMISSION TO THE FUND

On entry to the Fund, unless a pooled contribution rate is payable (see below), the Actuary will be required to assess the contribution rate payable of the employer entering the Fund, based on their employer asset share.

The appropriate asset share, which will impact on the initial contributions payable, will be determined in line with this *Asset Share Policy* and the Fund's admission body and academy policies. Further detail on the approach relating to groups of employers can also be found in Appendix 1 of the Fund's Funding Strategy Statement (FSS). The FSS is reviewed on a regular basis and fully as part of each actuarial valuation.

The asset share allocated to the new employer on entry to the Fund will be determined by the funding status:

- For **partially funded admissions**, the assets shared will be equal to the value of the liabilities assessed by the Actuary (for benefits accrued up to the admission date for those members transferring to the new employer) less any deficit allocated on inception based on agreed policies. (This would be subject to a minimum asset share of zero.)
- For **fully funded admissions**, the initial asset share will be the same as the value of the liabilities assessed.
- Where a local authority school **converts to academy status**, the assets allocated to the new academy will depend on the Administering Authority's policy to allocating a share of the ceding local authority's deficit or surplus to the new academy. Further details of this policy can be found in the Fund's academy policy as referenced above. Generally this is based on the proportion of accrued benefits of transferring members of the new academy to the ceding authority, with other aspects, such as the time-horizon for funding, set out in the FSS

In situations where a pooled rate is payable (and hence an initial contribution rate assessment is not required), or an employer is admitted via a pass-through arrangement, the initial asset share will be determined by the Actuary at the subsequent actuarial valuation (or accounting) exercise undertaken, whichever is first, in line with the principles set out in this *Asset Share Policy*.

ACTUARIAL VALUATION

For all employers in the Fund at the triennial actuarial valuation, the Fund and the Actuary will review the notional asset shares of all employers in order to determine the funding position for each employer and inform the appraisal of future contributions payable by the employer for the next inter-valuation period.

“Asset Roll-Forward”
As part of this review, to determine an updated notional asset share, the Actuary will follow the policies determined by the Administering Authority. This will involve considering a “roll- forward” approach whereby the assets allocated to an employer at the previous actuarial valuation (or date of entry to the Fund if later) are rolled forward to the current valuation date taking into account the following key data items:

Investment Return – the performance of the Fund’s assets (net of expenses) over the inter valuation period (based on the applicable investment strategy).

Contributions – a combination of both employer and employee contributions. This will include any additional payments to the Fund over the inter-valuation period e.g. in relation to early retirement strain costs.

Benefit Payments and Transfers – the combined total of transfers received/paid to and from the Fund (both individual and bulk), lump sum payments (retirement and death), pension payments, and other payments to leavers will also be incorporated into the assessment.

Net Intrafund Transfers – whilst benefit payments assigned to an employer represent actual monetary transactions which are recorded by the Fund, in some instances individual member movements between employers within the Fund trigger a notional “intrafund” payment and therefore need to be allowed for in any “asset roll-forward” that is undertaken as part of a valuation. This intrafund transfer will be derived from the liabilities that have also transferred in relation to the members taking account of the timing and relevant returns in the same way as other monetary payments.

Generally speaking, apart from significant contributions e.g. prepayments, or significant transfers in/out of the Fund (or significant intrafunds), cashflows (and the investment returns associated with them) will be assumed to occur mid-period over which the investment return is allocated.

Where significant contributions/cashflows have occurred at points within the roll-forward period, the to allocation of investment returns will be reviewed and may be adjusted by the Actuary in order to allow for the timing of payments.

“Analysis of Surplus”
In some instances e.g. where sufficient transaction data isn’t available or where the underlying membership data differs significantly to the prior valuation, the Actuary will adopt an “analysis of surplus” approach whereby the surplus/deficit position of each employer will be calculated according to their experience since the previous valuation (or since admission if they are a new employer to the Fund).

This surplus/deficit is then added to/subtracted from the employer’s liabilities (in relation to benefits accrued up to the valuation date) to give the notional asset share. This is on the basis that the surplus or deficit is needed to derive the secondary contribution rate requirements on a fair and reasonable basis for each employer.

When undertaking the "analysis of surplus" approach similar principles apply as per the roll forward approach, but additional factors which have impacted the liabilities, and hence surplus or deficit, are also taken into account. These include, but are not limited to, the impact of pension and pay increases and changes in the liabilities as a result of experience from key demographic assumptions such as mortality experience. This is in line with common actuarial practices

Other Adjustments

Under both approaches above, other adjustments may also be made to individual employer asset share by the actuary on account of the funding positions of orphan bodies in the Fund (i.e. those where liabilities remain that all other remaining active employers in the Fund are responsible for in the absence of a guarantor body within the Fund). This ensures any surplus or deficit in relation to these bodies is considered in the context of the collective nature of the Fund and wider LGPS, and a pro-rata basis on which unfunded liabilities fall amongst the remaining employers in the Fund. To inform this the Administering Authority considers the orphan body funding requirements as part of each triennial actuarial valuation and reserves appropriately.

The Fund also operates a captive insurance arrangement to cover ill-health early retirement risk for smaller employers. Ill-health premiums are paid into the captive fund, which forms a separate notional pot of assets tracked by the Fund Actuary at each triennial valuation.

All ill-health retirement strains arising in respect of eligible employers are then met by the captive fund. In practice, assets equal to the strain payment due would be transferred within the Fund from the captive fund to the employer's asset share. This is designed to remove the deficit caused by an ill-health retirement cost on the employer's funding position. More information can be found in the Fund's Captive Ill-Health Insurance Policy.

The total of individual employer asset shares (and reserves) following initial assessment is then cross-referenced against the Fund's total assets (as quoted in the Fund's audited accounts) and adjusted in proportion as necessary, to ensure Fund assets are fully allocated across the employer base.

ACCOUNTING DISCLOSURES

Whilst not impacting directly on contributions payable to the Fund, many employers are required to obtain and report on their defined benefit obligations to the Fund in their annual accounts, in accordance with relevant accounting standard e.g. IAS19, FRS101/102 etc.

The production of employer pension accounting disclosure report requires the Fund's Actuary (or the employer's own nominated Actuary if disclosures are calculated outside of the Fund's standard bulk process) to obtain an updated employer asset share value in relation to the employer's participation in the Fund. This is calculated based on a roll-forward approach which was agreed with CIPFA when accounting standards were introduced in the early 2000's for public bodies. Whilst some of the details in the CIPFA guide have been superseded by changes in the accounting standards, the underlying roll-forward approach is recognised as valid and maintained.

Unless requested by the employer, the asset share and Actuary accounting disclosure will only allow for changes in the underlying membership e.g. transfers of staff etc. within the annual pensions accounting disclosure where the employer's materiality limit (as advised by the employer to the Fund on agreement with the employer's auditor) is expected or known to have been breached. It is the employer's responsibility to request allowance for such events to be made depending on their materiality and as agreed with the employers' auditors.

To facilitate and aid in meeting reporting timescales for employers, the Fund may apply some estimation to cashflows and investment returns where only part year data is available, in determining the asset share for the purposes for accounting disclosures. This will be notified to employers when the accounting disclosures are provided for discussion with their auditor.

For example, for those employers requiring 31 July and 31 August accounting disclosures, which do not coincide with a Fund quarter-end reporting date and reporting cycle, allowance will be made for actual cashflows and investment return to the latest date available (typically 30 June). For the remaining period, estimated cashflows and investment returns (based on market indices) used to determine employer asset share.

BULK TRANSFER

On occasion, there may be a bulk transfer of staff between two employers. For internal transfers, where the two employers both participate in the Fund, the employers may request in some cases that the Actuary calculates the potential impact on their balance sheet at the point of transfer (rather than at the subsequent actuarial valuation) e.g. the transfer may need to be reflected in inter-valuation accounting figures, or if the transfer is significant, may trigger the need for a contribution rate review (see below). In such cases, in the same way as asset share calculations are undertaken on admission, the basis of transfer i.e. fully funded or partially funded, will determine the value of assets to be transferred (alongside the underlying liabilities).

Where one of the employers involved in the transfer does not participate in the Fund, the value of the assets to be transferred to/from the Fund ("the transfer payment") is determined in accordance with the with LGPS Regulations[1] on agreement between the Actuary's appointed by the transferring and receiving Funds. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the employer asset share will be determined in accordance with this policy and methodology for determining the transfer payment (including date and associated membership data schedule) will be agreed between the Actuary to both Funds (with input from the administering authority as required).

To facilitate and aid in meeting reporting timescales for employers, the Fund may apply some estimation to cashflows and investment returns where only part year data is available. This will be notified to employers when bulk transfer estimates are provided.

INTER-VALUATION FUNDING UPDATE/CONTRIBUTION REVIEW

During an inter-valuation period, there may be occasions where the Actuary needs to determine an updated asset share figure for an employer. The two main scenarios where a determination may be required would be:

a) in the lead up to the next actuarial valuation, where the assessment of an updated funding level for the employer will assist with potential budgeting discussions in light of how contribution requirements may evolve following the valuation, and

b) where the Fund agrees to a review of an employer's contribution requirements in advance of a valuation being undertaken in line with the Fund's employer flexibility policy which can be found in Addendum 1 of the Fund's FSS. This policy sets out the circumstances when such a review may be undertaken.

For both the exercises above, the starting point for the determination of the starting point will be the most recent actuarial valuation assessment undertaken (or date of admission of later). This figure will be rolled forward to the review date allowing for Fund investment returns, the employer's contributions and net benefit payments.

In the case of a contribution rate review, relevant membership experience and benefit record changes during the period (which could include both movements between employers and changes in underlying data e.g. updated member data from an employer that wasn't previously available etc.) may also be considered.

[1]Timeline LGPS Regulations 2013 (lgpsregs.org)

CESSATION OF PARTICIPATION IN THE FUND

Whilst the above scenarios set out the approach adopted to determine the asset share allocation for employers on entry to the Fund, and at subsequent actuarial valuation or event, asset share calculations are also undertaken to determine whether contributions are required to be paid by the employer when they exit the Fund. Equally an exit credit maybe payable to the employer if the assets share exceeds the termination liabilities on exit.

When such events occur, the Actuary will be commissioned by the Administering Authority to undertake an assessment of the exit funding position, informed by an up-to-date assessment of the employer asset share. This Fund's termination policy sets out the process by which amounts payable on cessation are determined, according to the nature of exit and the funding positions on exit.

As for other scenarios above, the determined starting point for assessing the asset allocation for the employer on cessation will be the most recent actuarial valuation assessment undertaken (or date of admission of later). This figure will be rolled forward to the termination date allowing for the investment returns/contributions/net benefit payments and membership experience/data changes (as per the comments above). For cessations, the final asset share will be dependent on the treatment of any remaining active members on cessation where a transfer to other employers in the Fund is taking place i.e. whether or not the transfer is on a partial/fully funded basis. Any residual assets would then be compared to the remaining non-active liabilities to determine any final payment due/payable from/to the employer. Following termination, the liabilities would either become orphan or subsumed into another employer in the Fund depending on the circumstances

APPENDICES

Frequently Asked Questions
Appendix A below sets out a summary of the key areas from this policy document in a FAQ format alongside other commonly asked questions.

Admitted Bodies Separate Fund
Appendix B provides brief commentary on the Admitted Bodies Separate Fund referred to in the introduction to this policy paper and the reasons why this policy does not apply to those employers participating in the ABSF.

APPENDIX A – FREQUENTLY ASKED QUESTIONS

Question	Answer
Can employers be provided with an audited asset statement in relation to the assets allocated?	No. The West Midlands Pension Fund is not legally sectionalised (apart from the ABSF – see Appendix B) and so the assets allocated to the employers in the Fund are done so on a notional basis for funding and to inform contribution requirements only and hence individual employer audited asset statements can't be provided.
What investment strategy will be applied to the employer's asset share?	Unless the Administering Authority have notified otherwise, investment performance will be allocated to each employer in the Fund on a pro-rata basis based on the Fund's overall investment strategy.
How are assets allocated to employers on entry to the Fund?	The assets to be allocated to an employer on entry to the Fund will be dependent on: • The associated past service liabilities of the membership associated with the employer on entry, • The funded status of the employer e.g. partially funded, or fully funded. The funded status of employers on entry may vary depending on the employer type and how the Fund's policy and approach is tailored to differed types of employers, for example scheduled bodies such as academies compared to admitted bodies. In some cases e.g. for pass-through arrangements, the associated assets may remain with the ceding employer or the initial asset allocation may not be carried out on entry, but as part of the subsequent actuarial valuation assessment.
When will an employer's asset share be reassessed?	The asset share will be formally reviewed at the triennial actuarial valuation following entry to the Fund (unless the employers participation ceases beforehand), and at each valuation thereafter. There may be occasions when the asset share is reviewed inter-valuation depending on the circumstances of the employer, for example to facilitate an annual funding reviews or where an inter-valuation contribution rate assessment is required in line with the policy set out in the FSS.

Appendix B

Question	Answer
What are the key factors that will determine the asset share in between triennial actuarial valuation assessments?	The key factors impacting on asset allocations from one valuation to the next will be: • Investment return impacts asset value (and therefore quantum of employer share) over time • Contributions paid • Net benefit payments • Changes in underlying membership data • Review of the Fund's Asset Share policy and/or FSS • Changes in the employer base
How are assets allocated when an employer is part of a pooling arrangement e.g. payment of a pooled rate by a Multi-Academy Trust (MAT)	The asset shares for each academy associated with the MAT are tracked individually from one valuation to the next and the same approach will apply as to other non-pooled employers in the Fund. The pooling arrangement simply serves to produce a combined contribution rate payable by the MAT covering all constituent academies.
How are assets calculated when an employer leaves the Fund?	The starting point for such calculations will be the most recent triennial valuation assessment undertaken. The employer asset share at this date is rolled forward to the termination date allowing for Fund investment returns, the employer's contributions and net benefit payments, together with review for any relevant membership experience and benefit record changes during the period. The treatment of any member transfers on termination will also impact the final asset share calculated for the purposes of determining an exit (cessation) debt or credit (where relevant).
Why is the employer asset share values different for funding and accounting even though the effective dates are the same?	Depending on the timescales for preparing figures for accounting exercises, the Actuary may need to estimate cashflows and investment returns when calculating the employer asset share value. In addition, the impact of membership movements (including those in relation to membership whose employer no longer participate in the Fund (orphan liabilities)) will typically only emerge in accounting figures every three years i.e. following completion of a triennial actuarial valuation.

Question	Answer
Will the % share of assets for an employer relative to the Whole Fund assets be fixed?	No. The % share is not fixed and will vary as the employer's experience differs from the Fund as a whole e.g. in terms of contributions and benefits paid in respect of membership relating to that employer and to reflect any variation in return based on the investment strategy applied to the employer's asset share. The overall number of employers participating within the Fund is also not constant.

APPENDIX B – ADMITTED BODIES SEPARATE FUNDS

As referred to in the introduction to this policy document, the Fund is not a legally sectionalised arrangement with the exception of two employers who participate in Admitted Body Separate Funds of the Fund.

With effect from 1 April 2020, the West Midlands Integrated Transport Authority Pension Fund formally merged with the West Midlands Pension Fund.

In line with the Direction Order issued by the Secretary of State in relation to this merger, the ABSFs were established. The assets associated with the two employers of the WMITA Fund – West Midlands Travel Ltd and Preston Bus Ltd were formally sectionalised at that time. Each employer has its own funding and investment strategy.

This differs to the employers in the main section of the West Midlands Pension Fund which is not legally sectionalised. The policies set out in this paper therefore relate to these employers only.

POLICY OWNERSHIP

Version control:

Version	Responsible Officer	Change	Date	Next Review
1.0	Assistant Director Pensions	2022 Actuarial Valuation	March 2023	2025/2026

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