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Circular 13/2013

14 November 2013

To: Chief Executives

At: All Employing Authorities

Dear Colleague

NILGOSC Funding Strategy Statement

Further to my previous correspondence with respect to the consultation on NILGOSC's Funding Strategy Statement, please be advised that the consultation period has ended and the Funding Strategy Statement has been finalised.

I have attached a copy of the final version of the Funding Strategy Statement. There has been one minor amendment to the version that was sent to you for consultation and this relates to Paragraph 7.4.2 which has been amended as shown below.

7.4.2 Where a valuation reveals that the Fund is in surplus or deficiency against the ~~solvency measure~~ **Funding Target**, employers' contribution rates will be adjusted to target restoration of the solvent position over a period of years (the Recovery Period) The Recovery Period is therefore a period over which any adjustment to the level of contributions in respect of any surplus or deficiency relative to the Funding Target used in the valuation is payable. As noted above, the valuation method, including the components of Funding Target, future service costs and any adjustment for surplus or deficiency simply serve to set a level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period.

Now finalised, the Funding Strategy Statement sets out the funding basis that will be adopted in respect of the 2013 valuation. A further circular will be issued before the end of the year which sets out the agreed employer contribution rates for 2014/15.

I would like to thank you for your participation in the consultation and if you have any queries, please do not hesitate to contact me.

Yours sincerely

Nicola Todd
Deputy Secretary

Enc

**Northern Ireland Local
Government Officers' Superannuation
Committee**

Funding Strategy Statement

Last Reviewed: June 2013

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1. OVERVIEW

- 1.1 This Funding Strategy Statement has been prepared in accordance with Regulation 30 of the Local Government Pension Scheme (Administration) Regulations (Northern Ireland) 2009 ("The Administration Regulations"). The Statement describes the funding strategy of the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC), in its capacity as Administering Authority to the Northern Ireland Local Government Officers' Pension Fund (the Fund).
- 1.2 As required by Regulation 30(2)(a), the Statement has been prepared having regard to guidance published by CIPFA in March 2004, and has also taken account of an updated version of that guidance published by CIPFA on 3 October 2012.

2. PURPOSES OF THE STATEMENT

- 2.1 Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of NILGOSC, acting on the professional advice provided by the Actuary.
- 2.2 The purpose of this statement is to document the processes by which NILGOSC:
 - establishes a clear and transparent fund-specific strategy which will establish how employers' pension liabilities are best met going forward;
 - supports the regulatory requirement to maintain as nearly constant a common contribution rate as possible; and
 - takes a prudent longer-term view of funding those liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employer must be reflected in the Funding Strategy Statement, its focus should at all times be on those actions which are in the best long term interests of the Fund.

- 2.3 The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled.
- 2.4 This Funding Strategy Statement is not an exhaustive list of policy on all issues.

3. CONSULTATION

- 3.1 In accordance with Regulation 30(1), all employers participating within the Fund were consulted on the contents of this Statement and their views were taken into account in formulating the final Statement. However, the Statement describes a single strategy for the Fund as a whole.
- 3.2 In addition, NILGOSC has had regard to the Fund's Statement of Investment Principles published under Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended) ("the Investment Regulations").

3.3 The Fund Actuary, Aon Hewitt Ltd, was also consulted on the contents of this Statement.

4. PURPOSE AND AIMS OF THE FUND

4.1 Purpose of the Fund

4.1.1 The purpose of the Fund is to maintain financial assets required for the payment of benefits as laid down in the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations (Northern Ireland) 2009 ("the Benefits Regulations"). The Fund:-

- receives monies in respect of contributions from employers and employees, transfer values and investment income; and
- pays out monies in respect of scheme benefits, refunds, transfer values and the costs of pension administration and investment management.

4.2 Aims of the Fund

4.2.1 The aims of the Fund in relation to the Funding Strategy are:-

- Stability** - to enable employers' contribution rates to be kept as nearly constant as possible and (subject to NILGOSC not taking undue risks) at reasonable cost to the Scheme Employers, Admission Bodies, other bodies and to the taxpayers while achieving and maintaining Fund solvency, which should be assessed in light of the risk profile of the Fund and the risk appetite of NILGOSC and employers alike.
- Sufficiency** - to ensure that sufficient resources will be available to meet all liabilities as they fall due.
- Effectiveness** - to manage the Fund's liabilities effectively.
- Income Maximisation** - to maximise the income from investments within reasonable risk parameters.

4.3 The Aims in Practice

4.3.1 **Stability** - NILGOSC recognises that the requirement to keep employers' contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency,
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable risk parameters

4.3.2 Producing low volatility in employers' contribution rates requires material investment in assets that 'match' the employers' liabilities. In this context, 'match' means investing in very secure assets that behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Fund, such assets would tend to comprise long-dated index-linked gilt investments. However investing in such a matched strategy would increase employer contributions from their current levels.

- 4.3.3 Other classes of assets, such as shares and property, are perceived to offer higher long term rates of return on average and, consistent with the requirement to maximise the returns from investments within reasonable risk parameters, NILGOSC invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short-term periods and a failure to deliver the expected return in the long term.
- 4.3.4 This short-term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employers' contribution rates.
- 4.3.5 **Sufficiency** - NILGOSC recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, refunds, transfer values, costs, charges and other expenses. It is NILGOSC's policy that such expenditure is met, in the first instance, from incoming employers' and employees' contributions to avoid the expense of disinvesting assets. NILGOSC monitors the position on a daily basis to ensure that all cash requirements can be met.
- 4.3.6 **Effectiveness** - NILGOSC seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers are properly informed through regular monitoring of the funding position, appropriate segregation of employers for funding purposes and the outlook for employers' contributions after the next triennial actuarial valuation.
- 4.3.7 **Income Maximisation** - NILGOSC recognises the desirability of maximising investment income within reasonable risk parameters through investment in unmatched investments. Investment returns higher than those available on holding index-linked gilts are sought through investment in other asset classes such as shares and property. NILGOSC ensures that risk parameters are reasonable by:
- restricting investment to the levels permitted by the Investment Regulations;
 - limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds;
 - analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Investment Managers and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy;
 - limiting concentration risk by developing a diversified asset strategy; and
 - monitoring the mis-matching risk that the investments do not move in line with the Fund's liabilities.

5. RESPONSIBILITIES OF THE KEY PARTIES

- 5.1 Although a number of parties, including investment fund managers, investment advisers and external auditors, have responsibilities to the Fund, the key parties for the strategy are seen as NILGOSC, each individual employer and the Fund Actuary.

5.2 Responsibilities of NILGOSC

5.2.1 NILGOSC should administer the pension fund.

5.2.2 NILGOSC should collect investment income and other amounts due to the Fund as stipulated in the Administration Regulations including employers' and employees' contributions and, as far as NILGOSC is able to, ensure these contributions are paid by the due date. Details of how it meets this requirement are shown below:-

- Individual employers must pay contributions in accordance with Regulations 34, 35, 36 and 37 of the Administration Regulations. NILGOSC has advised all employers of its policy on the remittance of pension contributions and the procedures which will apply in the event of late or non-payment.
- Employers' contributions are due to the Committee on the first day of the month following the month that they were deducted from employees' pay. If contributions are overdue by 10 days the Committee will levy an interest charge in accordance with Regulation 39(4).
- NILGOSC will ensure that action is taken to recover liabilities from Admission Bodies whose Admission Agreement has ceased. The Fund Actuary will calculate the cessation deficit due at the date the Admission Agreement ends and NILGOSC will notify the Admission Body of the cessation debt required to meet any deficit at the cessation of the Agreement.

5.2.3 NILGOSC should pay from the Fund the relevant entitlements as stipulated by Benefits Regulations.

5.2.4 NILGOSC should invest surplus monies in accordance with the Investment Regulations. It does this by ensuring that NILGOSC's Statement of Investment Principles complies with the Investment Regulations.

5.2.5 NILGOSC should ensure that cash is available to meet liabilities as and when they fall due. NILGOSC monitors the position on a daily basis to ensure that all cash requirements can be met.

5.2.6 NILGOSC should manage the valuation process in consultation with the Fund Actuary. NILGOSC ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of triennial valuation results,
- ensure provision of data of suitable accuracy,
- ensure that the Fund Actuary is clear about the Funding Strategy, including the setting of grouped or individually assessed employer contribution rates under Regulation 31(7),
- ensure that participating employers receive appropriate communication throughout the process,
- ensure that reports are made available as required by Guidance and Regulation.

5.2.7 The application of individually assessed employer contributions includes but is not limited to the following types of employers:

- those admission bodies that have closed to new entrants;
- those employers that have joined the fund in recent years;
- any transferee admission bodies (contractors) that join for a limited period.
- those employers who are funding one off strain costs through employers' contributions
- those employers which are regarded to be outside of the category of public sector long term secure. The Committee will carry out a review of the covenant of each of the employers in the fund to assess whether or not an employer is a public sector long-term secure employer.

5.2.8 NILGOSC is required to prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties. NILGOSC will comply with the Regulations and follow Best Practice in the formulation of both of these policies.

5.2.9 NILGOSC will monitor all aspects of the Fund's performance and funding and amend the Statement of Investment Principles or Funding Strategy Statement if required. NILGOSC monitors the funding position and the investment performance of the Fund on a quarterly basis.

5.2.10 Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme Employer

5.3 Responsibilities of Individual Employers

5.3.1 Individual employers are responsible for:

- deducting contributions from employees' pay,
- paying all contributions, including their employers' contribution as determined by the Actuary, promptly by the due date,
- developing a policy on certain discretions and exercising discretions within the regulatory framework and ensuring NILGOSC has copies of current policies covering those discretions,
- paying for additional membership in accordance with agreed arrangements,
- paying the capital costs resulting from early retirements, augmentation of membership, additional pension, exercises of discretion allowing the early payment of deferred benefits or any other one-off strain costs. Payment is due immediately.
- notifying NILGOSC promptly of all changes to membership, or other changes, which affect future funding.
- noting and, if desired, responding to consultations regarding the Funding Strategy Statement.

5.4 Responsibilities of the Fund Actuary

5.4.1 The Actuary will prepare advice and calculations and provide advice on

- Funding strategy and the preparation of the Funding Strategy Statement and will prepare valuations and issue a Rates and Adjustments Certificate. This includes the setting of employers' contribution rates, after agreeing assumptions with NILGOSC and having regard to the Funding Strategy Statement and relevant admission agreements. Valuations will be carried out and reported on in accordance with the Technical Actuarial Standards as issued by the Financial Reporting Council as appropriate.
- Bulk transfers
- Individual benefit related matters
- Valuations on the cessation of admission agreements or when a body ceases to employ and active members.
- Bonds and other forms of security to NILGOSC against the financial effect on the Fund of Employers' default.

Such advice will take account of the funding position and Funding Strategy Statement, along with other relevant matters when instructed to do so.

5.4.2 The Actuary will assist NILGOSC in assessing whether employer contributions need to be revised between valuations as required by the Regulations.

5.4.3 The Actuary will ensure that NILGOSC is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund.

6. SOLVENCY TARGET AND FUNDING TARGET

6.1 NILGOSC will prudently seek to secure the solvency of the Fund. For this purpose NILGOSC defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities in respect of service prior to the measurement date when measured using appropriate actuarial methods and assumptions.

6.2 For all grouped employers (see below), and other employers of sound covenant whose participation is indefinite in nature, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, using assumptions such that, if the Fund's financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in line with valuations carried out using such methods and assumptions, there would be a reasonably prudent chance that the Fund would continue to be 100% funded after a period of 20 years. The level of funding implied by this is the Solvency Target.

6.3 For ungrouped employers whose participation in the Fund is believed to be of limited duration through known constraints or through reduced covenant, and for which no access to further funding would be available to the Fund after cessation, the required minimum chance of remaining 100% funded after a period of 20 years will be set at a level higher than that for grouped employers, dependent on circumstances. For most such employers the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of government index linked and fixed interest bonds after cessation.

- 6.4 The Funding Target is a product of the triennial valuation exercise and is not necessarily the same as the Solvency Target. It is, instead the product of the data, chosen assumptions and valuation method. The valuation method, including the components of Funding Target, future service costs and any adjustment for surplus or deficiency simply serve to set a level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate actuarial methods and assumptions referred to in 6.2 above.

7. FUNDING STRATEGY

7.1 Risk based approach

- 7.1.1 The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach -

- what the Solvency Target should be (your funding objective - where you want to get to),
- the Trajectory Period (how quickly you want to get there), and
- the Probability of Funding Success (how likely you want it to be now that you will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the riskiness of the funding strategy.

7.2 Grouping

- 7.2.1 For the purposes of setting minimum employer contribution rates at triennial Fund valuations, certain employers are grouped together such that they all pay the same rates of contributions, and contributions are set as if all employers in the group share all risks. Employers which are grouped should note that the consequent smoothed contribution rate payable may be higher or lower than the rate that would otherwise be payable if grouping did not exist and the rate was set by reference to the underlying tracked asset share. This may give rise to larger surpluses or deficiencies in transactions requiring use of the underlying asset share than would otherwise be the case.

- 7.2.2 The grouping only applies in respect of setting employer rates at triennial valuations. Each employer was notionally allocated a notional asset share of the Fund at the 2004 Fund valuation, or at subsequent commencement in the Fund and these notional asset shares have been tracked since that date. For all other occasions when individual employer valuations are required e.g. when an individual contribution rate, funding assessment or disclosure is required, on cessation or for accounting purposes, the tracked notional asset share is used as the starting point for such calculations.

- 7.2.3 Employers can elect to pay contributions above the minimum level set by the

Committee. As the individual funding positions for employers are tracked which take account of the particular experience and characteristics of each employer, these individual positions will allow for any additional contributions paid. Where the employer is a grouped employer the impact of any additional contributions on that employer's contribution rate may be diluted across the group, and would only become relevant should other calculations as mentioned in 7.2.2 be required.

7.2.4 All employers in the Fund are grouped with the exception of employers where it is known that they are closed to new entrants or employers which display characteristics that are not in line with the group.

7.2.5 Where Employers are required to produce annual accounting figures under Financial Reporting Standard 17 (FRS17) or International Accounting Standard 19 (IAS19), these will reflect the underlying tracked asset share for the employer (see 7.1.3 above) and the requirements of the relevant accounting standards. Employers should note that because the accounting and the funding calculations are used for different purposes and are subject to different regulatory and other requirements they may be very different. Furthermore, unless specifically requested, any FRS17/IAS19 accounting figures supplied by the Fund Actuary for an Employer will not make any allowance for the potential use of more prudent assumptions in a cessation valuation, unless specifically requested.

7.3 Achieving Solvency through payment of smooth employer contribution rates

7.3.1 Contribution rates are set, pursuant to Fund valuations, to target attainment of the Solvency Target at the end of defined Trajectory Periods with defined chances of success. This means that the Funding Target used in the valuation may not be the same as the ultimate Solvency Target.

7.3.2 Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- The Attained Age method is normally used for employers who no longer admit new members. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- The required chance of achieving solvency at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

7.3.3 NILGOSC will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

7.4 Recovery Period and Trajectory Period

7.4.1 The Trajectory Period is the period between the valuation date and the date on which solvency is targeted to be achieved.

- 7.4.2 Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates will be adjusted to target restoration of the solvent position over a period of years (the Recovery Period) The Recovery Period is therefore a period over which any adjustment to the level of contributions in respect of any surplus or deficiency relative to the Funding Target used in the valuation is payable. As noted above, the valuation method, including the components of Funding Target, future service costs and any adjustment for surplus or deficiency simply serve to set a level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period.
- 7.4.3 For simplicity, the Trajectory Period and the Recovery Period in the valuation are both set to be the same period for employers in the group. NILGOSC recognises that a large proportion of the Fund's liabilities are expected to give rise to benefit payments over long periods of time. NILGOSC recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years for those employers assessed by the Committee as being a long-term secure employer.
- 7.4.4 Trajectory and Recovery Periods for employers outside of the group may be shorter periods, and may not necessarily be the same as each other, in order to suitably balance risk to the Fund and cost to the employer. The Recovery Period and Trajectory Period applicable for each participating employer is set by NILGOSC in consultation with the Fund Actuary, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund e.g. the future working lifetime will be used for employers which are closed to new entrants in the majority of cases.

7.5 Treatment and recovery of deficits when an employer leaves the Fund

- 7.5.1 When an organisation participating in the Fund ceases to have any active members, NILGOSC will decide whether the employer is to be treated as having withdrawn from the Fund and a cessation valuation is therefore to be carried out immediately, or whether the cessation valuation can be deferred under provision of Regulation 33(7) of the Administration Regulations.
- 7.5.2 Where the employer is deemed to have withdrawn from the Fund, the Fund Actuary will carry out a cessation valuation to determine any debt due from or surplus due to the outgoing organisation. NILGOSC will recover any debt from that organisation unless there is a successor organisation, which is also a participating employer in the Fund, which formally adopts the pension liabilities of the previous organisation as its own. Any surplus due will normally be paid to the organisation, unless there is a successor organisation, which is also a participating employer in the Fund, which formally adopts the pension liabilities of the previous organisation as its own, and it is agreed that any surplus will accrete to that successor organisation.
- 7.5.3 Where a debt is recoverable from an outgoing organisation, that debt will generally be required to be paid immediately. However, NILGOSC does have discretion to agree more flexible terms provided that such terms do not place the Fund at material risk.
- 7.5.4 The purpose of a cessation valuation is to remove as much of the risk as possible of remaining Fund employers being asked to make contributions in future to meet the liabilities of departed employers. In light of this, the financial and demographic assumptions adopted by the Fund Actuary in respect of a cessation valuation may be different (more prudent) than those adopted for an ongoing valuation as described elsewhere in this statement.

- 7.5.5 Where NILGOSC decides that a cessation valuation can be deferred, with approval of the Department of the Environment, the Employer will be subject to contribution requirements as set out in the relevant Rates and Adjustments Certificate produced pursuant to regular triennial valuations.
- 7.5.6 NILGOSC has a policy of requiring admission bodies to obtain a guarantor. A guarantor is required to agree that it will meet the shortfall if the admission body closes and cannot pay the contributions due.
- 7.5.7 If an employer (other than a transferee admission body) fails and it or its guarantor cannot pay the contributions due, the Regulations require that all employers in the Fund must pay revised contributions to meet the shortfall.
- 7.5.8 If a transferee admission body fails and it and/or any bond provider cannot meet some or all of the contributions due, the regulations require that the relevant employing authority or guarantor must pay revised contributions to meet the balance.

7.6 Changes in Contribution Rates

- 7.6.1 Consistent with the requirement to keep employer contribution rates as nearly constant as possible, NILGOSC will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. NILGOSC will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer.
- 7.6.2 Following the valuation of the Fund as at 31 March 2010, the Fund adopted a contribution strategy that limits changes in contribution rate to plus or minus 1% of pay for long term secure employers only. NILGOSC will review the strategy every three years in conjunction with the actuarial valuation. This policy does not apply to those Employers who do not fall into this category and a contribution rate will be based on their own experience using methods and assumptions consistent with the Fund's funding and investment strategies and suitably balancing risk to the Fund and cost to the Employer.

7.7 Tracking of asset shares between valuations

- 7.7.1 The notional asset share allocated to each employer will normally be rolled forward using an analysis of gains and losses, and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset share.
- 7.7.2 Where cashflows associated with the employer's membership are available, including contribution income, benefit outgo, transfers in and out and investment income, these will be used to roll forward the employer's notional asset share, instead of the analysis of gains and losses approach outlined above. Under the cashflow approach, in general, no allowance is made for the timing of contributions and benefit payment, and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.
- 7.7.3 Analysis of gains and losses methods are less precise than use of cashflows. Where partial cash flow information is available and in the opinion of the Fund Actuary the cashflow data which is unavailable is of low materiality, estimated

cashflows may be used.

- 7.7.4 The analysis of gains and losses methods will be used where the results of the cashflow approach appear to give unreliable results.

7.8 Attribution of investment income

- 7.8.1 NILGOSC has a single investment strategy and for employers in the group their notional asset share will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional investment portfolio exists.

- 7.8.2 Where NILGOSC has determined that it is appropriate for an employer to have a tailored investment portfolio notionally allocated to it, the notional asset share for that employer will be credited with a rate of return appropriate to the agreed notional investment portfolio.

7.9 Fund maturity

- 7.9.1 For many employers in the Fund, contribution adjustments to correct for any disclosed surplus or deficiency are set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, where evidence is revealed of payrolls not increasing at the anticipated rate, NILGOSC will consider requiring defined streams of capital contributions rather than percentages of payroll.

- 7.9.2 To further protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptable volatile contribution adjustments as a percentage of pay where the smoothing impact of grouping does not apply, NILGOSC will continue a policy of requiring defined capital streams from ungrouped employers.

- 7.9.3 Where defined capital streams are required, NILGOSC will review at future valuations whether any new emerging surplus or deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

7.10 Monitoring of the Funding Level between Valuations

- 7.10.1 NILGOSC will monitor the funding position between triennial valuations. If it is considered appropriate, an indicative interim valuation will be carried out. The purpose of this monitoring process is to give employers advance warning of likely changes that may be required following the next triennial valuation. This allows improved budgeting decisions to be made and allows an employer to take an informed decision on paying contributions over and above the minimum required.

7.11 Bulk transfers and apportionments

- 7.11.1 Bulk transfers of staff can occur between two employers which participate in the Fund (an internal transfer), or between an employer in the Fund and an employer not in the Fund (an external transfer).

- 7.11.2 In such circumstances NILGOSC will be mindful of the potential impact of the transfer on any employers in the Fund and, where either employer is in the Fund and grouped for funding purposes, the group as a whole. Therefore, whilst in the first instance the level of transfer can be a matter for agreement by the employer

or employers affected, NILGOSC can and must retain a degree of interest and control in the process.

- 7.11.3 Internal transfers may fall within the coverage of Regulation 33A of the Administration Regulations, Apportionment of Liabilities. Where they do they will be discharged in accordance with that Regulation.
- 7.11.4 In the absence of any overriding factors, as a general principle, NILGOSC and the Fund Actuary will utilise the underlying notional asset shares of the affected employers as the basis for calculations. Additionally, assets will generally be apportioned for transfer in proportion to the transferring and remaining liabilities of the transferring employer with no adjustment to ensure that non-active liabilities of the transferring employer remain fully funded.
- 7.11.5 Other internal bulk transfers will be executed by reference to similar principles, modified if appropriate due to the circumstances of the transfer in question and any relevant external factors. In particular Transferee Admission Bodies will be admitted on a fully funded basis and subject to agreement on how any shortfall in the internal bulk transfer will be made good by the employing authority or transferring employer as appropriate at the point of transfer.
- 7.11.6 External bulk transfers fall within the coverage of Regulation 77 of the Local Government Pension Scheme (Administration) Regulations (Northern Ireland) 2009 and will be discharged in accordance with that Regulation by reference to similar principles as described above, based on the circumstances of the transfer in question.

7.12 Bonds and other securitisation

- 7.12.1 Regulation 6 of the Administration Regulations (as amended) creates a requirement for a new admission body to carry out, to the satisfaction of NILGOSC (and the employer in the case of a Transferee Admission Body admitted under Regulation 5(2)(a) of the Administration Regulations), an assessment taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.
- 7.12.2 Where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond with an appropriate party. Where, for any reason it is not possible for an admission body to enter into an indemnity bond, the admission body is required to secure a guarantee in a form satisfactory to NILGOSC from an organisation who either funds, owns or controls the functions of that admission body.
- 7.12.3 NILGOSC's approach in this area is as follows:
- In the case of Transferee Admission Bodies admitted under Regulation 5(2)(a) of the Administration Regulations and other Admission Bodies with a Guarantor, and so long as NILGOSC judges the relevant Scheme Employer or guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the admission body. As such, the relevant Scheme Employer or Guarantor must arrange a risk assessment and decide the level of required bond (if any) from the Admission Body, if any.
 - In the case of Transferee Admission Bodies admitted under Regulation 5(2)(b), Transferee Admission Bodies admitted under Regulation 5(2)(a) where NILGOSC judges the employer not to be of sound covenant and Community Admission Bodies where there is no guarantor or NILGOSC judges the guarantor not to be of sound covenant, the admission will only be able to

proceed once NILGOSC has agreed the level of bond cover. As such, NILGOSC will obtain some "standard" calculations from the Fund Actuary to assist them to form a view on what level of bond would be satisfactory. NILGOSC, on request, will supply this calculation to the employer or guarantor, where relevant, but this should not be construed as advice to the employer or guarantor on this matter.

- NILGOSC notes that levels of required bond cover can fluctuate and will review, or recommends that the employer reviews, the required cover regularly, at least once a year.

8. IDENTIFICATION OF RISKS AND COUNTER MEASURES

- 8.1 NILGOSC's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. NILGOSC will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are set out below.

Risk	Explanation
Liability Risk	<p>This covers items such as demographic risks, pay and price inflation varying from anticipated levels, or the effect of possible increases in employer contribution rates on service delivery and on employers. The main demographic risks include changing retirement patterns, ill health and longevity.</p> <p>NILGOSC will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. NILGOSC will agree with the Fund Actuary any changes that are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.</p> <p>If significant changes become apparent between valuations, NILGOSC will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review any guarantees that are in place for any transferee admission bodies that have been admitted to the Fund.</p>

<p>Investment risk</p>	<p>This covers items such as the performance of financial markets and the Fund’s investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:</p> <ul style="list-style-type: none"> • assets not delivering the required return (for whatever reason, including manager underperformance) • systemic risk with the possibility of interlinked and simultaneous financial market volatility • insufficient funds to meet liabilities as they fall due • inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon • counterparty failure <p>The specific risks associated with assets and asset classes are:</p> <ul style="list-style-type: none"> • equities – industry, country, size and stock risks • fixed income - yield curve, credit risks, duration risks and market risks • alternative assets – liquidity risks, property risk, alpha risk • money market – credit risk and liquidity risk • currency risk • macroeconomic risks <p>NILGOSC reviews each investment manager’s performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. NILGOSC also annually reviews the effect of market movements on the Fund’s overall funding position.</p>
<p>Employer Risk</p>	<p>These risks arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.</p> <p>NILGOSC will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.</p> <p>NILGOSC maintains a knowledge base on their admission bodies and their legal status (charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement.</p>

<p>Regulatory and Compliance Risk</p>	<p>The risks relate to changes to both general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules. The LGPS is also going through major structural changes.</p> <p>NILGOSC will keep abreast of all proposed changes and prepare for LGPS 2014. If any change potentially affects the costs of the Fund, NILGOSC will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, NILGOSC will notify employers of the possible impact and the timing of any change.</p>
<p>Liquidity and maturity risk</p>	<p>The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:</p> <ul style="list-style-type: none"> • active members leaving the LGPS, • transfer of responsibility between different public sector bodies, • scheme changes which might lead to increased opt-outs • spending cuts and it's implications <p>All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into account in previous forecasts.</p> <p>NILGOSC's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.</p>
<p>Governance</p>	<p>This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff) and the related risk of NILGOSC not being made aware of such changes in a timely manner.</p> <p>NILGOSC's policy is to require regular communication between itself and employers and to ensure regular reviews of such items as guaranteed bond arrangements and funding levels. NILGOSC seeks to ensure that each employer complies with its Admission Agreement (if applicable) and the Scheme Regulations.</p>

Solvency measure	<p>NILGOSC recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise.</p> <p>NILGOSC's policy will be to monitor the probability of the returns required to achieve solvency to ensure that the funding strategy remains acceptable relative to the agreed risk envelope.</p>
Recovery period	<p>NILGOSC recognises that permitting the Solvency Target to be achieved over a Trajectory Period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. NILGOSC's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 20 years.</p> <p>NILGOSC's policy is further to restrict the length of any Recovery Period used in the triennial valuation to a maximum of the Trajectory Period.</p> <p>The maximum Trajectory Period of 20 years is only suitable for those employers assessed by the Committee as long-term secure employers. For this purpose, all employers in the main group are deemed to be long-term secure employers.</p> <p>For closed employers the Recovery Period will only be permitted to exceed the future working lifetime of the active members as calculated by the Fund Actuary in exceptional circumstances. This limits the exposure of the Fund to potential adverse consequences which can arise due to increasing volatility of contribution requirements for the closed employer as membership declines.</p>

<p>Grouped Contribution Risk</p>	<p>NILGOSC recognises that grouping the majority of employers for the purpose of setting the minimum contribution rate(s) introduces a risk that the contributions paid by certain employers in the group will not target their prospective liabilities (as measured by the underlying tracked employer positions).</p> <p>NILGOSC's policy is</p> <ul style="list-style-type: none"> • to discuss the risks inherent in each situation with the Fund Actuary, to understand the nature and level of the risk • to remove employers which close to new members or display characteristics that are not in line with the group from the grouped contribution rate • to track each grouped employer's underlying position at each actuarial valuation and to monitor these. • to communicate the risk of underpaying or overpaying contributions to employers in the group.
<p>Default</p>	<p>NILGOSC is alert to the possibility that an Employer may default on any debt owed to the fund and will seek to ensure that the pace of funding for Employers will reasonably balance consequent costs against the exposure borne by the Fund or any guarantors. NILGOSC will also ensure that guarantees are in place where the Regulations allow or will seek legal redress to ensure the fund does not suffer a loss.</p>

9. LINKS TO INVESTMENT POLICY AS SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

- 9.1 NILGOSC has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this statement.
- 9.2 The current strategic asset allocation is based upon a review carried out at an annual meeting attended by the Fund Actuary, all the Fund Managers and the Fund's Investment Advisor. The resulting Asset Allocation is set out in the Committee's Statement of Investment Principles.
- 9.3 NILGOSC will continue to monitor the suitability of the investment policy overall, and in respect of individual employers in the light of the Fund's developing liabilities, funding strategy and finances.
- 9.4 NILGOSC will continue to review the Funding Strategy Statement and the Statement of Investment Principles to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

10. FUTURE MONITORING

- 10.1 NILGOSC plans to review formally this Statement as part of each triennial valuation process unless circumstances arise which require earlier action.
- 10.2 NILGOSC will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.
- 10.3 NILGOSC is currently monitoring the Strain on the Fund costs for those employers who exercise ill-health retirements at a level above those assumed in the actuarial valuation and will consider whether or not these additional costs must be met by the employing authority.