

Review of Funding Strategy Statement

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Executive Portfolio Holder: Not applicable

Division and Local Member: Not applicable

1. Summary

- 1.1 The Fund is required under section 58 of the LGPS Regulations (2013), as amended, to publish and maintain a Funding Strategy Statement (FSS). The FSS sets out the Somerset Fund's strategy for its funding. The FSS is drafted in consultation with the Fund's actuary (Barnett Waddingham) and is typically refreshed immediately after the triannual valuation exercise to reflect the most recent valuation.
- 1.2 The previous version of the FSS was adopted by Pensions Committee at the September 2021 meeting, this incorporated the Fund's position on exit credits as permitted by amendment regulations laid before parliament on 27th August 2020 which come into force on 23rd September 2020.
- 1.3 In addition to reflecting the new regulations that came into force in September 2020 that update also incorporated the requirements of new Statutory guidance issued by MHCLG (now DLUHC) and guidance prepared by the Scheme Advisory Board for the LGPS, both of which were issued at the start of March 2021.
- 1.4 The draft as attached as appendix A is substantially the same as the version adopted in September 2021 although with updated sections regarding inflation, McCloud and GMP as applicable. The major change is in the section regarding "Cessation valuations". It is proposed that for exits where the full cessation approach is required we change to a discount rate based on the same methodology as the valuation, but adjusted for an added level of prudence. Previously for these types of cessation the discount rate was set with regard to gilt yields at the cessation date.
- 1.5 The advantages of the new proposed methodology are that it provides a much more consistent value to liabilities for full cessation exits through time than under the current reference to gilt yields, which are very volatile through time.

2. Issues for consideration

- 2.1 The Board is asked to review the draft FSS, and comment as applicable, prior to it being considered by Pensions Committee and consultation with employers as required by the regulations.

3. Background

- 3.1 None

4. Consultations undertaken

- 4.1 None to date. A full consultation of the employers will take place after the FSS has had initial review by Pension Board and Pensions Committee.

5. Financial Implications

- 5.1 The FSS is a key component of managing the funding level of the Fund and ensuring in the long term sufficient assets are built up to cover the Fund's liabilities.

6. Background Papers

None

Note For sight of individual background papers please contact the report author.