Funding Strategy Statement

December 2022

Contents

For further information please contact '**Employersupport@GMPF.org.uk**'

1. Introduction

This is the Funding Strategy Statement (FSS) of the Greater Manchester Pension Fund (GMPF), which is administered by Tameside MBC (the Administering Authority).

It has been prepared by the Administering Authority in collaboration with the GMPF Actuary, Hymans Robertson LLP, and after consultation with GMPF's employers and investment advisors.

1.1 Regulatory Framework

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 only part of the cost of accruing benefits. Employers pay the balance of the cost of funding the benefits. The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 2013 and other LGPS Regulations.
- the Rates and Adjustments Certificate, which can be found appended to GMPF's most recent Actuarial Valuation report.
- actuarial factors for valuing early retirement costs and the cost of buying extra service.
- GMPF's policy on employer admissions and exits.
- the Investment Strategy Statement.

Operating within this framework, the Actuary carries out periodic valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, for example when employers join or leave GMPF. The FSS applies to all employers participating in GMPF and any employers that have entered into a deferred debt agreement.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties, the Administering Authority will prepare and publish its funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:

    - FSS guidance produced by CIPFA and/or the LGPS Scheme Advisory Board; and

    - Its Investment Strategy Statement.

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS, or the Investment Strategy Statement.
- The revised FSS should be completed and approved by the Management Panel prior to the completion of each valuation.
- The actuary must have regard to the FSS as part of the fund valuation process and when making any subsequent amendments to the Rates and Adjustments Certificate in respect of individual employers who join the Fund, request an interim valuation, exit the Fund or are considering the cessation of future accrual by active members.

1.2 Reviews of FSS

The FSS has historically been reviewed in detail at least every three years in line with triennial valuations being carried out. However, changes to the valuation cycle (which have been subject to consultation) may occur in order to move the LGPS valuation cycle into line with those of the unfunded public service schemes at some point in the future.

GMPF will continue its approach of reviewing the FSS as part of the actuarial valuation process or whenever there is a material change in policy.

The FSS is a summary of GMPF's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact the GMPF Employers team in the first instance at **employersupport@gmpf.org.uk**.

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2. Purpose

2.1 Purpose of FSS

The statutory requirement to have an FSS was introduced in 2004. The then Office of the Deputy Prime Minister stated that the purpose of the FSS is:

- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible and to set contributions so as to ensure the solvency and long term cost efficiency of LGPS funds are met.**

- to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward and reflect the different characteristics of different employers in determining contribution rates; and to take a **prudent longer-term view** of funding those liabilities.

- These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the liabilities across the range of employers participating in GMPF.

2.2 Purpose of GMPF

GMPF is a vehicle by which LGPS benefits are delivered. GMPF:

- receives and invests contributions, transfer payments and investment income; and

- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the LGPS are summarised in the Annex.

2.3 Aims of the funding policy

The objectives of GMPF's funding policy include the following:

- to ensure the long term solvency of GMPF as a whole and the solvency of each of the notional sub-funds allocated to individual employers.

- to ensure that sufficient funds are available to meet all benefits as they fall due for payment.

- to ensure that employers are aware of the risks and potential returns of the investment strategy.

- to help employers recognise and manage pension liabilities as they accrue, with consideration as to the effect on the operation of their business where the Administering Authority considers this to be appropriate.

- to try to maintain stability of employer contributions.

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

- to maintain the affordability of GMPF to employers as far as is reasonable over the longer term.

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3. Target funding and calculation of contribution rates

3.1 Target funding levels

GMPF's funding target for most ongoing employers is a 'funding level' of 100 per cent at the end of an appropriate time horizon, calculated using the Actuary's *ongoing funding basis* (see section 3.2 below). The funding level is the ratio of the value of assets compared to the present value of the expected cost of meeting the accrued benefits.

3.2 Ongoing funding basis

3.2.1 Demographic assumptions

The demographic assumptions are intended to be best estimates of future outcomes within GMPF as advised by the Actuary, based on past experience of GMPF and other pension funds. It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in longevity, is uncertain, particularly in the aftermath of the Covid-19 pandemic. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of GMPF and the statutory guarantee underpinning members' benefits. The demographic assumptions vary according to individual member characteristics and so reflect the different member profiles of employers.

3.2.2. Financial assumptions

The key financial assumption for setting the funding target is the anticipated return on GMPF's investments. Given the long term nature of the liabilities, a long term view of prospective returns from growth seeking assets is taken. In setting this assumption, the Actuary has modelled the annual returns over the next 20 years on GMPF's investment portfolio under 5,000 different economic scenarios. The investment return assumption has then been set such that at least 75 per cent of the scenarios produce a return in excess of the investment return assumption. There is, however, no guarantee that GMPF's assets will out-perform the investment return assumption. 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 the 2022 valuation, the assumption is that GMPF's investments will deliver an average return of 1.8 per cent a year in excess of the yield available on fixed interest UK Government Bonds.

Pensions in payment, deferment and the pensions of active members accrued since 1 April 2014 increase in line with the Pensions Increase Order, as set out in the Pensions (Increase) Act 1971, which is currently pegged to the Consumer Price Index (CPI). The assumption for future increases in CPI is set using the Bank of England's inflation curve, with adjustments made to reflect the expected differences in the Retail Prices Index (RPI) and CPI in future.

Salary growth is generally becoming a less material assumption due to the move to a career-average benefit structure in the LGPS from 1 April 2014, however, the McCloud judgement has effectively extended accessibility to final salary benefits to 2022 for a subset of the members. For the 2022 valuation, long term salary growth is assumed to be consistent across all employers and equal to the future increases in CPI plus 1.0 per cent p.a.

The same assumptions are adopted in the calculation of the funding target for the majority of employers. The anticipated future return on investments and CPI assumption may vary from those set out above for employers who no longer admit new entrants to GMPF, employers planning to exit the Fund or employers who follow different investment strategies.

3.3 Funding targets for non-typical employers

For admission agreements that are closed to new entrants (and in particular those with no guarantor), or for employers planning to exit the Fund, liabilities may be valued on a more prudent basis (ie using a lower investment return assumption). The target in setting contributions for any employer in these circumstances is to achieve full funding on an appropriate basis by the time the agreement terminates or the last active member leaves active service in order to protect other GMPF employers. This policy will typically increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

Please refer to Section 4 for the treatment of exiting employers.

GMPF may also adopt the above approach in respect of admission bodies with no guarantor but where there is no immediate expectation that the admission agreement will cease. The Actuary agrees the financial and demographic assumptions to be used for each such employer with the Administering Authority.

3.4 Asset share calculations for individual employers

The Administering Authority does not formally account for each employer's assets separately. However, with effect from 31 March 2013, GMPF has operated a system of 'unitisation' where GMPF's assets are apportioned between employers on a monthly basis using contribution and benefit expenditure figures for each employer. This process also adjusts for transfers of members' assets and liabilities between employers participating in GMPF. The methodology adopted means that there will still be some differences between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of GMPF. However, this is greatly reduced compared to the 'analysis of surplus' method that was used previously.

As part of previous valuation processes, the Administering Authority's internal audit function has provided assurance on the operation of the unitisation system.

3.5 Derivation of employer contributions

Under the Regulations in force the Actuary is required to prepare a **rates and adjustment certificate** specifying:

a. the primary rate of the employer's contribution.

b. the secondary rate of the employer's contribution.

For each year of the period of three years beginning with the 1 April in the year following that in which the valuation date falls (ie 1 April 2023 to 31 March 2026 in the case of the 2022 actuarial valuation).

The primary rate of an employer's contribution is equivalent to the cost of future benefits being accrued. The primary rate is calculated separately for all employers participating in GMPF. This is expressed as a percentage of the pay of their employees who are active members of GMPF.

The secondary rate of an employer's contributions is any percentage or amount by which, in the Actuary's opinion, contributions at the primary rate should be increased or reduced by reason of any circumstances specific to that employer, for example any additional contributions required to recover a deficit. The sorts of specific factors which are considered are discussed in Section 3.6.

Employers (other than those employers that have entered into deferred debt agreements and do not have a primary rate) are required to pay the total of the primary rate and the secondary rate. This is referred to as the 'total employer contribution rate'.

In calculating the total employer contribution rate the Actuary must have regard to:

a. The existing and prospective liabilities arising from circumstances common to all those employers.

b. The desirability of maintaining as nearly constant a common rate as possible.

c. The current version of the Administering Authority's Funding Strategy Statement.

d. The requirement to secure the solvency of the pension fund and long term cost efficiency.

It is noted that securing solvency and long term cost efficiency is a regulatory requirement whereas a constant contribution rate remains only a desirable outcome.

For some employers it may be agreed by all relevant parties to pool contributions (see section 3.9.5.)

3.6 Risk-based contribution rates

The Actuary will need to assess the risk associated with the proposed contribution rate. Risk in this context means the likelihood that the employer will not achieve their funding target by the end of an appropriate time horizon with regard to the characteristics of the employer.

The GMPF Actuary will be using a 'risk-based' approach, which allows for thousands of possible future economic scenarios, when assessing the likelihood of contributions being sufficient to meet both the accrued and future liabilities over a given time horizon for each employer.

Setting contribution rates using a risk-based approach requires GMPF and the Actuary to consider for each employer:

a. The employer's funding target (see sections 3.1-3.3 above).

b. How long the employer has to reach the funding target (the 'time-horizon' – see Section 3.9.2 below).

c. An appropriate likelihood of meeting the funding target by the end of the time horizon (likelihood of success) eg 75 per cent.

Setting an appropriate likelihood for each employer requires an analysis of the risk posed to GMPF. Factors considered include:

- Individual employer liability profile including funding level, net cashflow (ie contributions received less benefits paid) and whether new members are being admitted;
- Individual employer security provided to GMPF in the form of a guarantee or an additional asset.
- The sector in which the employer operates and/or the financial strength of the employer, which may influence an employer's ability to make good any deficit which may arise in future.

More detail on the calculation of contribution rates is provided in the Actuary's report on the valuation.

Contribution rates will include expenses of administration to the extent that they are borne by GMPF.

3.7 Presentation of employer contribution rates

Contribution rates are expressed as a per cent of pensionable salary for most employers. The Administering Authority may choose to specify that part of the contributions are payable as periodic lump sum cash amounts. This approach is generally applied for employers where the workforce/payroll is expected to decline in order to ensure sufficient contributions are made towards repaying any deficit.

Employers' contributions are expressed as a minima, with employers able to pay additional contributions should they wish to do so. In addition, some employers may be permitted to pay contributions in advance of the date on which they would otherwise be due (see Section 4.7). Employers should discuss with the Administering Authority before electing to make one-off capital payments.

3.8 Allowance for early retirements

Under the LGPS Regulations 2013, section 35, an LGPS member whose employment is terminated on the grounds of ill health, or infirmity of mind or body, before that member reaches normal pension age, is entitled to, and must take, early payment of a retirement pension if that member satisfies the necessary conditions.

These 'ill health retirements' can give rise to significant unexpected additional costs. The trend in recent years has been for the relative frequency of these occurrences to decrease, but where they do occur, the costs have increased.

Therefore, to protect employers from incurring potentially unaffordable costs, GMPF has an internal 'insurance-type' arrangement to meet the cost of ill health retirements. This internal insurance arrangement has been in operation since 1 April 2020 for certain participating employers. Any ill health retirement costs that occur are funded through the insurance, with these costs split amongst participating employers via a charge to asset shares (see Section 3.4) on a monthly basis.

Unless otherwise agreed with the Administering Authority, for employers that do not participate in the ill health insurance arrangement, the cost of all ill health early retirements are met by separate lump-sum employer contributions.

Other forms of early retirements, such as retirements on the grounds of redundancy as per section 30(7) of the LGPS Regulations, are met by lump sum payments. Larger employers may request to have an allowance for early retirements built into their contribution rates.

Costs in excess of the allowances are required to be met immediately by separate lump-sum employer contributions. Any unspent allowances are reflected within each employer's asset-share.

3.9 Solvency and long term cost efficiency

3.9.1 Solvency issues and target funding levels

Under Section 13(4)(c) of the Public Service Pensions Act 2013, The Government Actuary's Department (GAD) (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund and long term cost efficiency. The definitions of these terms in the CIPFA guidance are provided in Section 7.

In developing the funding strategy, and in particular, the level of solvency being targeted for each employer, the Administering Authority has had regard to the potential outcomes of the subsequent review under Section 13(4)(c) and has considered the implications for its Key Performance Indicators as determined by the Scheme Advisory Board in England and Wales.

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the GMPF. With this in mind, there are a number of strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:

- Use of extended time horizons (see section 3.9.2).
- Phasing in of contribution increases / decreases (see section 3.9.3– 3.9.4).
- The pooling of contributions amongst employers with similar characteristics and/or a community of interest (see section 3.9.5).

In addition to these strategies for improving the stability of employer contributions, the Administering Authority may, at its absolute discretion, permit greater 'flexibility' around the employer's contributions provided that the employer has provided additional 'security' to the satisfaction of the Administering Authority. Such greater 'flexibility' may include setting contribution rates assuming a reduced likelihood of meeting the target funding position and/or an extended time horizon, or permission to join a pool with other employers. Additional 'security' may include, but is not limited to, provision of a suitable financial bond, a legally-binding guarantee from an appropriate third party, or security over an employer owned asset of sufficient value.

The degree of greater 'flexibility' extended to a particular employer is likely to consider factors such as:

- the funding position of that employer's section of GMPF
- the amount and quality of the security offered
- the employer's financial security and business plan
- whether the admission agreement is likely to be open or closed to new entrants.

Including investment income, GMPF currently has positive net cash flow. Therefore, GMPF can take a medium to long term view on determining employer contribution rates to meet future liabilities through operating an investment strategy that reflects this long term view. This allows short term investment markets volatility to be managed in order to reduce volatility in employer contribution rates.

3.9.2 Appropriate time horizons

Following discussion with the Administering Authority, the actuary adopts specific time horizons for employers to achieve their funding target when calculating their contributions.

The Government Actuary's Department monitors compliance with Section 13 of the Public Service Pensions Act 2013 on behalf of the Department for Levelling Up, Housing and Communities and has placed some restraints on the ability of the Administering Authority and actuary to set time horizons under certain circumstances. In particular, the Government Actuary's Department has set an expectation that employer contributions should not reduce unless time horizons are also reducing.

The time horizon starts at the commencement of the revised contribution rate (1 April 2023 for the 2022 valuation). For employers that continue to admit new entrants, the Administering Authority would normally expect to follow the principles set out by the Government Actuary's Department, but reserve the right to propose alternative periods,

Type of employer	Maximum length of time horizon
Employers listed under Part 1 or Part 2 of Schedule 2 to the 2013 LGPS Regulations (generally Statutory Bodies with tax raising powers and other Government 'supported' employers)	a period not exceeding 20 years
Admission Bodies with funding guarantees, subject to the approval of the Administering Authority or agreement of the guarantor	a period not exceeding 20 years
Admission Bodies with time limited contracts	the period from the start of the revised contributions to the end of the employer's contract or as otherwise determined by the Administering Authority in consultation with the awarding authority letting the contract or the guarantor (if different)
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members or such other period approved by the Administering Authority.

3.9.3 Phasing in of contribution rises and reductions

The Administering Authority may elect to phase in any material changes to contribution rates. Phasing in periods will be influenced by the perceived credit worthiness of the employer.

3.9.4 The effect of opting for longer spreading or phasing in

Employers in deficit that are permitted to use a longer time horizon, or to phase-in contribution changes, will be assumed to incur a greater loss of investment returns due to the fact that their assets will build up at a slower rate by opting to defer repayment. Thus, deferring the payment of contributions is expected to lead to higher contributions in the long term (depending on the actual performance of GMPF relative to valuation assumptions).

3.9.5 Pooled contributions

The Administering Authority has historically allowed employers to agree to pool their contributions as a way of sharing experience and smoothing out the impact of experience on contribution rates.

Each of the ten Greater Manchester local authorities are the major employers in pools containing certain related employers. In addition, separate pools are operated for employers providing probation services, some academy schools, colleges, town and parish councils and for smaller admission bodies. Upon a new employer joining GMPF, consideration is given by the Administering Authority and the relevant local authority on the appropriateness of joining a local authority pool.

For clarity, unless otherwise agreed, pooling operates on the following basis:

- Schedule 2 Part 3 [1d (i)] employers (formerly referred to as Transferee Admission Bodies) are pooled with their awarding authority.
- For all other Schedule 2 Part 3 [1] employers (formerly referred to as Community Admission Bodies) pooling is determined via discussion between the Administering Authority, the new employer and the ceding employer.
- For new academy schools or schools moving between multi-academy trusts, pooling is determined via discussion between the Administering Authority and the multi-academy trust.

Those employers that have been pooled are identified in the Rates and Adjustments Certificate which is detailed in the 31 March 2022 Actuarial Valuation report (finalised in March 2023).

Employers are not generally permitted to discontinue participation in a pooling arrangement. A possible exception is academy schools which move to a new or existing multi-academy trust or where the Administering Authority agrees to allow a multi-academy trust to consolidate its participations inside or outside one or more pools. Any other employers who do not wish to continue with current/historic pooling arrangements should contact the Administering Authority to discuss the circumstances of their request. Where an employer discontinues participation in a pooling arrangement, all liabilities attributed to their active, deferred and pensioner members are assumed to transfer to their new arrangement.

3.10 Proposed approach to valuation to reflect cost management process and McCloud judgement

Explanations and information about the Cost Management process and the McCloud case can be found on the Scheme Advisory Board website (on the links below):

https://lgpsboard.org/index.php/projects/cost-management

https://lgpsboard.org/index.php/structure-reform/mccloud-page

To remedy the issues arising from the McCloud case Government introduced the Public Service Pensions and Judicial Offices Act 2022. The 2022 Act has, as of writing, 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 ten 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 Administering Authority will utilise these assumptions as advised by DLUHC. However, given that changes to the cost management process and McCloud are not settled and could change after publication of this FSS, GMPF may elect to reassess whether any of the above measures were sufficient and may review rates as necessary prior to the publication of the Actuary's report on the 2022 valuation or under such statutory guidance or provision in regulation as may be available at that time (please see section 4.7 - Interim Valuations).

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4. Other aspects of Funding Strategy

4.1 Background

In addition to the collection of regular contributions from employers, GMPF will seek additional contributions from employers in certain circumstances in order to maintain the solvency of GMPF and protect the interests of other employers.

Moreover, following recent amendments to the LGPS Regulations, GMPF may pay an exit credit to employers in certain circumstances. The circumstances in which an exit credit may be paid and the determination process are set out in Appendix 1 of the Funding Strategy Statement.

The Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk consultation was released on 8 May 2019. The consultation asked Administering Authorities about amending valuation cycles and introducing a series of new Administering Authority powers. The aforementioned consultation paved the way for the introduction of three new employer flexibilities: interim valuations to allow for the adjustment of employer contribution rates, the ability to spread exit payments and the ability to enter into deferred debt agreements.

Further detail on the employer flexibilities is contained in Appendix 2 of the Funding Strategy Statement. The appended policy clarifies how and when the Administering Authority will utilise its powers to conduct interim valuations, spread exit payments and enter into deferred debt agreements.

4.2 Exiting employers

4.2.1 Admission bodies

Under the LGPS Regulations currently in force, an admission body is assumed to become an 'exiting employer' under Regulation 64 of the 2013 LGPS Regulations on the termination of its admission agreement.

Admission agreements are assumed to terminate for any of the following reasons unless otherwise agreed by the Administering Authority:

- The end of the contract (outsourced contractors only).
- Last active member ceasing active membership in GMPF.
- The insolvency, winding up or liquidation of the admission body.

- Any breach by the admission body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Administering Authority.
- A failure by the admission body to pay any sums due to GMPF within the period required by the Administering Authority.
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm an appropriate alternative guarantor as required by GMPF.

In addition, either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (and the guarantor to the admission agreement where relevant).

4.2.2 Other employers

An employer that is not an admission body may also become an exiting employer, for example as a result of the employer's last active member ceasing active membership in GMPF. However, the Administering Authority has the discretion to suspend the requirement for an exit payment (see 4.2.3. below) in specific circumstances where the relevant employer is likely to subsequently employ an active member within a period of no more than three years. A deferred debt agreement may also be entered into at the discretion of the Administering Authority (see Appendix 2).

4.2.3 Exit payments

If an employer becomes an exiting employer under Regulation 64 of the 2013 LGPS Regulations, the Administering Authority must instruct the Actuary to carry out a special valuation to determine whether an exit payment is required from the employer or an exit credit may be due to the employer.

The Administering Authority must look to protect the interests of other ongoing employers and will adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future.

In order to protect other employers in the Fund, the cessation liabilities will be calculated using a 'gilts cessation basis' with no allowance for potential future investment outperformance. Additional allowances may be made relative to the funding basis for other areas of material uncertainty, including, but not limited to, inflation, longevity, exceptional market volatility around the cessation date and future benefit changes. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

Where there is a guarantor to the exiting employer's admission agreement, it is possible that any deficit could be transferred to the guarantor. In some cases, particularly for Admission Bodies providing services under contract, the admission agreement may specify that all of the assets and liabilities in the admission body's sub-fund within GMPF will return to the sub-fund of the guarantor without needing to crystallise any deficit or surplus.

In other cases, the admission agreement may require the Administering Authority to seek repayment of the termination deficit from the exiting employer (or from any security that was in place) with any unpaid amounts then falling due on the guarantor. In such cases, a discussion may be held with the guarantor prior to the Administering Authority determining the most appropriate basis and timing of any deficit payments.

In all cases, GMPF's default position is that any termination deficit would be levied on the exiting employer as an immediate capital payment. GMPF may enter into a deferred debt agreement or offer spread exit payments as an alternative to a full immediate capital payment in line with the terms and conditions established in Appendix 2.

In the event that GMPF is not able to recover the required payment in full directly from the exiting employer or from any bond, indemnity or guarantor, then:

a. In the case of Admission Bodies providing services under a contract the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period;

b. In the case of employers that are not providing services under contract and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

Until the outcomes of the Cost Management process/McCloud (see section 3.10) are known the GMPF actuary will include an estimate of the potential impact when calculating exit payments or credits.

4.2.4 Exit credits

If an employer becomes an exiting employer under Regulation 64 of the 2013 LGPS Regulations (as amended) whilst its sub-fund in GMPF is in surplus, as identified in the cessation valuation, it may be entitled to receive an exit credit.

Appendix 1 - GMPF's 'Policy and process for exit credit payments' outlines in detail the Administering Authority's approach to exit credits.

4.3 Employers with no remaining active members and no further obligation to contribute

In most circumstances, an employer exiting GMPF due to the departure of the last active member, will make an exit payment (or receive an exit credit) on an appropriate basis and consequently have no further obligation to GMPF. In addition, some employers may make an exit payment following the expiry of a deferred debt agreement. Thereafter it is expected that one of two situations will eventually arise:

a. The employer’s asset share runs out before all its ex-employees’ benefits have been paid. In this situation the remaining liability would be apportioned pro-rata by the Actuary to the other GMPF employers when the last ex-employee or dependent dies.

b. The last ex-employee or dependant dies before the employer’s asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Actuary to the other GMPF employers.

4.4 Early retirement costs

In the valuation process, it is assumed that active and deferred members' benefits on retirement will be payable from the earliest age that the member could retire without incurring a reduction to their benefits and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age (or enhanced on ill health grounds) are deemed to have retired 'early' and the expected cost of providing that member’s benefits will increase.

Any additional lump sum contributions which are required to be made by the employer under Section 3.8 arising from early retirements become due immediately upon the award of an early retirement.

GMPF monitors early retirement experience compared to the allowances described in section 3.8 on an ongoing basis. This information is used to determine any necessary lump-sum employer contributions.

4.5 Policies on bulk transfers

From time to time GMPF makes or receives a bulk transfer of members’ accrued benefits from other LGPS funds or other occupational pension schemes ('external' transfer).

GMPF also undertakes ‘internal’ bulk transfers, where the liabilities in respect of a group of members transfer from one employer to another. For internal transfers, the amount of assets is determined by actuarial factors provided by the Government Actuary’s Department (GAD), with the exception of employers that are funded using a more prudent approach. For these employers the Administering Authority and actuary will seek to use an approach consistent with the Funding Strategy as it applies to those employers.

For external transfers, each case will be treated on its own merits, but in general:

- GMPF will seek the most cost effective method of transfer to keep professional and administration costs as low as possible.

- Where only active members transfer and the employer will remain an active participant in the fund, GMPF will usually pay a bulk transfer amount equal to a cash equivalent transfer value based on factors issued by the Government Actuary’s Department, adjusted by actual or estimated investment returns from the transfer date to the payment date.

- When only active members transfer, and an exit event is triggered (ie the transferring employer will no longer have any active membership) then the transfer amount may be limited by the need for GMPF to meet the liabilities of any ex-employees of the employer;

- Where the entirety of an employer's membership transfers (as to extinguish their liability in the fund), GMPF will usually pay a bulk transfer amount equal in value to the employer's asset share as at the transfer date, adjusted by actual or estimated investment returns from the transfer date to the payment date. Where the employer participates in a funding pool, the asset share will be capped such that the funding level of the funding pool is unchanged at the transfer date.

- GMPF may permit shortfalls to arise on bulk transfers if the employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to increase between valuations.

4.6 Pay awards in excess of assumptions made by the Actuary

Some admission agreements state that GMPF reserves the right to seek additional contributions from admission bodies if pay awards have been in excess of the rate assumed by the Actuary at previous actuarial valuations. Prior to seeking any such payment GMPF will consult the relevant guarantor to the admission agreement.

4.7 Advanced payment of employer pension contributions

GMPF allows for larger strategic employers to pay in advance their employer pension contributions in exchange for a discount on their employer contribution rate. Assuming that investment returns are in line with actuarial assumptions over the triennial period, the advanced payment of contributions should generate additional investment returns over and above the returns that would be generated by paying employer contributions monthly.

These advanced payments can be arranged either as a three-year prepayment where employer contributions are paid for the entire triennial period in April 2023 or as one-year prepayments where employer contributions are paid only one year in advance in April 2023, 2024 and 2025. The greater the advanced payment period the greater the discount to employer contribution rates in line with actuarial assumptions over the triennial period.

The option to pay employer contributions in advance is not without risks and participating employers must be aware of the following risks:

- Investment returns are inherently uncertain and if investment returns underperform actuarial assumptions employers are likely to be worse off paying in advance than paying monthly.

- To allow for advanced payment of employer contributions it is necessary to make assumptions about an employer's pensionable pay over the period of the advanced payment. If an employer's pensionable pay is larger vis-à-vis the assumption made, the employer will need to make an additional payment of employer contributions at the end of the scheme year to make good on the shortfall between the assumed pensionable pay and actual pensionable pay.

- In instances where pensionable pay is lower than the assumption made for the advanced payment period it will not be possible to refund the excess of the advanced payment.

- Employers will still be responsible for collecting monthly employee pension contributions and will be expected to submit monthly data in accordance with the Pensions Administration Strategy.

The Administering Authority offers advanced payments at its absolute discretion and will only be considered for employers with a sizeable number of contributing members.

4.8 Subsumption of assets and liabilities

A participating employer may wish to approach another employer to request that they subsume their share of assets and liabilities. The subsumption of assets and liabilities is usually conducted to clear the way for an employer to cease participation in GMPF. The Administering Authority will only allow an employer to subsume another employer's assets and liabilities at its absolute discretion and only after considering the relevant facts.

The Administering Authority would need to see evidence of the following in order to agree to any subsumption requests:

- Justification as to why assets and liabilities must be subsumed by another employer as opposed to other options for ceasing participation or restructuring arrangements within GMPF.

- Clear and informed consent from all parties involved. Typically, the employer subsuming the liabilities of another employer is the guarantor, where that is not the case the guarantor, if one exists, will need consulting and will have to support the request.

- That the receiving employer is capable of receiving the transferred assets and liabilities, and will be able to meet all future liabilities as they fall due. The Administering Authority will not allow employers to substantially increase their share of assets or liabilities by way of subsumption if it increases the likelihood that an employer will not be able to meet their ongoing funding obligations.

- The subsumption of assets and liabilities should not be detrimental to other employers. For example, an employer in a pooled arrangement will not be allowed to subsume another employer's assets and liabilities if this will adversely impact other employers in the pool.

In all instances, an employer considering taking on another employer's assets and liabilities via subsumption will need to be aware that the Administering Authority will treat the transferred assets and liabilities as if they were always their own. Any relationship the Administering Authority might have had with the previous employer will cease and the employer who subsumed the assets and liabilities will be held responsible for funding the liabilities thereafter.

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5. Links to investment strategy

The funding and investment strategy are inextricably linked. The investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

5.1 Investment strategy

The investment strategies currently being pursued are described in GMPF's Investment Strategy Statement

The investment strategy (for the GMPF 'Main Fund') is reviewed annually, to ensure that it remains appropriate to the relevant liability profile and takes account of major movements in market valuations. The Administering Authority has adopted a Main Fund benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2022, the proportion to be held in equities and property was broadly 75 per cent of the total Main Fund assets.

The investment strategy of lowest risk would be that which provides cash flows which replicate the expected benefit cash flows (ie the liabilities). This strategy informs policy for part of GMPF where liabilities are mature and employers have agreed such an approach.

The Main Fund's benchmark includes a significant holding in growth-seeking assets such as equities in the pursuit of long term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities relevant to the Main Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for most employers covered by the Main Fund. The Administering Authority can discuss with employers the feasibility of pursuing a more cautious investment strategy than the Main Fund norm. It should be noted there are a small number of employers, with specific characteristics, where lower risk strategies have been put in place.

5.2 Consistency with funding basis

For employers covered by the Main Fund, the funding basis adopts an investment return assumption such that there is at least a 75 per cent likelihood the Main Fund investment strategy will deliver the assumed return over 20 years. As at 31 March 2022, this is assumed to be an average return of 1.8 per cent a year in excess of the yield available on UK Gilts.

The Main fund's current investment strategy is broadly 75 per cent held in real assets and 25 per cent in monetary assets. For employers who have or are closing to new entrants, are planning on exiting the Fund or are pursuing a more cautious investment strategy than the Main Fund, the investment return assumption may be derived using a different approach as appropriate. Both the Actuary and the investment adviser to GMPF consider that the funding basis fulfils the requirement to take a 'prudent longer-term' approach to funding.

The Administering Authority is aware that in the short term – such as the three yearly assessments at formal valuations – the proportion of the assets invested in growth seeking assets brings the possibility of considerable volatility and there is a material chance that in the short term, and even the medium term, asset returns will fall short of the investment return target or benefit increases will be greater than assumed CPI. The stability measures described in Section 3 will reduce the impact, but not remove, the effect on employers' contributions.

GMPF does not hold a contingency reserve to protect it against the volatility of investments. GMPF conducts continual monitoring of investment performance across funds, managers and asset classes to ensure a modicum of protection to GMPF's funding position from investment volatility. Unfortunately, it is not possible to eliminate volatility entirely as there is an inherent risk in investment.

5.3 Balance between risk and reward

Prior to implementing its current investment strategies, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher returning, but more volatile asset classes, like equities. This process was informed by the use of asset-liability techniques to model the range of potential future solvency levels and contribution rates.

Being mindful of the sensitivity of individual employers' contributions to changes in investment returns, the Administering Authority continues to review the feasibility of implementing more bespoke investment strategies for individual employers or groups of employers. Enabling other investment strategies will require an increase in the number of investment mandates and potentially higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies need to be assessed against the costs.

5.4 Inter-valuation monitoring of funding position

The Administering Authority monitors investment performance on a quarterly and annual basis. There is also detailed monitoring of additional liabilities arising from early and ill-health retirements, the costs of which are met by employers. In addition, the Actuary routinely assesses the funding position, taking account of elements of actual experience compared to the financial assumptions underlying the valuation.

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6. Key risks and controls

6.1 Types of risk

The Administering Authority has an active risk management policy in place that is continually classifying, monitoring and managing risk. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic
- regulatory
- governance
- environmental.

6.2 Financial risks

Risk	Summary of control mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long term	Only anticipate long term return on a relatively prudent basis to reduce under-performing. Analyse progress at each formal actuarial valuation (for all employers). Use of interim valuations to monitor funding levels.
Inappropriate long term investment strategy	Set GMPF-specific benchmark, informed by asset-liability modelling of liabilities. Examine scope for extending employer-specific investment strategies. Annual review of investment strategy incorporates consideration of alternative approaches.

Risk	Summary of control mechanisms
Active investment manager under-performance relative to benchmark	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. GMPF has a manager monitoring framework. Regular reporting to employers describes Main Fund performance. If appropriate, the Actuary will be asked to evaluate the implications.
Pay and price inflation significantly higher than anticipated	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds, particularly index-linked bonds, also helps to mitigate this risk. Employers pay for the impact of their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies	Seek feedback from employers on scope to absorb short term contribution rises. Mitigate impact through time horizons, probabilities of achieving funding targets and phasing in of contribution rises. Consult employers on possibility of paying more (extra administration and higher regular contributions)
Orphaned employers give rise to added costs for the Fund	The Fund seeks an exit payment (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.

6.3 Demographic risks

Risk	Summary of control mechanisms
Longer life expectancy	Set mortality assumptions with some allowance for future increases in life expectancy. Actuary monitors experience of a large sample of pension funds when setting assumptions and makes allowance for the location and lifestyle of GMPF's membership.
Deteriorating patterns of ill health and other early retirements	GMPF has an ill health insurance arrangement whilst other employers have an allowance to meet the strains that arise from ill health early retirement costs. Early retirement experience and its financial impact are measured on an ongoing basis.

6.4 Regulatory risk

Risk	Summary of control mechanisms
Changes to regulations, eg more favourable benefits package, potential new entrants to scheme, eg part time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.*
Changes to national pension requirements and/or HM Revenue and Customs rules eg arising from Public Sector Reform	The Administering Authority considers all consultation papers issued by DLUHC/HM Treasury and comments where appropriate. It will consult employers where it considers that it is appropriate. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions. Copies of submissions are available for employers to see at www.gmpf.org.uk The Administering Authority is monitoring the progress on any settlement as a result of the McCloud ruling and its interaction with the Cost Management process and will consider an interim valuation or other appropriate action once more information is known. Explicit allowance has been made in Employer funding plans to help manage the potential effects of McCloud.

6.5 Governance risk

Risk	Summary of control mechanisms
Administering Authority unaware of structural changes in an employer's membership (eg large fall in employee members, number of retirements).	The Administering Authority monitors membership movements on an annual basis, via a report from the administrator to the Pension Fund Management Panel. The Administering Authority and Actuary will be involved in actioning any bulk transfer of members from an employer's sub-fund and will consider any subsequent risks.
Administering Authority not advised of an employer closing to new entrants.	The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 64) between triennial valuations. Secondary contributions may be expressed as monetary amounts (see Actuarial Valuation report).
Administering Authority failing to commission the Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers with Admission Agreements to inform it of forthcoming changes. It also operates a diary system to alert it to the forthcoming termination of Admission Agreements due to the ending of contracts.

Risk	Summary of control mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • Seeking a funding guarantee from another scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Offering lower risk investment strategies – with higher employer contributions in the short term - to reduce the risk of investment under performance and a significant debt crystallising on termination.

6.6 Environmental Risk

Risk	Summary of control mechanisms
Failure to meet climate change transition objectives.	GMPF has set itself the objective for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement including appropriate interim targets to ensure continual progress. Quarterly ESG reporting to the GMPF Management Panel to ensure progress, alongside annual reporting to Taskforce for Climate Related Financial Disclosure. GMPF has a Responsible Investment policy which sets out GMPF's approach to climate change to ensure that sustainable investing is achieved. Governing Body members are provided training on climate change and other ESG risks which helps guide and inform top level decision making.
Effect of possible asset underperformance as a result of climate change.	Explicitly consider ESG issues when setting the overall funding and investment strategies. Carry out scenario testing on potential Government policy changes when evaluating funding and investment strategies to ensure ESG, and in particular, climate change are considered when taking decisions in respect of GMPF's long term strategies.

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7. Definitions

Solvency

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at 'such 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 per cent funded at all times. Rather, and for 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 per cent 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 per cent; 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.

Long term cost efficiency

The notes to the Public Service Pensions Act 2013 state that '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, GAD may have regard to the following considerations.

- The implied average deficit recovery period.
- The investment return required to achieve full funding over different periods eg the recovery period.
- If there is no deficit, the extent to which the amount of contributions payable is likely to lead to a deficit arising in the future.
- 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.

END OF MAIN BODY OF FSS

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Annex

The administering authority should:

- operate GMPF as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a GMPF employer;
- collect employer and employee contributions, and investment income and other amounts due;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from GMPF the relevant benefits and entitlements that are due;
- invest surplus monies (ie contributions and other income which are not immediately needed to pay benefits) in accordance with GMPF's Investment Strategy Statement) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to GMPF;
- take appropriate measures to safeguard GMPF against the consequences of employer default;
- manage the valuation process in consultation with GMPF's actuary;
- prepare and maintain a FSS and an ISS, after consultation;
- notify the Actuary of material changes which could affect funding; and
- monitor all aspects of GMPF's performance and funding and amend the FSS/ISS as necessary and appropriate.

The individual employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the Actuary, promptly by the due date;
- have a discretions policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreements in respect of, for example, augmentation of scheme benefits, early retirement strain;
- notify the Administering Authority promptly of all proposed material changes to membership or legal status which affect future funding; and
- submit all data in accordance with the Pensions Administration Strategy.

The Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide advice relating to new employers in GMPF, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

- advise on the termination of Admission Bodies' participation in GMPF;

- advise on the usage of employer flexibilities; and

- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

Other parties:-

- investment advisers (either internal or external) may be asked to assist in ensuring that GMPF's ISS remains appropriate, and consistent with this FSS;

- investment managers, Northern Pool, custodians and bankers will typically all play their part in the effective investment (and dis-investment) of GMPF assets, in line with the ISS;

- auditors will comply with their auditing standards and sign off annual reports and financial statements as appropriate;

- the Local Pensions Board will review the valuation process and funding strategy and ensure they comply with the regulations and relevant guidance.

- The LGPS Scheme Advisory Board and the Government Actuary will also review GMPF's funding strategy as part of their monitoring of the LGPS as a whole.

END OF ANNEX

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Funding Strategy Statement

December 2022

Appendix 1

GREATER MANCHESTER PENSION FUND (GMPF) POLICY AND PROCESS FOR EXIT CREDIT PAYMENTS

December 2022

1. Introduction

The Local Government Pension Scheme (Amendment) Regulations 2020 (Amendment Regulations), which came into force on 20 March 2020, amended regulation 64 of the Local Government Pension Regulations 2013 (2013 Regulations). Pursuant to the 2013 Regulations, GMPF must determine the amount of any exit credit payable to an employer who ceases to participate in the LGPS (an exiting employer).

The Amendment Regulations have effect from 14 May 2018, but do not apply to any exit credits that have been paid on or after 14 May 2018 and before 20 March 2020. Any exit credits arising during this period but which have not yet been paid will be determined in line with the 2013 Regulations, as amended.

GMPF aims to take a consistent approach between employers and this document therefore sets out the process GMPF will follow when exercising its discretion to determine the amount of any exit credit payable.

2. Exit valuation

GMPF will obtain from its actuary the following documents when an employer ceases to employ active members of GMPF and becomes an exiting employer:

a. An actuarial valuation as at the exit date of the liabilities of GMPF in respect of benefits in respect of current and former employees of the exiting employer;

b. A revised rates and adjustment certificate which will show whether there is an excess of assets in the fund relating to an exiting employer over any liabilities as set out in (a) above; and

c. Any other information or confirmation required by GMPF to allow it to make a determination, as set out in paragraph 4 below.

The calculation basis used will be as set out in GMPF's Funding Strategy Statement.

If the revised rates and adjustment certificate shows there is an exit payment due, GMPF will follow its usual process to recover this from the exiting employer.

If it is determined that there is an excess of assets, GMPF will follow the decision process set out below.

3. Notification

GMPF will notify its intention to make a determination on the amount of any exit credit (which may be zero) to the exiting employer and it will also notify any other body that has provided a guarantee to the exiting employer. Where the exiting employer is an admission body (under paragraph (1)(d) of Part 3 of Schedule 2 of the 2013 Regulations), the scheme employer in connection with that body shall also be notified.

GMPF will provide a copy of this policy to any exiting employer or body which is sent a notification under this paragraph.

4. Determining the amount of an exit credit

GMPF will have regard to the following factors when determining the amount of any exit credit, obtaining advice from its professional advisors as required:

- the extent of the excess of assets as set out in the revised rates and adjustment certificate;
- the proportion of this excess of assets which has arisen because of the value of the employer's contributions;
- any representations made to GMPF by the exiting employer and any person who funds, owns or controls the employer and/or provides a guarantee; and
- any other relevant factors.

Having taken into account the above factors, GMPF has discretion to determine that an exit credit is zero, even if there is an excess of assets in respect of an employer.

Representations

GMPF is unable to determine or pay an exit credit without all data and relevant information being provided by an exiting employer. Prior to determining any exit credit, GMPF will therefore provide an opportunity for any representations to be submitted in respect of the exit credit. The exiting employer (or relevant body) shall have a period of one month from the date of the notification referred to in paragraph 3 above to make any representations, unless otherwise agreed by GMPF.

Relevant factors and considerations

GMPF will take into account any relevant factors in relation to each exiting employer, at all times acting in accordance with its public law duties. The decision of GMPF when considering these factors is final. In addition to the matters set out above, these include, but are not limited to, the following:

- the exiting employer's obligations to GMPF, including under the relevant admission agreement, and its exposure to investment and funding risks whilst participating in GMPF. Where GMPF requests evidence from the exiting employer as to these matters, including as to any risk sharing agreements, it will take into account any evidence provided as requested and/or any failure by the exiting employer to do so;

- the methodology used to calculate the exiting employer's funding position when it initially commenced participating in GMPF (assuming this involved a transfer of assets and liabilities from another GMPF employer);

- the funding methodology adopted by GMPF during the exiting employer's participation and any changes in contribution rates during this period;

- the actuarial assumptions used by the Actuary in the exit valuation;

- whether the employer's participation in GMPF has terminated earlier than expected and, if so, the reasons for the early termination (eg if a previously outsourced service is returning in house);

- whether an employer had commenced participating in GMPF prior to the original exit credit regulations start date of 14 May 2018; and

- any outstanding contributions or other payments due to GMPF at the cessation date. GMPF will notify the exiting employer of any such sums and will deduct this from any exit credit if these remain outstanding at the payment date.

Where a situation arises that does not fit within the intended process, as set out in this document, GMPF will seek appropriate advice from its Actuary and/or legal advisors as required, and provide appropriate information to the affected parties as to how it intends to exercise its discretion.

5. Payment

GMPF will pay any exit credit determined in accordance with the process set out above within six months of the exit date, or such longer time as has been agreed between GMPF and the exiting employer.

Where information or data remains outstanding from an exiting employer (and its members) that results in GMPF being unable to determine or pay an exit credit, the exiting employer will be deemed to have agreed to extend this payment date.

6. Disputes

Should any dispute arise in respect of any exit credit determination, an exiting employer or relevant body (as set out within this document) should raise this through GMPF's internal dispute resolution procedure in the first instance.

7. Review

This policy will be reviewed at least every three years as part of the triennial valuation process or following any changes in the 2013 Regulations relating to exit provisions.

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Appendix 2

GMPF POLICY ON INTERIM VALUATIONS, SPREADING EXIT DEBTS AND DEFERRED DEBT AGREEMENTS

December 2022

1. Overview

1.1 On 23 September 2020 the Local Government Pension Scheme (LGPS) (Amendment No.2) Regulations 2020 came into force. These regulations introduced the following new powers for administering authorities:

- The ability to perform interim valuations under certain circumstances in order to adjust an employer's contribution rate.
- The option to spread employer exit debts instead of requiring the payment of an immediate lump sum exit payment.
- The ability to enter into deferred debt agreements with employers.

1.2 The introduction of the powers was intended to help administering authorities manage their liabilities, ensuring that employer contribution rates are set at an appropriate level and that exit debts are managed, with steps taken to mitigate risks, where appropriate.

1.3 There is no requirement on administering authorities to use any of the powers. The amendments to the LGPS Regulations 2013 made by the 2020 Amendment Regulations require that an authority only use the employer flexibilities where it has set out its policy in its Funding Strategy Statement (FSS). This is to ensure consistency and transparency.

1.4 This policy document, which forms part of Greater Manchester Pension Fund's (GMPF) FSS, sets out how GMPF intends to use each of these new powers. It has been drafted in accordance with the Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements issued by the Department for Levelling Up, Housing and Communities on 2 March 2021 and with regard to the more detailed accompanying guidance issued by the LGPS Scheme Advisory Board.

2. Interim valuation

Background

2.1 Under Regulation 62 of the LGPS Regulations 2013, each LGPS fund must undertake an actuarial valuation of its assets and liabilities every three years and obtain a rates and adjustment certificate, prepared by an actuary, setting out the contributions due from each participating employer.

2.2 Regulation 64 sets out that an interim valuation may be carried out and an adjusted rate set where an administering authority believes there are circumstances which will make it likely an employer will exit the fund. However, during the three year period between formal valuations there are other changes to an employer's circumstances which can result in the contribution rates set out in the rates and adjustment certificate no longer being appropriate to meet expected liabilities. An interim valuation in respect of an employer or group of employers may allow the contribution rates to be adjusted to an appropriate level in these wider circumstances.

2.3 The expansion of the administering authority's power to conduct interim valuations is established in Regulation 64(A) of the 2013 LGPS Regulations:

An administering authority may obtain a revision of the rates and adjustments certificate under Regulation 62 (actuarial valuations of pension funds) showing any resulting changes to the contributions of a Scheme employer or employers where –

a) the funding strategy mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on amending contributions between valuations; and

b) one of the following conditions applies –

   i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
   ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
   iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

In revising the certificate, an administering authority must -

a) consult the Scheme employer or employers; and
b) have regard to the views of an actuary appointed by the administering authority.

Circumstances in which GMPF may conduct an interim valuation

2.4 An interim valuation may be undertaken if the Administering Authority becomes aware of either of the following scenarios.

A. Significant change to an employer's liabilities
This includes but is not limited to the following scenarios:

a) Significant changes to an employer's membership which will have a material impact on its liabilities, such as:
   - i) restructuring of an employer
   - ii) a significant outsourcing or transfer of staff to or from another employer (not necessarily within GMPF)
   - iii) a bulk transfer into or out of the employer, or a transfer into or out of one of GMPF's funding pools (see Section 3.9.5 of the FSS)
   - iv) other significant changes to the membership for example due to redundancies, significant salary awards, early retirements or 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.

The Administering Authority will typically only consider undertaking an interim valuation if the change in liabilities is expected to be more than 20% of the total liability value measured at the previous triennial funding valuation.

B. Significant change to an 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 its obligations to GMPF.

b) Material change in an employer's immediate financial strength or longer term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

c) GMPF becoming (or ceasing to be) subordinate behind other creditors of the employer such as banks or other pension funds.

d) Where an employer exhibits behaviour that suggests a change in its ability and/or willingness to pay contributions to GMPF (such as persistent late payment of contributions or lack of reasonable engagement with the Administering Authority).

2.5 Whilst in most cases covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers may be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified individually with the requirements set out.

2.6 Should the Administering Authority identify that either of these scenarios may have occurred then additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of an employer's restructuring plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

2.7 The Administering Authority will consult with an employer and, where applicable, any guarantor to that employer's admission agreement within GMPF prior to making a decision on whether to undertake an interim valuation and will set out in writing the reasons why an interim valuation is being considered.

2.8 In addition, an employer may request the Administering Authority to undertake an interim valuation if it feels that either scenario outlined above applies to it. The employer would be required to meet the costs of the interim valuation, which may include, but are not limited to, the Actuary's costs for undertaking the calculations and the costs of any professional advice required by the Administering Authority – an estimate of costs can be provided if required.

2.9 An employer is only permitted to make one such request within a triennial valuation cycle (except in exceptional circumstances and at the absolute discretion of the Administering Authority). In considering requests the Administering Authority will consider the proximity of the triennial valuation and will not typically approve requests shortly in advance of, or during the triennial valuation process.

2.10 Consideration will also be given to the impact that any employer changes may have on the other employers and on GMPF as a whole, when deciding whether to proceed with an interim valuation.

Interim valuation process

2.11 The following matters relating to an interim valuation will be determined by the Administering Authority having sought advice from the Fund Actuary:

- The effective date.
- Whether to use updated membership data or data from the previous triennial valuation.
- Whether to update the employers' asset share to the effective date and use market conditions at the effective date to derive the actuarial assumptions (or to retain those used at the previous triennial valuation).
- The employer's funding target, time horizon and likelihood of success (see section 3.6 of FSS).

2.12 The results of the interim valuation would typically be determined within two months of the date that the employer is notified that an interim valuation is to be undertaken.

2.13 Should an employer's contribution rate be revised then the revised contribution rate would take effect from a date determined by the Administering Authority having sought advice from the Fund Actuary.

Other points to note

2.14 Employers should note the following:

- An interim valuation may result in contributions continuing in line with the existing rates and adjustments certificate, contribution rates increasing or contribution rates decreasing.
- If an interim valuation is conducted then the employer(s), will be bound by the results and cannot elect to maintain existing contribution rates if these are different to the rates currently set out in the rates and adjustments certificate.

3. Spreading of Exit Debt

Background

3.1 Under the LGPS Regulations, when an employer becomes an exiting employer it is necessary to carry out an exit valuation to determine whether payment of an exit debt (an 'exit payment') is required from the employer to meet any outstanding liabilities or whether an exit credit may potentially be due to the employer.

3.2 An exception to this is where there is a reasonable expectation that the exiting employer is likely to have one or more active members contributing to the fund within a period of up to three years. In which case the Administering Authority may seek to issue a Suspension Notice to the exiting employer, suspending that employer's liability to pay its exit debt during the period of the Suspension Notice.

3.3 The September 2020 Amendment Regulations provide administering authorities with the power to:

a) enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ('a deferred debt agreement' – See section 4 below), or to;

b) permit the spreading of an employer's exit debt over a period of time instead of requiring an immediate lump sum payment from an exiting employer. This is established in regulation 64(B) of the 2013 LGPS Regulations:

64B. - (1) Where the funding strategy mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on spreading exit payments, that administering authority may obtain a revision of the rates and adjustments certificate under regulation 62 (actuarial valuations of pension funds) to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the administering authority considers reasonable.

64B. - (2) In revising the certificate, an administering authority must -
(a) consult the exiting Scheme employer; and
(b) have regard to the views of an actuary appointed by the administering authority.

Circumstances in which GMPF may permit the spreading of exit debts

3.4 Where a Deferred Debt Agreement (see section 4 below) is not being entered into, or an existing Deferred Debt Agreement is terminating, GMPF's default position is that any exit debt is to be paid immediately in full.

3.5 An employer may request in writing, setting out the reasons for making the request, that the Administering Authority considers spreading payment of its exit debt. In order for the Administering Authority and its advisors to consider any such request the employer may be asked to provide up to date financial information (including management accounts) showing the expected financial progression of the organisation and any other information which may be relevant to the request.

3.6 The decision regarding whether to spread an exit debt is at the absolute discretion of the Administering Authority, who will consult with any other GMPF employer that acts as guarantor to the employer's liabilities in GMPF and obtain such relevant professional advice as it deems appropriate.

3.7 Circumstances in which an exit debt may potentially be spread include, but are not limited to, the following:

- The employer can demonstrate that it is unable to make immediate payment of the full exit debt but can evidence its ability to make sufficient regular payments over a period of time to meet the exit debt (plus interest applied) in full. When considering the ability to meet an exit debt the Administering Authority will require parent companies or related companies in a group structure to provide support.

- Any other GMPF employer which acts as guarantor to the employer's liabilities in GMPF consents to the employer's request and acknowledges that it will be responsible for meeting any shortfall should the exit debt ultimately not be paid in full.

- Where there is no guarantor to the employer's liabilities; there exists a sufficiently strong employer covenant that appears likely to be maintained over the term of the payment schedule. The employer must provide:

  - Evidence of the ability to provide security through charges over assets, the offering of indemnities or bonds, or a guarantor willing to meet outstanding exit payments should the employer default. GMPF and its advisors will assess the relative strength of the security offered as part of reviewing an employer's application for spreading payment of its exit debt.

  - Cash flow modelling and business plans evidencing the employer's ability to make the necessary payments.

3.8 All costs incurred by the Administering Authority in assessing an employer's request (whether it is successful or not) will be immediately recharged to the exiting employer. Costs may include, but are not limited to, the Actuary's costs for undertaking the calculations and the costs of any covenant and legal advice required by the Administering Authority – an estimate of costs can be provided if required.

3.9 The initial process to determine whether an exit debt should be spread is expected to take three to six months from receipt of information from the employer. Any employer seeking for an exit debt to be spread should give as much forewarning as possible to the Administering Authority.

Spreading of exit payments

3.10 Should the Administering Authority agree to offer the spreading of exit payments, the terms of the arrangement will be at the absolute discretion of the Administering Authority, having taken appropriate professional advice and having consulted with the employer and where applicable, any other GMPF employer that acts as guarantor to the employer's liabilities in GMPF. Any offer from the Administering Authority will set out the following:

a) *Length of spreading period*
The Administering Authority will seek to recover the full exit debt over the shortest period which the employer can reasonably afford, unless any other GMPF employer that acts as guarantor to the employer's liabilities in GMPF consents to a longer spreading period being offered. The Administering Authority will normally seek to limit spreading periods to a maximum of three years.

b) *Frequency of payments*
Payments will be required on either a monthly, quarterly or annual basis depending upon the materiality of the payment amounts and the employer's cashflow position. Payment amounts may be non-uniform eg a lump sum up front followed by a series of smaller subsequent payments over the agreed period.

c) *Interest rate*
Spread exit payments will be subject to an interest rate consistent with the discount rate used in the actuary's calculation of the exit debt at the employer's exit date (or termination date of any deferred debt arrangement).

d) *Security required*
Details of any security required to be provided by the employer as a condition of the exit debt being spread will be notified to the employer.

e) *Conditions under which the arrangement may be reviewed*

- The offer will set out the responsibilities of the employer during the spreading period including any requirement for the provision of updated information from the employer and events which would trigger a review of the situation (eg where there has been a significant change in covenant or circumstances).

- Employers may terminate the agreement at any point by making full payment of the outstanding balance.

- Should the employer accept an offer to make spread exit payments then the terms of the arrangement will be formally documented.

Other points to note

GMPF will notify exiting employers of this policy in order to make the employer aware of the circumstances in which payment of exit debts may potentially be spread

4. Deferred debt agreement

Background

4.1 Under section 64(7A-7G) of the LGPS Regulations 2013, an administering authority may enter into a written agreement with an exiting employer for that employer to defer its obligation to make an exit payment and continue to make contributions at the secondary rate (often referred to as 'deficit contributions'). This is known as a Deferred Debt Agreement (DDA) and any employer who enters into such an agreement becomes a 'Deferred Employer'.

4.2 DDAs allow for an exiting employer to become a Deferred Employer and meet their outstanding liabilities via regular deficit contributions. DDAs are different to the spreading of exit payments in that the employer will continue to be an employer of the fund (albeit without any active members) and will continue to have its funding position calculated and contribution rates set at triennial actuarial valuations alongside all other employers. A Deferred Employer is therefore still exposed to factors which impact the ultimate cost of the benefits, such as fund investment returns and membership experience.

Circumstances in which GMPF may enter into a DDA

4.3 Should an event which would ordinarily result in a participating employer becoming an exiting employer occur (such as the termination of an admission body's admission agreement or the last active member leaving active service), GMPF's default position is that any deficit in respect of the employer's section of GMPF which exists at the exit date is to be paid immediately in full.

4.4 An employer may request in writing, setting out the reasons for making the request, that the Administering Authority considers entering into a DDA with the employer as an alternative to crystallising the full exit debt. In order for the Administering Authority and its advisors to consider any such request the employer may be asked to provide up to date financial information (including management accounts) showing the expected financial progression of the organisation and any other information which may be relevant to the request.

4.5 For admission bodies where another GMPF employer acts as guarantor to the exiting employer's admission agreement, a DDA will only be considered where the guarantor provides its consent and acknowledges that it will be responsible for meeting any shortfall should the employer ultimately be unable to repay any deficit in full.

4.6 For employers that do not have a guarantor, typically a DDA will only be considered if the exiting employer can demonstrate that payment of the full exit debt, either immediately or via spreading exit payments (see Section 3 above) is unaffordable. When considering the ability to meet an exit debt the Administering Authority will require parent companies or related companies in a group structure to provide support.

4.7 The decision regarding whether to enter into a DDA is at the absolute discretion of the Administering Authority, who will obtain such relevant professional advice as it deems appropriate.

4.8 All costs incurred by the Administering Authority in assessing an employer's request (whether it is successful or not) will be met by the exiting employer. Costs may include, but are not limited to, the actuary's costs for undertaking calculations and the costs of any covenant and legal advice required by the Administering Authority – an estimate of costs can be provided if required.

4.9 The initial process to determine whether a DDA can be entered into is expected to take between three and six months from receipt of information from the employer. Any employer seeking to enter into a DDA should give as much forewarning as possible to the Administering Authority that it may potentially trigger an exit event.

Form of DDAs

4.10 If the Administering Authority's confirms that it will consider entering into a DDA, then the Administering Authority will engage in discussions with the employer about the potential format of a DDA. As part of this, the following will be considered:

a) What additional security the employer can offer whilst the employer remains a Deferred Employer. Provision of additional security may result in a longer agreement being offered.

b) Whether a lower risk investment strategy should be implemented in respect of the assets in the employer's section of GMPF.

c) Whether the employer should make an upfront cash payment at outset in order to reduce the risk to other GMPF employers or to any guarantor to the employer's admission agreement.

d) The rate of contributions applicable to the employer up until completion of the next triennial funding valuation.

e) The financial information that the employer will be required to provide to the Administering Authority on a regular basis to allow the Administering Authority to monitor the risks of the DDA.

f) The responsibilities that would apply to the employer while it remains a Deferred Employer in GMPF.

g) The appropriate length of the DDA. This is not expected to be longer than the time horizon used to calculate contribution rates for that employer by the GMPF Actuary at the previous triennial valuation and will not exceed a period of twenty years. It may be possible to enter into subsequent DDAs if deemed appropriate by the Administering Authority.

h) The circumstances that may trigger a variation in the length of the DDA, include a cessation of the arrangement (eg where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months), the removal of any security or a significant change in covenant assessed as part of the regular monitoring.

i) Under what circumstances the employer may be able to vary the DDA eg make a further cash payment or change to security arrangements underpinning the agreement.

4.11 DDAs will automatically terminate should any of the events set out in Regulation 64(7E) of the 2013 LGPS Regulations occur. In addition, the Administering Authority may terminate the DDA if the Deferred Employer fails to meet its obligations to GMPF, for example by not making deficit contributions by the required dates.

4.12 The terms of any DDA made with an exiting employer will be formally documented using a standard GMPF template based on the specimen provided as an appendix to the LGPS Scheme Advisory Board guidance.

Other points to note

4.13 Contribution requirements for deferred employers will be reviewed as part of each actuarial valuation or in line with the terms of the employer's DDA in the interim if any of the agreed triggers are met. The Administering Authority may adopt a more prudent funding approach for employers that have entered into a DDA and will typically target the deferred employers' liabilities being fully funded using GMPF's exit basis by the expected end date of the DDA.

4.14 The costs (including advisory costs) incurred by the Administering Authority in discussing and/or entering into a DDA will be passed onto the employer and are payable immediately in full unless the Administering Authority advises otherwise.

4.15 GMPF will notify exiting employers of this policy in order to make the employer aware of the circumstances in which the Administering Authority may consider entering into a DDA

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GMPF POLICY ON INTERIM VALUATIONS

December 2022