Appendix A

FUNDING STRATEGY STATEMENT

APRIL 2023

West Midlands Pension Fund

CONTENTS

1 INTRODUCTION

1.1 Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain a *Funding Strategy Statement (FSS)* having regard to the guidance produced by The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Fund's *Investment Strategy Statement (ISS)*. This FSS has been prepared by the West Midlands Pension Fund based on the latest CIPFA guidance in accordance with the regulations issued in September 2016 and following consultation with appropriate persons. This FSS is effective for and underpins the outcomes of the Fund's 2022 actuarial valuation, as prepared by the Fund Actuary.

1.2 LGPS members' accrued benefits are guaranteed by statute and defined by the LGPS Regulations. Members' contributions are fixed in the Regulations at a level which covers part of the cost of accruing benefits. Employers pay the balance of the cost of funding the benefits, as reassessed at each triennial actuarial valuation and other relevant events such as exit. The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded and, insofar as is practical, aid in ensuring that employer contributions over time result in sufficient asset share to meet the liabilities associated with the benefits promised to their members.

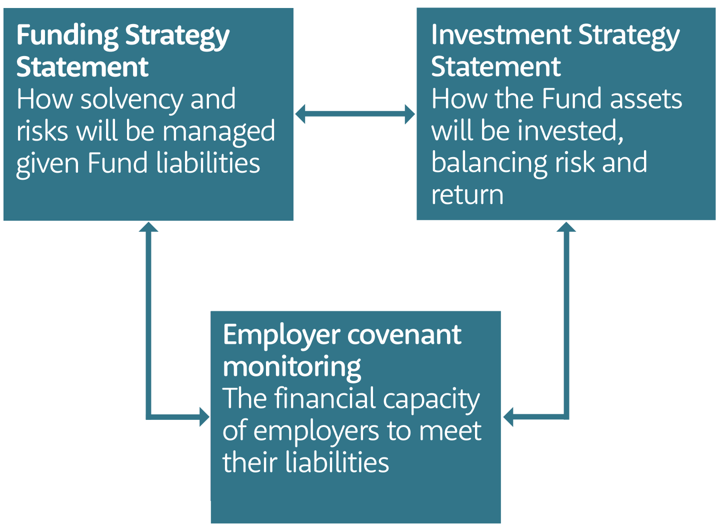
1.3 The FSS sets out how benefits will be funded over the long term through an accountable, transparent process with full disclosure of valuation methodology and assumptions. In line with the regulations administering authorities are required to ensure contributions are set at a level to achieve Fund solvency and long-term cost efficiency.

1.4 This statement was approved by the Fund's Pensions Committee on [XX March 2023] and updates and replaces the June 2021 FSS and all previous statements and policies on funding. The statement and principles contained within reflect an evidence- based review of West Midland Pension Fund's membership and employers in the context of regulations and guidance in force at the time. Where further Regulations and/or formal guidance is pending at the time of drafting, these areas may inform future review.

Integrated Funding Framework

1.5 The FSS informs the *Investment Strategy Statement (ISS)* and is supported by the Fund's employer covenant monitoring framework. Together these ensure an integrated approach to funding strategy and risk management supporting the Fund in meeting the regulatory funding requirements with a balance achieved though consideration of risk assessment and risk appetite. All three key elements of the framework are reviewed in tandem as part of each triennial review.

1.6 The statements and framework relate as follows:



1.7 The core purpose of the FSS is to summarise the Fund's approach to ensuring contributions are sufficient to meet pension liabilities. The parameters set within determine:

- the rates and adjustments certificate (confirming employer contribution rates for the period to the next triennial valuation);
- funding requirement on employer admission and exit (cessation); and
- actuarial factors for valuing bulk transfers, early retirement costs and the costs of additional benefits to members (for example, on purchase of added years' service).

1.8 The FSS is applied in the context of, and supported by, a wider framework of Fund policies and procedures which include those relating to:

- Asset allocation
- Employer admissions and exits (termination);
- Academisation
- Employer Risk Management

Consultation Process

1.9 In line with guidance and the aims of the Fund's employer engagement strategy, the Fund has been in dialogue on the development and changes to funding strategy and funding outcomes with the Fund Actuary, participating employers, guarantors and governing bodies over the period March 2022 to March 2023, with formal engagement on the draft FSS during the first quarter of 2023.

In determining the funding and contribution strategy contained within the FSS, the Administering Authority has had regard to:

- the responses made to the FSS consultation with employers, representatives and other interested parties;
- relevant statutory guidance issued by the CIPFA;
- the need to balance a desire to attain the funding target as soon as possible against the funding and cash constraints of participating employers; and
- the funding outlook and relative strength of the participating employers' covenants, supported by independent advisers as required.

Where an employer has a guarantee from a statutory body participating in the Fund, or from another organisation approved for that purpose by the Administering Authority, the Administering Authority will recognise the requirement for the guarantor to be kept informed of the funding position of the relevant employer, and share funding information with the guarantor on request, unless the employer indicates otherwise in writing to the Fund.

Future Review

1.10 This policy statement will next be reviewed in detail ahead of completion of the next triennial valuation due 31 March 2025 or in the event of significant change in the regulatory landscape and/or the Fund's *Investment Strategy Statement* in the inter valuation period, noting that the FSS and ISS are inextricably linked and are reviewed in tandem every three years. Key funding principles and the overall development of the Fund's funding position are reviewed and monitored on an annual basis with any subsequent change in FSS made following consultation and as a matter of course in the event of significant change in scheme regulation and guidance.

2 AIMS AND PURPOSES OF THE FUND

2.1 The aims and purpose of a pension fund operating within the Local Government Pension Scheme (LGPS) are set out in the LGPS Regulations and the Public Service Pension Act 2013. With regard to funding, they can be summarised as follows.

2.2 The aims of the Fund are to:

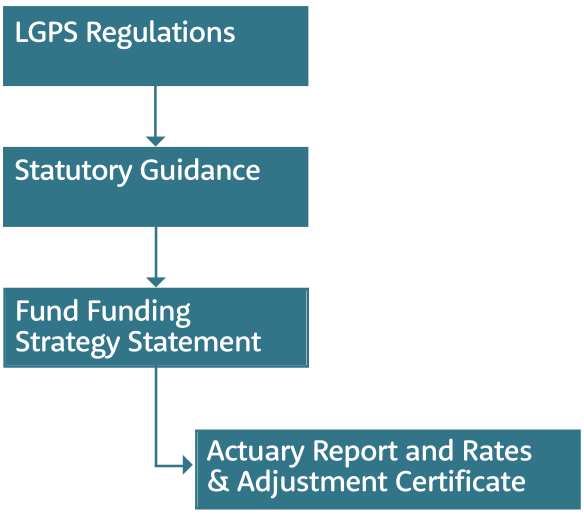
- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable primary and total contribution rates to be kept as nearly constant as possible; and
- seek returns on investment within reasonable risk parameters.

2.3 The purpose of the Fund is to:

- receive and invest monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses, as defined in the LGPS Regulations and as required in the LGPS (Management and Investment of Funds) Regulations 2016.

2.4 In its role as Scheme Manager for the Administering Authority under Section 4 of the Public Service Pensions Act 2013 the West Midlands Pension Fund commissions an actuarial valuation early three years, in line with LGPS Regulation 62. The valuation is informed by the Administering Authority's FSS, prepared in line with regulation 58 and the guidance noted within. The Fund's Pensions Committee assumes responsibility for oversight for the FSS with implementation, monitoring and review undertaken by Fund officers on advice from the Fund Actuary.

2.5 The regulatory and governance framework in place to manage funding policy includes:



3 PURPOSE OF THE FUNDING STRATEGY STATEMENT

3.1 The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, together with how employers pay contributions to ensure their own liabilities are fully funded. The purpose of this FSS is:

- to establish a clear and transparent Fund-specific strategy which will identify how employers' liabilities are met going forward;
- to take a prudent long-term view of funding those liabilities;
- to ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.

3.2 In line with the aims and purpose of the Fund, the funding policy objectives are:

- to ensure that pension benefits can be paid as and when they fall due over the lifetime of the Fund;
- to ensure the long-term solvency of the Fund;
- to set levels of employer contribution rates to target an appropriate funding level over a relevant time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- to build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- to adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

3.3 The FSS and the West Midland Pension Fund's wider integrated funding risk framework are designed to ensure the funding strategy is both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting stakeholder objectives that need to be balanced and reconciled. Whilst the funding strategy applicable to individual employers is reflected in the FSS, on review and implementation. The Fund's focus at all times is on those actions that are in the best long-term interests of the Fund. Consequently, the FSS is a single all-employer strategy for the Administering Authority to implement and maintain, with variation in approach reflecting different employer type and routes to participation in the Fund.

4 RESPONSIBILITIES OF THE KEY PARTIES

4.1 Sound and effective management of funding strategies relies on key parties exercising their statutory responsibilities. These are set out in CIPFA guidance and are summarised below, together with the Fund's commitment to this integrated funding framework.

4.2 The Administering Authority is required to:

- operate the Fund in line with scheme regulations;
- collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in scheme regulations;
- pay from the Fund the relevant entitlements as stipulated in the scheme regulations;
- invest the Fund's assets in accordance with the Fund's ISS and the scheme regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- manage the valuation process in conjunction with the Fund's actuary;
- prepare and maintain an FSS and an ISS, both after proper consultation with interested parties;
- to include policies to manage and mitigate employer risk within the FSS in line with DLUHC guidance.
- monitor all aspects of the Fund's performance and funding and amend the FSS/ISS accordingly; and
- Effectively manage any potential conflicts of interest.

4.3 The **individual employer** is required to:

- calculate and deduct contributions from employees' pay correctly;
- pay all ongoing contributions to the Administering Authority, including employer contributions determined by the Fund Actuary and set out in the rates and adjustments certificate, promptly by the due date;
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits and early retirement strain;
- notify the Administering Authority promptly of any new scheme members and any other changes to membership which may affect future funding requirements; and pay any exit payments on ceasing participation in the Fund;
- comply with all aspects of the *Pensions Administration Strategy*, within the context of the FSS, relating to funding or payment of contributions, for example (but not limited to):
  - provision of supporting documentation and breakdowns with payment of contributions;
  - maintain optimum data quality to include timely and accurate notification to enable accurate calculations; and

- notify the Fund in advance of any employer initiatives (e.g. mergers, restructures), policy decisions or practices which could impact on LGPS member benefits.

4.4 **Active scheme members** are required to make contributions into the Fund as set by DLUHC.

4.5 The **Fund actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency having regard to the administering authority FSS and the LGPS Regulations;
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory costs, etc.
- provide advice and valuations on the exiting of employers from the Fund;
- provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security against the financial effect on the Fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations;
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- advise on other actuarial matters affecting the financial position of the Fund.

4.16 **Fund officers** undertake to:

- monitor, review and manage performance against the Fund's integrated funding management framework, to include developing funding, covenant and investment outcomes; and
- provide regular reporting, as required (but at least on an annual basis) to Pensions Committee and the Local Pensions Board to enable their review of the effectiveness of the framework and associated monitoring inter-valuation.
- Engage with employers in the event of change and emergence of individual events or issues which may have funding implications.

5 GENERAL FUNDING AND SOLVENCY CONSIDERATIONS

5.1 The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (determined by the funding strategy) or asset returns (largely driven by investment strategy). To the extent that benefit payments are greater than forecast or investment returns are lower than expected, higher contributions may be required from employers, and vice versa. Hence, the funding and investment strategy are inextricably linked.

5.2 The cost of benefits payable from the scheme in the future depends on a number of factors which are unknown in advance. Funding policy determines the pace at which contributions are collected from employers to ensure the Fund has sufficient money to pay future pensions promised to members and with reference to an employer's strength of covenant. In consideration of the pace of funding, a further review may be required in between triennial actuarial valuations if an employer is exiting the fund or on a journey towards exit, or if there is a material change impacting employer liabilities and/or their ability to pay the contributions due.

Solvency

5.3 The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at "such a level as to ensure that the scheme's liabilities can be met as they arise".

It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
- 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 target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

If the conditions above are met, then it is expected that the Fund will be able to pay scheme benefits as they fall due.

A significant factor in ensuring solvency of the Fund is the payment of contributions by employers, to continue to meet the cost of benefits accruing and recover any funding shortfall, together with the ongoing ability (employer covenant) to be able to continue to make payments required by the Fund.

The Fund carries out regular employer covenant reviews based on a range of key financial and non-financial information to monitor financial strength and ability to pay contributions as set out in our *Employer Risk Management Framework*[1]. This is informed by details of funding sources and annual financial strength. In addition, membership numbers are reviewed to monitor membership maturity. The results of the covenant review are used to categorise employers on risk level, with details being provided to the Fund's Actuary to inform the actuarial valuation.

[1] Employers - Risk Management Framework.qxp_Layout 1 (wmpfonline.com)

As required under Section 13(4)(c) of the Public Service Pensions Act, the Department of Levelling-Up, Housing and Communities (DLUHC) has appointed GAD to report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Local Government Pension Scheme, so far as relating to the Fund. Such reports must be made following each triennial valuation of the Fund.

Long-Term Cost Efficiency

5.4 The notes to the Public Service Pensions Act 2013 state "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time".

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, the review under Section 13(4)(c) may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future. As such, a risk-based approach informs this assessment with an optic on the likelihood of achieving a funding target over the appropriate time-horizon.
- noting the link between the review of the FSS and ISS, the extent to which the required investment return is less than the Administering Authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

Target Funding and Contributions Policy for the Fund

5.5 The LGPS Regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the Fund's projected accrued liabilities (i.e. the estimated cost of all the benefits members have built up to date). The funding strategy is set to target the level of assets which will meet this funding objective.

5.6 The Fund recognises the different characteristics of the variety of participating employer organisations, and will set funding strategy (including funding target and contributions) appropriately having regard to factors such as:

- strength of covenant, and security of future income streams;
- support or guarantee arrangements from scheme employers; and
- prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the Fund to new employees.

5.7 In developing the target funding level and associated contribution requirements, the Administering Authority has had regard to the subsequent GAD review under Section 13(4)(c). Notable from the outcomes of the review of 2019 actuarial valuations in LGPS (E&W), published in December 2021, was a focus on intergenerational fairness and an expectation that plans to address funding deficits are not be extended and forecast, noting the risk of future contribution rate rises in the future[2].

[2] LGPS England and Wales Section 13 Report - 31 March 2019: Executive Summary - GOV.UK (www.gov.uk)

5.8 The principal method and assumptions used in the calculation of the funding target and employer contributions are set out in Appendix 1, which also includes further detail on employer categorisation and the integration of the Main Fund funding and investment strategy with the employer covenant monitoring framework. For employers within the Admission Body Separate Funds, these are set out in Appendices 2 and 3.

5.9 Underlying the method and assumptions there are two tenets:

- that the scheme (and employer participation) is expected to continue for the foreseeable future; and
- investment returns are targeted to play a valuable role in achieving and maintaining asset values at a level which can meet the funding target over the long term.

This allows the Fund to take a long term view when assessing the overall contribution requirement for the Fund, which are then subject to considerations around individual employer covenant and the maturity of the employer's membership base together with the outlook for their ongoing participation in the Fund which may impact on their individual funding target and time horizon.

Consideration of Individual Employer Funding Target and Contributions

5.10 As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer. These rates are assessed taking into account the experience and circumstances of each employer. In general, a principle of no cross-subsidy between the employers in the Fund is adopted, with some exceptions where these are set out alongside and rationale for pooling funding and risks. In response to consultation and feedback from employers, whose own operations have evolved over the time, the Fund has adapted its approach to employer contribution arrangements to reflect certain groups of pooled employers, whose budget and financial experience are interlinked. Further details of employer pooling arrangements for the 2022 actuarial valuation (and mitigation of associated risks) are set out in Appendix 1.

5.11 The extent to which the financial health and capacity of employers (covenant) impacts on their ability to withstand funding risk and increase contributions in the future is taken into account in setting the funding target as is the nature and expected future participation of non-local authority employers in the Fund.

5.12 The time horizon associated with each employer will be dependent on a number of factors, including the type and nature of the employer, any supporting guarantee or other forms of security, such as a charge on assets, where these can be provided.

5.13 Phasing of contribution increases may be considered at the discretion of the Administering Authority where an employer has evidenced affordability limits.

5.14 Any employing body with a surplus of assets over liabilities, sufficient covenant strength, and a local or central government guarantee (to include a defined and documented link back to a local or central government body, such as wholly-owned or arms-length management organisation) may experience a reduction in contribution requirement to reflect an emerging and sustained surplus. Organisations without sufficient covenant strength (for example, a category 3 employer or employer without a local or central government guarantee) will not see a reduction in contributions as a direct result of funding surplus unless a sustained surplus is observed relative to an estimate of the funding level required by that employer at the point of exit (assessed alongside the triennial actuarial valuation as the funding position on a "minimum risk" basis).

In line with the aims of the Fund's FSS, subject to the Fund continuing to meet the regulatory requirements for Fund solvency and long term cost efficiency, the funding strategy and associated policies aim to support in enabling all employer contribution rates to be as stable as possible. In order to achieve this and noting there may be times of extraordinary economic and market events, the Fund may suspend application of this FSS or implement alternative interim arrangements in order to preserve long term funding and mitigate risk to all participating employers. For example, suspension may be needed to review actuarial methodology and assumptions if a key employer event (such as bulk transfer or exit) coincides with an extraordinary economic or market event including step change in conditions which could trigger review of the funding approach and outlook.

In all cases, the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole.

Where the Administering Authority does agree to an alternative contribution plan for a particular employer, this will represent an employer-specific funding plan, and will be documented separately, together with any conditions surrounding this agreement.

On the cessation of an employer's participation in the Fund, the actuary will be asked to make a termination assessment unless the ceasing employer is a pass-through employer. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the *Termination Policy*.

Termination of an Employer's Participation

5.15 An employer's participation within the Fund ceases when they no longer have any active members within the Fund. This could happen for a number of reasons, typically:

- The last active member participating in the Fund leaves, retires or transfers to another employer and ceases to be a member of the Fund and the employer does not wish to admit any more employees to that admission agreement.
- For admission bodies, the contract to which the admission agreement relates, comes to an end or is terminated prematurely.
- The employer ceases to exist, for example it goes into liquidation or is taken over by/merged with another organisation.

5.16 When an employer's participation in the Fund terminates and the employer becomes an 'exiting employer', the LGPS Regulations require that a termination valuation is carried out. The purpose of this valuation is to determine the level of any surplus or deficit in an exiting employer's share of the Fund as at the exit date and whether the exiting employer is liable to pay an exit payment or is entitled to receive an exit credit in such circumstances.

5.17 The method used to calculate the termination valuation will ultimately depend on the characteristics of the exiting employer and in particular whether there is another scheme employer within the Fund that is prepared to act as a guarantor or succession employer for any residual liabilities and also in the context of the materiality of any impact on other participating scheme employers' contributions.

5.18 The Fund's policy on the methodology for assessment cessation debt and contribution requirements on the termination of an employer's participation in the Fund can be found in the separate Termination Policy.

[2] WMPF Climate Change Framework and Strategy 2021 (wmpfonline.com)

Review of Contributions Inter-Valuation

5.19 In accordance with the LGPS Regulations and this FSS the Fund may carry out an inter-valuation review where there is a significant change in individual employer liabilities and/or covenant (or where requested by employers with supporting evidence). Further details can be found within Addendum 1 of this FSS.

Links to Investment Policy Set Out in the Investment Strategy Statement (ISS)

5.21 Key financial assumptions used in the calculation of funding and contribution requirements relate to the future rates of return which will be achieved on the Fund's invested assets – the forward-looking expectation of the level of return across different asset classes, together with the volatility and correlation of these returns in different economic environments.

The Fund's investment strategy has been considered and reviewed in conjunction with the 2022 valuation and the FSS. In particular, the future return expectations of the main asset classes and strategic asset allocation benchmark set out within the Fund's ISS have been considered in determining a prudent funding approach, based on a range of potential future funding outcomes. The level of prudence set in determining individual employer contribution requirements is integrated with the employer categorization and covenant assessment as outlined in Appendix 1 to this FSS.

The discount rate adopted for the purposes of assessing the funding level at the actuarial valuation date is derived by considering the expected rate of future investment return which is anticipated to be achieved on the Fund's invested assets as a whole through the underlying investment strategy, based on medium term market forecasts, together with the overall allowance for prudence within the funding strategy.

Future employer funding and contributions levels will be determined, in part, by the extent to which investment returns are delivered in line with the assumptions set in the funding strategy.

As part of the investment strategy review, the future benefit cashflows are considered together with expected contribution income, to access the broad mix of assets required to deliver the return required to meet benefit costs, with an overarching aim to achieve this return with as low a level of investment risk as possible, to mitigate future employer contribution volatility.

Details of the Fund's strategic asset allocation and investment risk strategy are set out in the Fund's ISS.

6 IDENTIFICATION AND MANAGEMENT OF RISKS

6.1 Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The Fund operates a wider risk management framework predicated upon routine review with the FSS identifying key risks specific to funding and the management or controls in place to mitigate those risks.

Risk	Management/Control
Investment risk - assets do not deliver the return required to meet the cost of benefits payable from the Fund; potential drivers • Inappropriate asset allocation and risk • Investment market failure • Manager underperformance	• Investment strategy considered in context of Fund liabilities and return requirement set within the *Funding Strategy Statement* • Asset liability modelling and stress testing to set strategic benchmarks within *Investment Strategy Statement (ISS)*, with annual review • Regular monitoring of strategy asset allocation and returns relative to benchmark • Regular monitoring of manager performance • Investment strategy review develop based on future benefit cashflow projection • Modelling of investment strategy and future asset income streams • Regular monitoring of membership movements and liability profile
Increasing maturity and benefit cashflow • Falling contribution income and increasing total benefit payments as more members start to draw their benefits • Declining active membership due to change in local authority service delivery models • Increasing reliance on income-generating assets	• Investment strategy review develop based on future benefit cashflow projection • Modelling of investment strategy and future asset income streams • Regular monitoring of membership movements and liability profile
Increasing future benefit costs; potential drivers • Rising levels of future inflation • Increasing life expectancy beyond the level expected for Fund members	• Regular monitoring of funding level • Review of scheme membership experience vs expectations as part of each triennial actuarial valuation, with Fund-specific review of mortality experience • Ongoing review and cleanse of member data records to enable accurate and up-to-date assessment at each triennial valuation

Risk	Management/Control
Employer covenant – Employers are unable to meet the cost of pension obligations and contributions to the Fund; potential drivers • Competing pressure and/or reduction in employer's own funding and available financial resources • Service outsourcing or restructuring shifting responsibility for pension obligations, some of which may be delayed in notification to the Fund • Increasing scheme costs • Impact of climate change risk either physical or transitional	• Regular monitoring of employer financial capacity through employer risk management framework • Notification requirements with the Fund *Pensions Administration Strategy* and monitoring through the annual employer "health check" • Employer covenant assessment and categorisation to inform funding strategy and the actuarial valuation • Review of guarantee arrangements and exit at each triennial valuation • Up-to-date admission and termination policies, linked to funding strategy • Review and use of liability pooling arrangements where these may support greater stability in employer contributions • Contingent security arrangements to support cash contributions to the Fund
Changing employer structure within the LGPS – impacting employer covenant and guarantor backing for groups of employers within the scheme – potential to disturb/disrupt employer contribution pooling arrangements	• Ongoing monitoring of employer movement and change in status within the scheme • Participation in scheme-wide consultation and review on sectors within the LGPS (academy and tier 3 employers) • Monitoring of regulatory change which may impact the priority of payments to the LGPS, including regular engagement with employers
Changing scheme regulations and guidance - impacting scheme benefits, funding strategy, actuarial valuations, investment strategy	• Ongoing horizon scanning and consideration on the Fund risk register • Review and response to consultations on changes to the LGPS Regulations and guidance which may impact scheme funding • Participation in national review and consideration of emerging issues within the LGPS

Risk	Management/Control
Failure to meet climate change transition objectives	The Fund has set itself the objective for 100% of assets to meet Net-Zero Asset Owner commitment with overarching target to achieve by 2050 or sooner in line with the Paris agreement including appropriate interim targets to ensure continual progress. Employer engagement and data collection and review of developing scenario analysis. Governing Body members are provided training on climate change and other ESG risks which helps guide and inform decision-making.

6.2 The Fund has in place an employer risk management framework, incorporating an assessment of the sustainability of all employers to establish the risk of an employer failing to meet their pension liabilities.

6.3 **Insurance of Certain Benefits**
The Fund has explored arrangements to help mitigate employer financial implications of unexpected additional ill-health costs, with the primary advantage being the protection of employers with weaker covenants or smaller workforce against the significant strain costs and additional (unbudgeted) contribution requirements that can arise following an ill-health early retirement. More information can be found in the Fund's *Asset Share Policy* (in relation to the captive reserve held) and the *Employer Contribution Risk Management Policy*.

6.4 **Climate Risk and TCFD reporting**
The Fund has considered climate-related risks when setting the funding strategy, noting the potential for impact upon employers, members and investments with the Fund making progress through development of a *Responsible Investment Policy Framework* and a separate *Climate Change Framework and Strategy*, last reviewed in 2021. The Fund has also carried out engagement with employers during 2022 to raise awareness of the potential implications of climate risk upon employer covenant as well as collecting data to inform future review.

6.5 The Fund has implemented and maintains an internal control framework with regular risk monitoring. This includes advice from appointed advisors and quarterly reporting to Pensions Committee for review.

[3] WMPF Climate Change Framework and Strategy 2021 (wmpfonline.com)

APPENDIX 1: MAIN FUND – METHOD AND ASSUMPTIONS AS AT 31 MARCH 2022

This appendix sets out the method and assumptions used in the development of funding targets and employer contribution requirements, as applied for the Fund's triennial actuarial valuation as at 31 March 2022. It demonstrates the Fund's risk-based, integrated funding framework in practice, outlining how the general funding and solvency principles set out in the FSS, are applied in the context of the Fund's investment strategy and employer risk management framework.

The approach and assumptions adopted for the 2022 actuarial valuation have been adopted by the Fund based on the advice of the Fund's Actuary, risk and covenant advisers. These have been developed and refined in consultation with Fund employers, alongside funding and contribution outcomes of the 2022 review.

Actuarial Methodology
The Fund Actuary uses Asset and Liability Modeling (ALM) techniques to project each employer's notional asset share and liabilities forward in time, over a range of future economic scenarios. The model projects outcomes over 5,000 possible future economic scenarios, using variables for future inflation and investment returns for each asset class, calibrated using market data as at 31 March 2022.

Investment return projections are net of costs, with the outlook for market yields and inflation modelled in context of economic forecasts and central bank targets. Funding outcomes are modelled in the context of an overarching target to achieve and retain full funding by 2030 (17 years from new contributions rates taking effect in April 2023).

Employer contribution rates are set to target sufficient assets being the Fund to meet the employer's funding target in a given proportion of projected funding outcomes.

The total contribution rate for each employer depends on:

- the funding target – how much money the Fund aims to hold for each employer
- the time horizon – the time over which the employer aims to achieve the funding target
- the likelihood of success – the proportion of modelled scenarios where the funding target is met.

The projections allow for the specific cashflows and membership profile of each employer. The Fund considers the type of employer, the employer's covenant and the nature of participation for each employer within the Fund and reflects this in the funding target, the time horizon and the likelihood of success required when setting the employer's contribution. An overview of how the approach is tailored for each employer is set out under Employer Categorisation.

Employer Asset Share
The Fund is a multi-employer pension fund that is not legally sectionalised and so individual employer asset shares are calculated at each actuarial valuation. More information can be found in the Fund's *Asset Share Policy*.

Employer Contribution Requirements
The required levels of employee contributions are specified in the regulations. Employer contributions are determined in accordance with the LGPS Regulations, following the actuarial valuation completed every three years. The Fund Actuary records individual employer contribution requirements in the Fund's rates and adjustments actuarial certificate, specifying the 'primary' and 'secondary' rate of the employer's contribution; aligned to the actuarial methodology adopted for the 2022 actuarial valuation these are defined and specified as follows:

Primary Rate
The 'primary rate' for an employer is the contribution rate required to meet the cost of the future accrual of benefits, allowing for employer membership profile. The primary rate for the whole Fund is the weighted average (by pensionable payroll) of the individual employer's primary rates.

Secondary Rate
The 'secondary rate' is an adjustment to the primary rate to arrive at the total rate of contribution each employer is required to pay. The secondary rate may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation. For the purpose of the 2022 actuarial valuation secondary contributions will, in the main, be expressed as a percentage of payroll. As such, any secondary rate contributions are included in each employer's total contribution rate percentage.

Pooling of Employers for Funding Purposes
Fund policy in line with the core principle of no-cross subsidy is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are typically set for individual employers reflecting their own liabilities and particular circumstances.

However, as a continuation from the 2019 valuation and reflecting employer consultation over the period to 2022, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common ownership and organisational structures, and to assist in managing employer exposure to individual member liability risks.

The funding pools adopted for the Fund at the 2022 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Individual academies within a multi-academy trust	Total contribution rate only	Individual academy funding positions continue to be tracked
Pass-through arrangements	All risks (employer pays primary rate only)	Pass-through employers are effectively pooled with the ceding scheme employer for for funding purposes and pay the same primary rate only
All participating employers with less than 1,000 active members	Ill-health risk only	Pooling of ill-health risk/experience via captive insurance reserve
Bespoke arrangements	Primary and/or secondary rate contributions	As agreed at the sole discretion of the Fund, certain subsidiary employers may be pooled with a ceding or core employer for the purpose of contribution rates

The main purpose of pooling is to produce more stable employer contribution levels and assist employer budgeting. The funding and contribution pooling arrangements operated by the Fund will continue to be kept under review at each triennial valuation, as the effectiveness and associated operational risks (for the Fund and employers) continued to be monitored.

Financial Assumptions

- **Investment Return (Discount Rate)**
  One of the key assumptions used to determine the funding position at a point in time is the discount rate. The actuary estimates the future benefit cashflows which will be made to and from the Fund in the future. These cashflows are then discounted to a present day value using the discount rate. This value is essentially the estimated amount of money which, if invested now would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using a prudent assumption about future investment returns (the discount rate).

  The discount rate of 4.3% p.a. adopted for the purposes of assessing the funding level at the actuarial valuation date has been derived by considering the expected rate of future investment return anticipated to be achieved on the Fund's invested assets as a whole through the underlying investment strategy, based on medium term market forecasts, together with the overall allowance for prudence within the funding strategy.

  It may be appropriate for an alternative discount rate to be adopted to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting or approaching cessation (exit) or to reflect the Administering Authority's views on the level of risk that an employer poses to the Fund. The Administering Authority will incorporate any such adjustments after consultation with the employer and Fund Actuary.

  A lower discount rate assumption of [2.6% pa] has been used to value orphan liabilities (those no longer linked to an active employer) as these reflect the lower risk investment strategy developed and notionally attributed to support this liabilities.

- **Long-Term Funding Target and Likelihood of Success**
  The Fund actuary has modelled the annual returns and cashflows over the next 17 years on the Fund's assets and liabilities under 5,000 different economic scenarios. The overall contribution requirement for the Fund has been set to ensure that 70% of the projected funding scenarios produce a fully funded outcome by the target funding date (this is defined as the "Likelihood of Success").

  There is no guarantee that the Fund's assets will meet or out-perform the investment return required to meet the long term funding target. The risk of under-performance is greater when measured over short periods such as the time between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply. For employers of a weaker covenant strength and/or a more mature membership profile, an alternative and higher Likelihood of Success percentage can apply when setting contribution rates, to reflect the higher short-term risk.

- **Inflation (Consumer Prices Index - CPI)**
  The Fund's liability projections are based on long term, forward looking expectations for benefit costs, rising in line with CPI. The Fund actuary has modelled CPI projections over the next 20 years, with implicit assumption that inflation will return to the Bank of England's target rate of 2% ahead of the next funding review. The CPI assumption of 2.9% pa set by taking the median annualised value of CPI inflation from this model and incorporating a margin to recognise higher rates and volatility experience observed over 2022 (10.1% in September 2022) and expected to be persistent in the short term.

- **Salary Increases**
  The assumption for long-term real salary increases (salary increases in excess of price inflation) makes an allowance of 1.0% pa over the CPI inflation assumption described above. The valuation allows for both the impact of this general salary increase and, in addition, promotional increases (with sample rates set out in the demographic assumptions below).

  These assumptions will continue to be kept under review at each valuation based on Fund-wide experience, with actual individual employer experience being reflected in the employer contribution outcomes of each triennial review.

- **Pension Increases (and CARE Revaluation)**
  Increases to pensions are assumed to be in line with the CPI inflation assumption described above.

Demographic Assumptions
The Fund has reviewed and adopted demographic assumptions based on review of the Fund's own population, experience and wider trends observed and generally accepted practice across the LGPS and pensions industry. Allowances will continue to be reviewed and updated at each triennial review, as more data and observations are made to inform future projections of benefits payable from the Fund.

Mortality/Life Expectancy
The longevity assumptions used by the Fund are defined by a bespoke set of VitaCurves produced following detailed analysis and tailored to fit the Fund's individual membership.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) model published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0.

There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recent mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI model.

Commutation
It has been assumed that, on average, members will take 50% of the additional tax-free cash available to them on retirement, in addition to taking their accrued lump-sum entitlement. The option which members have to commute part of their pension at retirement in return for a lump-sum is on fixed terms, set in the LGPS regulations at a rate of £12 cash for each £1 pa of pension given up.

Summary Including Other Demographic Assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases in the table below
Death in service	Sample rates in the table below
Withdrawals	Sample rates in the table below
Retirement in ill health	Sample rates in the table below
Family details	A proportion of members are assumed to have a dependant partner at retirement or on earlier death, according to age and sex. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be three years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	Based on current Fund membership elections, assuming no further members move to the 50:50 option

Rates for Demographic Assumptions Males

Incidence per 1,000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
20	105	0.17	404	813	0.00	0.00	0.00	0.00
25	117	0.17	267	537	0.00	0.00	0.00	0.00
30	131	0.20	189	381	0.00	0.00	0.00	0.00
35	144	0.24	148	298	0.10	0.07	0.02	0.01
40	150	0.41	119	240	0.16	0.12	0.03	0.02
45	157	0.68	112	225	0.35	0.27	0.07	0.05
50	162	1.09	92	185	0.90	0.68	0.23	0.17
55	162	1.70	73	146	3.54	2.65	0.51	0.38
60	162	3.06	65	130	6.23	4.67	0.44	0.33

Rates for Demographic Assumptions Females

Incidence per 1,000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
20	105	0.10	352	467	0.00	0.00	0.00	0.00
25	117	0.10	237	314	0.10	0.07	0.02	0.01
30	131	0.14	199	264	0.13	0.10	0.03	0.02
35	144	0.24	172	227	0.26	0.19	0.05	0.04
40	150	0.38	143	189	0.39	0.29	0.08	0.06
45	155	0.62	133	177	0.52	0.39	0.10	0.08
50	160	0.90	112	149	0.97	0.73	0.24	0.18
55	163	1.19	84	111	3.59	2.69	0.52	0.39
60	170	1.52	68	89	5.71	4.28	0.54	0.40

Expenses

Expenses incurred are paid from the assets held by the Fund, in accordance with the LGPS Regulations. For the 2022 valuation, administration expenses have been allowed for as 0.5% of employer pensionable payable, incorporated within contribution rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Employers are required to meet all costs of early retirement strain (non ill-health) by immediate capital payment to the Fund.

McCloud Provisions

The Local Government Pension Scheme (England and Wales) (LGPS) introduced a new CARE benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from normal retirement age on 1 April 2012 (ie aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters and the judiciary resulted in unlawful age discrimination.

To remedy the issues arising from the McCloud case, the Government introduced the Public Service Pensions and Judicial Offices Act 2022. The 2022 Act has, as of the date of drafting, not been harmonised with the LGPS Regulations. As a temporary measure DLUHC has advised all English and Welsh Administering Authorities to value members' benefits as required by the various Regulations in force as at 31 March 2022, except with respect to the following assumptions:

- It should be assumed that the current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap.
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner).
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- The underpin will consider when members take their benefit so they can be assured they are getting the higher benefit.

The Fund has reviewed and updated its approach to funding allowance for the McCloud remedy since 2019, to align with the assumptions as advised by DLUHC. It should, however, be noted that regulatory changes to the LGPS in relation to McCloud are still to be confirmed (at time of drafting) and the Fund may subsequently need to review and revise the FSS and reassessed funding requirements.

A summary of the headline financial and demographic assumptions adopted at 2022 and in 2019 is included below. Further details may be found in the Fund Actuary's Valuation Report published on the Fund's website.

Comparison of Key Financial Assumptions – 2022 and 2019 Actuarial Valuations

Financial

Assumption	2022	2019
Discount rate (for non-orphan liabilities)	4.3% per annum	4.6% per annum
Discount rate (for orphan liabilities)	2.6% per annum	2.6% per annum
Risk profiling / categorisation	71% / 72% Likelihood of Success target for 'Category 2' or 'Category 3' employers	5.0%/10.0% loading on past service liability for 'Category 2' or 'Category 3' employers
Inflation/pension increases (CPI)	2.9% per annum	2.6% per annum
Salary increases	3.9% pa (CPI plus 1.0% pa)	3.6% pa (CPI plus 1.0% pa)

Mortality	2022	2019
Pre-retirement mortality	See sample tables under demographic assumptions	GAD 2016 tables with a rating of 115% for males and 125% for females
Post retirement mortality	Vita curves tailored to individual membership	SAPS (S3PA_H) tables with specific adjustments of 85% for males and 95% for females. (S3DA tables 110% / 125% for dependents)
Allowances for future improvements	CMI (2021) model with an initial adjustment of +0.25%, smoothing parameter of 7.0, 0% weighting to 2021 (and 2020) data and a long term rate of improvement of 1.5% pa	CMI (2018) model with an initial adjustment of +0.5%, smoothing parameter of 7.5 and a long term rate of improvement of 1.5% pa

Employer Categorisation

The Fund employer covenant monitoring framework (established and maintained since 2010), takes into account a number of financial, funding and structural factors needed to rate employer covenant and allocate each individual employer to a risk banding (RAG rated). More information can be found in the Fund's *Employer Risk Management Framework*.

For the purpose of the triennial actuarial valuation, the Fund covenant risk ratings are used, together with employer characteristics (type of body, membership profile, level of government backing or other security) to allocate employers within the Fund into three categories to assist in determining an appropriate funding strategy.

Employers in different categories will have differential contribution plans determined by their funding target and time horizon. Typically, those employers with weaker covenant would have a faster pace of recovery to mitigate overall funding risk and the impact of default on other employers.

Outlined below are the categories.

Allocated Category[1]	Fund Covenant Risk Rating	General Features
Category 1	Green	Government-backed/guarantee for Government-backed organisation and over 100% funded
Category 2	Green/Amber	Guarantee/Strong balance sheet relative to pension liability
Category 3	Red/Critical (Black)	Exiting/Weak balance sheet relative to pension liability

The general treatment of certain types or groups of employers in terms of funding strategy is set out in the table below. The funding strategy applied will factor in both the type of employer and the risk category in determining contribution outcomes.

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	e.g. Local authorities, police, fire	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Typical risk categorisation	Category 1	Category 2 or 3	Category 1	Category 1, 2 or 3	Category 1, 2 or 3	Category 1
Funding target	Ongoing	Ongoing	Ongoing	Ongoing, but may move towards low-risk exit basis		Ongoing
Typical (range of) likelihood of success	70%	70% to 72%	70%	Commensurate with risk profile/ covenant of individual employer	Commensurate with risk profile/ covenant of individual employer	70% to 72%
Maximum time horizon	17 years	17 years	17 years	17 years	17 years or average future working lifetime, if less	17 years
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	Default position of percentage of pensionable payroll, unless an alternative is agreed at the sole discretion of the Fund, based upon the individual circumstances of the employer (for instance, those with a known and expected decline in pensionable payroll)					
Treatment of surplus	Winding-down of surplus may be permitted by the administering authority	Contributions maintained at a floor equivalent to primary rate	Winding-down of surplus may be permitted by the administering authority	Preferred approach: contributions maintained at (minimum of) primary rate. Winding-down of surplus may be permitted by the administering authority in specific circumstances e.g. where guarantee in place and agreed with guarantor		Winding-down of surplus may be permitted, depending upon length of contract term and/or funding level

Transferee Admission Bodies
Transferee admission bodies are be treated in accordance with the membership profile, maturity and contract length associated with their participation in the Fund relative to their funding level. The approach considers the relationship with the ceding Scheme employer, noting that engagement on the FSS extends to relevant guarantors. Transferee admission bodies who have pass-through arrangements are subject to the approach outlined in the table above.

Community Admission Bodies
For community admission bodies, where closed to new entrants (or deemed to be so based on membership activity over previous six years), a higher Likelihood of Success target may be implemented or a reduced time-horizon to implement a higher pace of funding.

Academies
Academies will be treated in accordance with the factors and legislation that lead to their creation. In July 2013, the Department for Education (DfE) provided a guarantee that in the event of the closure of an academy trust, any outstanding liabilities, where not met from the trust's asset on closure, would be met by the DfE in full. More recently, on 14 October 2022, this guarantee was revisited to expand upon the original provision and confirm new annual limits from April 20211.

To reflect the DfE guarantee, and in particular the improved nature and certainty of payment (based upon experience since 2019) all academies will be considered to have the same covenant strength and placed in the employer category 1. This treatment is consistent with the approach applied to the local authorities from which the academies convert. The position will continue to be reviewed, with the 2025 valuation at the latest, to reflect the evolving sector, not least the direction of travel proposed in the Government White Paper "Opportunity for all" published in March 2022.

Further Education Colleges

- In 2019 a college insolvency regime came into effect for further education colleges (2017 Technical and Further Education Act). This regime means:
  - normal commercial insolvency law will apply to colleges. Where a college is in severe financial distress and there is no other solution, new statutory insolvency procedures can apply;
  - the college itself or its creditors can ask the court to apply a normal commercial insolvency processes. These processes include a company voluntary arrangement, administration, creditor's voluntary winding up, court-directed winding up or receivership;
  - in the case of an insolvency, the Department for Education ('DfE') can appoint an education administrator who will have wider duties. These duties will include the avoidance and minimisation of disruption to the studies or existing students as well as to secure the best outcome for learners; and
  - statutory insolvency is considered a backstop. The DfE has indicated that it will use a non-statutory route in the first instance, including the commissioning of an Independent Business Review.

Since the 2019 actuarial valuation, the Office for National Statistics (ONS) has undertaken a review of the sector which has resulted in reclassification to the central government sector (previously classified as part of the private sector). Whilst mindful that this reclassification could have further implications for FE Colleges in the context of the LGPS, the nature of these is unknown at this stage and therefore not reflected as a change in funding strategy. Nonetheless, the Fund continues to monitor developments in this area, both from the perspective of reclassification and as colleges enter into administration under the insolvency regime, in particular the degree of risk for the Fund and its participating employers.

APPENDIX 2: ADMISSION BODY SEPARATE FUND – WEST MIDLANDS TRAVEL LIMITED (WMTL)

a) Introduction

- As a separate admission body fund, WMTL complies with all areas of this Funding Strategy Statement, save for the matters covered within this appendix

b) Assessment of Contributions

- As part of each valuation, separate employer contribution rates are assessed by the actuary for WMTL. These rates are assessed taking into account the experience and circumstances of WMTL, following a principle of no cross-subsidy with any other Fund employer.
- In line with the status of being a separate admission body fund, WMTL has its own individual investment strategy and as such investment performance is directly attributable to the assets of the employer.

c) Links to Investment Policy Set Out in the Investment Strategy Statement (ISS)

- WMTL has its own Investment Strategy Statement (ISS).
- The Fund uses an asset liability study and stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in WMTL's ISS.
- WMTL's investment strategy has been considered and reviewed in conjunction with the 2019 valuation and the FSS. In particular, the future return expectations of the main asset classes in which the Fund invests have been considered in determining the prudent allowance for future investment returns and extent of reliance on these by WMTL.

d) Key Assumptions

Discount rate (non buy-in pensioners)	2.9% per annum
Discount rate (buy-in pensioners)*	1.6% per annum
Salary increases	3.0% per annum
Inflation/pension increases (CPI)	3.0% per annum (13-year duration)

Discount rate for buy-in liabilities is based on the relevant duration point of the Bank of England nominal gilt yield curve: 1.6% p.a. (based on duration of 9.5 years).

e) Management of Funding Deficit

i) Employer contributions will be expressed and certified as two separate elements:

- the primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits.
- the secondary rate: a schedule of annual lump sum amounts, payable over the three years to 2025/26 increasing annually in line with the valuation funding assumption for long-term pay growth in respect of deficit recovery.

Both elements are subject to review from April 2026 based on the results of the 2025 actuarial valuation.

ii) A funding time-horizon was set for WMTL commensurate with the risk profile and current funding position of the employer.

[1]DfE local government pension scheme guarantee for academy trusts - GOV.UK (www.gov.uk)

f) Employer Covenant

The Fund undertook a detailed assessment of WMTL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood and scale of employer default was used in the context of the funding strategy review. As such, WMTL does not form part of the employer categorization outlined in appendix 1.

Mortality Assumptions

Post-retirement mortality - base table	In line with Club Vita Curves (member specific mortality tables)
Allowances for improvements in life expectancy	2021 CMI model with a 0% weighting of 2021 (and 2020) data, a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.0 and an initial addition to improvements of 0.25% p.a.

The table below shows life expectancies for the employer's specific membership using these updated mortality assumptions:

	31 March 2022	31 March 2019
Male pensioner	19.7 years	20.7 years
Male non-pensioner	21.5 years	22.6 years
Female pensioner	22.6 years	23.8 years
Female non-pensioner	25.7 years	25.7 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

Other Demographic Assumptions

All other demographic assumptions are the same as adopted for the main Fund and as detailed in appendix 1.

Other Demographic Assumptions

Partner age difference	Males are three years older than females
Proportion married	85% of members have an eligible dependant at retirement or early death
Promotional salary scale	See table below
Allowance for withdrawals	See table below
Allowance for cash commutation	Members will take an additional 50% of the remaining maximum tax-free cash available after members have taken the standard 3/80ths cash sum for pre-April 2008 service
Allowance for early retirements (non-ill-health)	See table below
Allowance for 50:50 membership	0% above the members already opted into the 50:50

Males

Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0.00	0.00	0.00	0.00
25	117	0.17	267.06	537.03	0.00	0.00	0.00	0.00
30	131	0.20	189.49	380.97	0.00	0.00	0.00	0.00
35	144	0.24	148.05	297.63	0.10	0.07	0.02	0.01
40	150	0.41	119.20	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.90	0.68	0.23	0.17
55	162	1.70	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	352.42	467.37	0.00	0.00	0.00	0.00
25	117	0.10	237.14	314.44	0.10	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.10	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	155	0.62	133.25	176.51	0.52	0.39	0.10	0.08
50	160	0.90	112.34	148.65	0.97	0.73	0.24	0.18
55	163	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	170	1.52	67.55	8.379	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

APPENDIX 3: ADMISSION BODY SEPARATE FUND – PRESTON BUS LIMITED (PBL)

a) Introduction

- As a separate admission body fund, PBL complies with all areas of this *Funding Strategy Statement*, save for the matters covered within this appendix.

b) Assessment of Contributions

- As part of each valuation, separate employer contribution rates are assessed by the actuary for PBL. These rates are assessed taking into account the experience and circumstances of PBL, following a principle of no cross-subsidy with any other Fund employer.
- In line with the status of being a separate admission body fund, PBL has its own individual investment strategy and as such investment performance is directly attributable to the assets of the employer.
- Employers are required to meet all costs of early retirement strain (non ill-health) by immediate capital payment to the Fund.

c) Links to Investment Policy Set Out in the Investment Strategy Statement (ISS)

- PBL has its own Investment Strategy Statement (ISS).
- The Fund uses an asset liability study and stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in PBL's ISS.
- PBL's investment strategy has been considered and reviewed in conjunction with the 2019 valuation and the FSS. In particular, the future return expectations of the main asset classes in which the Fund invests have been considered in determining the prudent allowance for future investment returns and extent of reliance on these by PBL

d) Key Assumptions

Discount rate	2.3% per annum
Inflation/pension increases (CPI)	3.0% per annum (13-year duration)

e) Employer Covenant

The Fund undertook a detailed assessment of PBL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood x scale of employer default was used in the context of the funding strategy review.
As such, PBL does not form part of the employer categorization outlined in appendix 1.

Mortality Assumptions

Post-retirement mortality - base table	In line with Club Vita Curves (member specific mortality tables)
Allowances for improvements in expectancy	2021 CMI model with a 0% weighting of 2021 (andlife 2020) data, a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.0 and an initial addition to improvements of 0.25% p.a.

The table below shows life expectancies for the employer's specific membership using these updated mortality assumptions:

	31 March 2022	31 March 2019
Male pensioner	19.7 years	20.7 years
Male non-pensioner	21.5 years	22.6 years
Female pensioner	22.6 years	23.8 years
Female non-pensioner	25.7 years	25.7 years

*only one female non-pensioner member at 2022 Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45. 2022 life expectancies shown are PBL 2019 life expectancies shown are based on WMITA (as per 2019 valuation report)

Other Demographic Assumptions

All other demographic assumptions are the same as adopted for the main Fund and as detailed in appendix 1.

GLOSSARY

50/50 Scheme
In the LGPS, active members are given the option of earning half of the standard LGPS benefits and paying half the standard member contribution rates.

Actuarial Valuation
An assessment by an actuary into the ability of a pension fund to meet its liabilities. At the actuarial valuation, the Fund's actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits.

Administering Authority
A body listed in Part 1 of Schedule 3 of the LGPS Regulations, who maintains a fund within the LGPS. Administering Authorities are typically councils based in England and Wales. The Fund's Administering Authority is the City of Wolverhampton Council.

Admission Body
An admission body is an employer admitted to the LGPS by way of an admission agreement. Admission bodies arise from contracts or outsourcing of services from local government.

Assets
Based on the assessments undertaken by the Fund actuary at each actuarial valuation, a level of contributions (primary and secondary) will be set for each participating employer within the Fund, payable in accordance with the Rates and Adjustment Certificate. Member contributions are set out in statute and collected and paid to the Fund by participating employers. The contributions received by the Fund are invested in accordance with the Fund's investment strategy and strategic asset allocation. Examples of invested assets include equities, bonds, cash and alternatives.

Asset Allocation
The breakdown of the Fund's assets in different asset classes.

Career Average Revalued Earnings ('CARE') Scheme
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Consumer Prices Index ('CPI')
CPI is an abbreviation standing for 'Consumer Prices Index'. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit
An employer has a deficit when its actuary calculates that it does not currently have enough assets to pay all future commitments. Deficits are typically corrected over periods of time by the payment of additional contributions by employers.

Discount Rate
The rate of interest used to estimate the amount of money needed to be held now to meet a benefit payment occurring in the future.

Employer Covenant
The degree which an employer participating in the LGPS is able to meet the funding requirements of the scheme, both now and in the future.

Employer's Future Service Contribution Rate ('Primary Rate')
The contribution rate payable by an employer, expressed as a% of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses and investment expenses.

Funding Level
The ratio of a fund's assets to the estimated value of its past service liabilities. This is expressed as a percentage. If a fund has a funding level of 100% then the value of its assets are equal to those of its liabilities.

Funding Strategy Statement (FSS)
This is a key governance document that outlines how the Administering Authority will determine employers' contributions to the Fund and manage its funding risks.

Funding Target
An assessment of the assets required to be held now in order to meet the benefits to be paid in the future. The desired funding target is to achieve a funding level of a 100% i.e. assets equal to the past service liabilities assessed using appropriate actuarial assumptions.

Government Actuary's Department ('GAD')
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantor
A guarantor in the context of the FSS is any Scheme Employer, organisation or entity that underwrites the LGPS liabilities of a Scheme Employer either in part or in full.

Investment Strategy
The long-term distribution of assets among various asset classes; it takes into account the Fund's objectives and attitude to risk.

Liabilities
The estimated value, using actuarial methods and assumptions, placed on the obligations of a pension scheme. These obligations include the present value of future pension benefits and contingent benefits and may include the expected value of future expenses.

Local Government Pension Scheme ('LGPS')
An occupational pension scheme for Local Government workers and other related workers made up of 88 individual funds located across England and Wales. West Midlands Pension Fund is one of the 88 individual funds.

Prudent Assumption
An assumption where the outcome has a greater than 50% chance of being achieved. Legislation requires the assumptions (when considered collectively) adopted for an actuarial valuation to be prudent.

Rates and Adjustment Certificate
In accordance with the LGPS Regulations, the Administering Authority must obtain this document from an actuary which sets out the contributions payable by each employer.

Real Return or Real Discount Rate
A rate of return or discount rate net of inflation.

Scheme Employer
A Scheme Employer is an employer that is legally obliged to take part in the LGPS by virtue of the LGPS Regulations. This includes councils of all types, academy schools and certain other public sector bodies.

Section 13 Valuation
Section 13 of the Public Service Pensions Act 2013 requires that all public service pension schemes, like the LGPS, undertake an actuarial valuation that ensures their solvency and their long-term cost-efficiency.

ADDENDUM 3: POLICY ON CONTRIBUTION REVIEWS INTER-VALUATION

Introduction
In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1) The Administering Authority may review the contributions of an employer where there has been, or where there is likely to be, a significant change to the liabilities of an employer.

2) The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

3) An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them and that employer would be required to pay the costs of any review.

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation. However, changes in assets may be taken into account when considering an employer's ability to support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority undertakes to consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the implementation of the rates from the latest actuarial valuation, unless there are exceptional circumstances.

Circumstances Whereby Contributions May be Reviewed
Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Employers may also request a review as a result of the following scenarios and subject to required contribution payments and monthly membership data being up to date, as well as ensuring there are no significant historical data gaps in accordance with the employer obligations outlined within the Pensions Administration Strategy.

1) Significant Changes in the Employer's Liabilities
This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:

   i) Restructuring of an employer (for instance, which results in a material change in the purpose, nature or scale of the organisation)

   ii) A significant outsourcing or transfer of staff to another employer in the Fund

   iii) A bulk transfer into or out of the employer

   iv) Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements, large number of withdrawals

b) Two or more employers merging including insourcing and transferring of services

c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if there is a demonstrated and evidenced expectation of a significant change in liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the contributions will consider the effect of the new active membership profile on the primary rate of contributions and the impact of the change in liabilities on the secondary contributions.

2) Significant Changes in the Employer's Covenant
This includes, but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other creditor which may impair the security provided to the Fund.

b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this).

c) Change in potential outcome and recovery by the Fund, where an employer exhibits behavior that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet these obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, employers will be required to notify the Administering Authority of any material events. The Administering Authority will set out notifiable event requirements in the Pensions Administration Strategy.

Additional information will be sought from the employer in order to determine whether a contribution review is appropriate. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of the review, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser, as deemed appropriate.

In this instance, any review of the contribution rate would include consideration of the updated funding position both on an ongoing and termination basis (if applicable).

Timing and Charges Associated With a Contributions Review
Where an employer makes a request for a contribution review, it is considered that it should be limited to a maximum of one request per calendar year, unless circumstances dictate a further review is deemed appropriate and at the sole discretion of the Fund, having obtained relevant evidence from the employer to support the request.

In addition, unless in exceptional circumstances at the sole discretion of the Fund, a request for a contribution review will not be permitted within 12 months from the statutory valuation date, during the period when updated membership data and more in depth assessment of the Fund and individual employer liabilities is under review.

Where the review of contributions has been initiated by the Administering Authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the Administering Authority as part of the review. These exception costs would be recharged to the scheme employer.

For the avoidance of doubt, where the contributions review is requested by an employer the expectation would be that responsibility for associated costs are passed onto the employer, unless specifically agreed otherwise and at the discretion of the Fund.

The review of contributions may take up to three months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary information (note in most cases it is expected that there will be a requirement for the employer to supply relevant information and data to support the review).

Process and Potential Outcomes of a Contribution Review
Where review is triggered, the Administering Authority will notify the employer of the intention to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to confirm payment of the costs associated with the review and outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority. The Administering Authority will determine any information it requires from the employer, in addition to the information held or provided with the request for review.

Consideration will be given to the impact of change an employer's contributions may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

The most recent actuarial valuation data will be used as a starting point for the review, with amendments made where required to reflect any significant changes in the employer's membership profile. The Administering Authority will consider whether it is appropriate to use updated membership data within the review, for example where the level of manual amendments required to the valuation data would require a disproportionate level of work or if there has been a significant change in an employer's membership.

The approach to setting assumptions will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's *Funding Strategy Statement*. The market conditions and demographic assumptions used will be in line with those at the most recent actuarial valuation unless an update is deemed more appropriate by the Fund Actuary.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- The Employer Categorisation and in particular whether the employer's risk rating (as outlined on page 25) remains appropriate or whether they should move to a different category.
- As a consequence of the point above, whether the secondary contributions should be adjusted either as a result of the amending the recovery period and/or the volatility reserve for that employer.
- Whether the Primary contribution rate should be adjusted to allow for membership profile change.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes.

Version control:

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

Appendix A

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