Lancashire County Pension Fund

Funding Strategy Statement

March 2023

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Lancashire County Council as administering authority of Lancashire County Pension Fund

1. Guide to the FSS and Policies

The information required by overarching guidance and Regulations is included in Sections 2 and 3 of the Funding Strategy Statement. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)

The actuarial assumptions used for assessing the funding position of the Fund and the individual employer contributions – the "Primary" contribution rate (to cover new benefits as they are accrued by active members), and the "Secondary" rate in respect of any underlying surplus or deficit – are set out **here**.

2. Deficit Recovery, Surplus Offsets and Contribution options (Appendix B)

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out **here**.

3. Admission and Termination Policy

The Fund has a separate Admission and Termination Policy (that can be found **here**), governing the approaches that apply when employers join and leave the Fund under various circumstances. The policy forms part of the Funding Strategy Statement.

4. Inter-valuation Contribution review Policy

In line with the Regulations, the Fund has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on this is **here**, and forms part of the Funding Strategy Statement.

5. Employer Risk Policy

The Fund operates a separate approach in respect of employers who do not have taxpayer backing (either directly or via a guarantee from another Fund employer with such direct backing). These employers are referred to as Category B employers, with taxpayer backed employers in Category A. The key differences in the funding approach for Category B employers are noted in this document but the full policy is found **here**, and forms part of the Funding Strategy Statement.

6. Notifiable Events Framework

Employers are required to proactively notify the Administering Authority of any material changes to their covenant, and this policy sets out when this may happen and the notifiable events process. This relates mainly to Category B employers and so is contained within the Employer Risk Policy. However, all employers should notify the Fund of any material changes to their covenant, circumstances or future plans regarding their Fund participation.

7. Ill Health Captive Arrangement (Appendix C)

The Fund has a captive insurance arrangement which pools the ill-health risks for smaller employers. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out **here**.

This document including the above policies makes up the Fund's Funding Strategy Statement. While the Funding Strategy Statement lays out the Fund's default approaches and strategies in various areas, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Head of Fund acting on the advice of the Fund Actuary (or other advisers as appropriate)).

A glossary of the key terms used throughout is available at the end of this document

This Funding Strategy Statement has been prepared by Lancashire County Council (the Administering Authority) to set out the funding strategy for the Lancashire County Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. Background

Ensuring that the Lancashire County Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Lancashire County Council). The Funding Strategy adopted by the Fund is critical in achieving this. The Administering Authority has taken advice from the actuary in preparing this Statement.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy regarding how each Fund employer's pension liabilities are to be met.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given the opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

Integrated Risk Managed Strategy

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their own circumstances.

The Regulations

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively: "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

The Solvency Objective

The Administering Authority's long-term objective is for the Fund to achieve and then maintain 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next valuation in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

Long Term Cost Efficiency

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these two key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as it relates to the Fund.

Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution.

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3. Responsibilities of the Key Parties

The efficient and effective management of the Fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below:

Key Parties To The FSS

The **Administering Authority** should:	The **Individual Employer** should:
• operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations • pay from the pension fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance with the 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 consultation with the Fund's actuary • prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties • monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.	• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the actuary, promptly by the due date (including any exit payments upon ceasing participation where applicable) • 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 scheme benefits and early retirement strain • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context • notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund. • understand the pensions impacts of any changes to their organisational structure and service delivery model. • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data may result in the employer paying higher contributions than otherwise would be the case if the data was of high quality. • comply with Regulations in the case of a bulk transfer of staff (noting that any costs incurred by the Fund will be recharged to the receiving / transferring employer).

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Key Parties To The FSS

The **Fund Actuary** should:	A **Guarantor*** should::
• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after • agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on the use of bonds and 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 required by the Regulations • advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.	• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information from the fund on the employer and their funding position in order to fulfil its obligations as a guarantor.

* In this context, "guarantor" means an employer who acts as guarantor to another employer in the Fund, and so would subsume their residual assets and liabilities on exit (after any final termination assessment)

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4. Key Funding Principles

Purpose of the FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary. The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent long-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

The Aims of the Fund are to:	The Purpose of the Fund is to:
• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due • enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, mandatory, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes • maximise the returns from investments within reasonable risk parameters taking into account the above aims.	• receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

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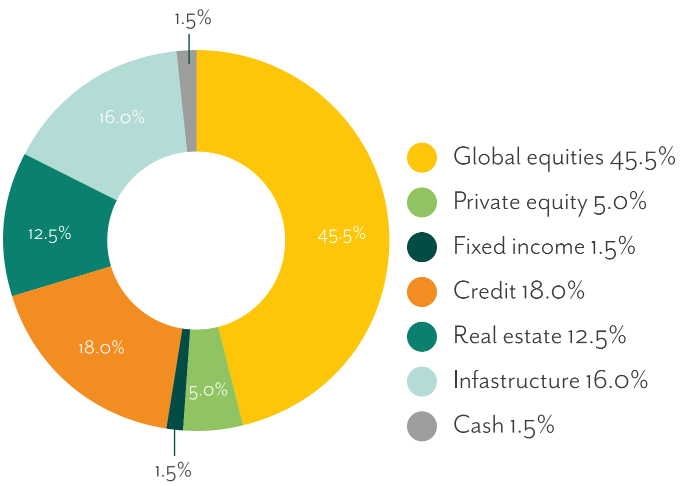
Link to Investment Policy and the Investment Strategy Statement (ISS)

The results of the 2022 valuation show the liabilities to be 115% covered by the assets, with the funding surplus of 15% used in part to offset future service contributions, with the remainder being retained as a buffer against future adverse experience (**see Appendix B**).

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance taking into account the investment strategy adopted by the Fund, as set out in the ISS.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below.



Risk Management Strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate.

Climate Change

An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out).

The analysis will consider a projection of the funding level under two different scenarios which are designed to illustrate the transition and physical risks, depending on what actions are taken globally on climate change. One of the scenarios will be consistent with global temperature increases of c1.5°C above pre-industrial levels, with the other covering higher increases of c4°C. (The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change.)

1. Rapid Transition - there is a sudden divestment across multiple securities in 2025 to align portfolios to the Paris Agreement goals, this will have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase stabilises at 1.5°C around 2050.
2. Failed Transition - The world fails to meet the Paris Agreement goals and global warming reaches c4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.

Results will be considered over a period of 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change.

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The key metrics are the relative impact on the funding level as this illustrates the impact of climate related market shocks on the funding plan and the analysis will provide the Fund with additional information regarding the resilience of the funding strategy and adequacy of prudence margins. Whilst these scenarios are only two out of a considerable range of potential outcomes, it shows that climate change can have far reaching effect on the Fund.

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient in the context of the scenarios considered. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors, and so the analysis will be further developed and monitored over time. A summary of the output of the analysis will be set out in the Fund Actuary's report on the valuation.

Identification o f Risks And Counter-Measures

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and may require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the (predominantly equity based) strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

Financial	Demographic
The financial risks are as follows:- • Investment markets fail to perform in line with expectations • Market outlook moves at variance with assumptions • Investment Fund Managers fail to achieve performance targets over the longer term • Asset re-allocations in volatile markets may lock in past losses • Pay and price inflation significantly more than anticipated • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position. In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of the risk management framework will help to reduce the key financial risks over time.	The demographic risks are as follows:- • Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity potentially results in a greater liability for pension funds • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers • Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy. • Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.

Governance	Regulatory
Governance risks are as follows:- • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or a bond / security which is not adequate For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme • Changes to national pension requirements and/or HMRC Rules • Political risk that the guarantee from the Department for Education for academies is insufficient, removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy • Uncertainty about the Government's policy with regard to higher and further education bodies, with the result that the Fund is unsure about the security within which these bodies operate and may therefore be taking undue risk when setting contribution rates Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation. The Statement would also be reviewed if there is a reassessment of employer contributions (covering all or the majority of the Fund employers) in between statutory valuations (although in practice we would expect this to be rare). Any review will take account of the current economic conditions and will also reflect any legislative changes.

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

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- if there have been material changes in the ISS

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted.

Appendix A
- Actuarial Method and Assumptions

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

Financial Assumptions			
	2022 Valuation Assumption		Description
Investment return / discount rate	Category A employers* Category B employers*	4.5% p.a. (past) and 5.0% p.a. (future) 4.25% p.a. (past) and 4.75% (future)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.4% p.a. above CPI inflation (past) and 1.9% p.a. above CPI inflation (future) for category A employers, with a 0.25% p.a. reduction for category B*. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
Inflation (Market Implied Retail Prices Index)	3.90% p.a.		The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).
Inflation (Consumer Prices Index)	3.10% p.a. (includes an adjustment of 0.80% p.a. to market implied RPI)		RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) – c0.3% on average (broadly 0.7% pre 2030 and 0% post), and adjusted to incorporate an Inflation Risk Premium ("IRP") of 0.5%. The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.

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Financial Assumptions		
	2022 Valuation Assumption	Description
Salary increases	4.60% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).	

* Category A and B employers are defined in the employer risk policy, but essentially Category A employers have direct taxpayer backing (or are guaranteed by another Fund employer with such backing), and Category B employers do not. Category B employers who provide a suitable bond / security as required by the Fund will have the Category A discount rates applied

Demographic Assumptions

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme.

A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	2022	2019	2022
Pensioners	22.2	21.3	24.9	25.2
Actives aged 45 now	23.7	22.8	26.7	25.7
Deferreds aged 45 now	22.3	22.3	25.6	25.2

For example, a male pensioner, currently aged 65, would be expected to live to age 86.3. Whereas a male active member aged 45 would be expected to live until age 87.8. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience.

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Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

	Base Table	Improvements	Adjustments (M/F)
Current pensioners:			
Normal health	S3PMA / S3PFA_M	CMI_2021 1.75%	113% / 105%
Ill-health	S3IA	CMI_2021 1.75%	141% / 172%
Dependants	S3PMA / S3DFA	CMI_2021 1.75%	137% / 122%
Future dependants	S3PMA / S3DFA	CMI_2021 1.75%	137% / 122%
Current active / deferred:			
Active normal health	S3PMA / S3PFA_M	CMI_2021 1.75%	119% / 105%
Active ill-health	S3IA	CMI_2021 1.75%	256% / 337%
Deferred	S3PMA / S3PFA_M	CMI_2021 1.75%	126% / 113%
Future dependants	S3PMA / S3DFA	CMI_2021 1.75%	134% / 123%

* using sk=7.5, zero initial improvements and no allowance for 2020 or 2021 data

	Other Demographic Assumptions
Commutation	It has been assumed that, for each benefit tranche, members take 75% of the total maximum tax-free cash available at retirement (so for pre 2008 benefits this would include the statutory lump sum). The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Other Demographics	Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount 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.

Further details on the demographic assumptions are set out in the Actuary's formal report which can be found **here.**

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Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate. Employers who move from open to closed may see an increase in contributions as a result of this change.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

Method and Assumptions used in Calculating the Cost of Future Accrual (or Primary Rate)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary rate should take account of the market conditions applying at future dates, not just the date of the valuation. In addition, the associated benefits being built up are paid out over a longer time horizon than benefits already accrued; thus it is justifiable to use a slightly higher expected return from the investment strategy.

Employer Asset Shares

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer, a pro-rata principle is adopted. This involves applying the investment strategy to each employer unless this is varied by agreement between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset shares maybe restated for changes in data or other policies.

Adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

McCloud

All employer liabilities include the estimated cost of the McCloud judgment.

The above appendix lays out the Fund's default approach to the actuarial assumptions and method. However the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Head of Fund acting on the advice of the Fund Actuary).

A specific example of this would be where the Fund perceives a particular risk or believes the employer may soon exit (see the Employer Risk Policy) for details.

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Appendix B – Deficit Recovery, Surplus Offsets, and Contribution Options

Employers In Deficit

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford.

Employers In Surplus – Including Funding Buffers

For the 2022 valuation the Fund has set a funding buffer of 110%. If the funding level of a category A employer is above the buffer at the valuation date, then surplus above this level can be used to reduce future service contributions via a "surplus offset". (In most circumstances, category B employers cannot receive surplus offsets – see the employer risk policy for detail).

Surplus below the buffer is to be retained within the Fund as a margin against future adverse experience, to increase the long-term stability of contributions.

The size of the buffer will be reviewed at each valuation.

Employer Recovery Plans – Key Principles

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement and employers will be free to adopt any recovery period that results in and higher contributions if they wish.

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts. Surplus offsets will be expressed as a percentage of pay.

Recovery periods will be set using the following principles:

Category	Normal Deficit Recovery Period	Derivation
Open employers in deficit	10-13 years (in most cases)	Period from the preceding valuation less 3 years
Open employers in surplus	13-16 years (in most cases)	Equal to the period from the preceding valuation
New open employers in deficit	13 years	Fixed value
New open employers in surplus	16 years	Fixed value
Closed Employers	Varies by employer	Determined by the future working life of the membership.
Employers with a limited participation in the Fund (where appropriate)	Determined on a case by case basis	Length of expected period of participation in the Fund.

Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

Contributions Options

The following contribution options may be made available at the discretion of the Fund:

1. Employers facing an increase in total contributions may be allowed to phase in increases in equal steps, so that the full target rate is paid in year three of the plan. This is achieved by an adjustment to the secondary contributions.
2. Employers may have the option of prepaying contributions their % and / or £ contributions in a single lump sum either on an annual basis or a one-off payment, in return for a reduction to reflect the assumed rate of return on the invested amounts (determined using the past service discount rate). The total amount paid in each year must be in line with the certified contribution rates, and a top up payment may be required each year.
3. Prepayment of employee contributions is not permitted

In exceptional circumstances the Fund may depart from the above principles for an employer or a particular group of employers. Any such exceptions would be determined by the Head of the Fund

Appendix C – Ill-Health Captive Arrangement

Overview

For smaller employers the Fund operates a captive insurance arrangement which was established by the Administering Authority to cover additional costs arising from ill-health retirements involving the early payment of benefits.

The captive arrangement operates as follows:

- "Premiums" are paid by the eligible employers into the captive arrangement, which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer's primary rate. The premium for 2023/26 is 0.5% pa.
- The captive arrangement is then used to meet strain costs emerging from ill-health retirements in respect of active members to limit the impact on the deficit position for employers within the captive, so that any subsequent impact should be manageable.
- The premiums are set with the expectation that, allowing for the existing captive assets, they will be sufficient to cover the costs in the 3 years following the valuation date.
- If any excess premiums over costs are built up in the captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

Employers

The employers included in the captive fund are those with less than 150 active members (excluding major Councils). The membership is set based on this criteria at each valuation (or date of admission for new employers). Where an employer moves above (below) the threshold during the inter-valuation period, they will normally remain in (out) of the captive up to the next valuation, at which point they will be reclassified. However, the Fund (acting on advice from the Fund Actuary) may reclassify individual employers at other points where circumstances warrant.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements would still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against allowance certified with recovery of any excess costs from the employer once the allowance is exceeded.

Lancashire County Pension Fund

Appendix D - Glossary of Terms

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund 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 as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission Bodies: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Benefits: The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (Care): 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.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI and the method of calculation is different. The CPI is expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Cpih: An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Contingent Assets: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deferred Debt Agreement (DDA): A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Deferred Employer: An employer that has entered into a DDA with the Fund.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit Recovery Period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Derivatives: Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount rate means lower liabilities and vice versa.

Early Retirement Strain: the additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

Employer's Future Service Contribution Rate ("Primary Rate"): the contribution rate payable by an employer (expressed as a % of pensionable pay) which is set at a level which should be 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. See also "Primary Rate" below.

Employing Bodies: Scheme employers that participate in the LGPS.

Equities: shares in a company which are bought and sold on a stock exchange.

Equity Protection: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit: the amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Funding Or Solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: This is a key governance document which the Administering Authority is obliged to prepare and publish that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

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.

Guarantee / Guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Ill Health Captive: this is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting Employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate those employing bodies which are eligible to participate, members' contribution rates, benefit calculations and certain governance requirements.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, accumulated to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Long Term Cost Efficiency: this is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Mandatory Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities and academies.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

McCloud Judgment: This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired and dependants of deceased ex-employees).

Minimum Risk Funding Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy.

Orphan Liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/Stepping of Contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually "stepped" or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary Rate Of The Employers' Contribution: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members compared to their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be sufficiently prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real Return Or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SAB Funding Basis or SAB Basis: a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculated the Fund's solvency funding position and contribution outcomes for employers.

Scheme Employers: organisations that participate in the Lancashire County Pension Fund.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2022 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Secondary Rate Of The Employers' Contribution: an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate 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 that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Strain Costs: the costs arising when a members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

SWAPS: a generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks where financial obligations on one basis are "swapped" for financial obligations on another basis.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.