Northern Ireland Local Government Officers' Superannuation Committee

Funding Strategy Statement

Reviewed March 2025

NILGOSC
NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

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1. Introduction

1.1 This is the Funding Strategy Statement (FSS) of the Local Government Pension Scheme for Northern Ireland (LGPS(NI)) ('the Fund'). The FSS applies to all employers participating in the Fund, including when they become exiting employers.

1.2 The FSS plays an integral role in setting out the Fund's approach to managing long-term funding requirements whilst enabling stability and sustainability for participating Fund employers.

1.3 The FSS has been prepared by Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC), as the scheme manager, in collaboration with the Fund Actuary, Aon Solutions UK Limited, and after consultation with the Fund's employers and other stakeholders and interested parties. It is effective from the date of issue of this statement.

1.4 The Statement has been prepared in accordance with Regulation 64 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014 (the Regulations) and the guidance jointly produced by the LGPS England and Wales Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Ministry of Housing, Communities and Local Government (MHCLG). In addition, NILGOSC has had regard to its Statement of Investment Principles.

1.6 A summary of the roles and responsibilities of the key parties is included as Appendix 3 to this document.

1.7 A glossary of terms is included as Appendix 4 to this document.

1.8 If you have any queries on the contents of this FSS or require a paper copy of the document, please contact:

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2. Purpose of the Funding Strategy Statement (FSS)

2.1 The preparation and publication of the FSS is a regulatory requirement, the stated purpose of which 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 desirability of maintaining as nearly constant a common contribution rate as possible;
- ensures that the regulatory requirements to set contributions to ensure that the solvency and long-term cost efficiency of the fund are met;

- takes a prudent longer-term view of funding those liabilities;

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

2.2 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.

2.3 It should be noted that this FSS is not an exhaustive list of policy on all issues pertaining to the Fund.

3. Purpose, aims and objectives of the Fund

3.1 Purpose of the Fund

3.1.1. The purpose of the Fund is to collect and invest monies in respect of contributions, transfer values and investment income, and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended).

3.1.2. Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Members' contributions are set by the Regulations at a rate which covers only part of the cost of accruing benefits. Investment income meets a further part of the cost. Employers pay the balance of the cost of delivering the benefits to the members. Decisions regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made.

3.1.3. 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 Fund Actuary. NILGOSC has a fiduciary duty to act in the best interests of the pension fund members and the participating employers

3.1.4. It should be noted that this FSS is not an exhaustive list of policy on all issues pertaining to the Fund.

3.2 Aims of the Fund

3.2.1 The 3 key aims of the Fund in relation to the Funding Strategy include:

A. Solvency and long-term cost efficiency

- Securing solvency and long-term cost efficiency is a regulatory requirement.
- The Fund's solvency should be assessed in light of the risk profile of the Fund and the risk appetite of NILGOSC and employers.
- Details of how the Fund meets these requirements in set out in detail the section 5. "Key Funding Principles".
- The Fund's compliance with these requirements is assessed and reported following each triennial valuation through the Government Actuary's Department independent review of the triennial valuation outcomes and approach under Section 13 of the Public Service Pensions Act (Northern Ireland) 2014.

B. Management of liabilities and payment of benefits

- NILGOSC recognises the need to ensure that sufficient liquid assets are available to meet all benefits (including pensions, transfer values, costs, charges and other expenses) as they fall due for payment. It is NILGOSC's policy that such expenditure is met, in the first instance, from incoming employer and employee 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.

C. Effective management of employer liabilities and stability of employer contributions

- 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 and consulted
    - regular monitoring of the funding position and the outlook for employers' contributions
    - appropriate segregation of employers for funding purposes.
- NILGOSC aims to manage employers' liabilities effectively through regular review of contributions at triennial Actuarial Valuations and payment of additional contributions for early retirement. Regard will be given at such reviews to the desirability of maintaining stability of employer contributions, subject to NILGOSC not taking undue risks, and at reasonable cost to the taxpayers and employers .

3.3 Link to investment strategy

3.3.1 The fund seeks to maximise the returns from investments within reasonable risk parameters. Investment returns higher than those available on holding index-linked gilts are sought through investment in other asset classes such as shares and property. More detail on how NILGOSC ensures that risk parameters are reasonable is in the Key Risks section in Appendix 1.

3.3.2 Funding and investment strategy are inextricably linked. Investment strategy is set by the scheme manager, taking investment advice, and is set out in the Statement of Investment Principles.

3.4 Risk profile of the Fund

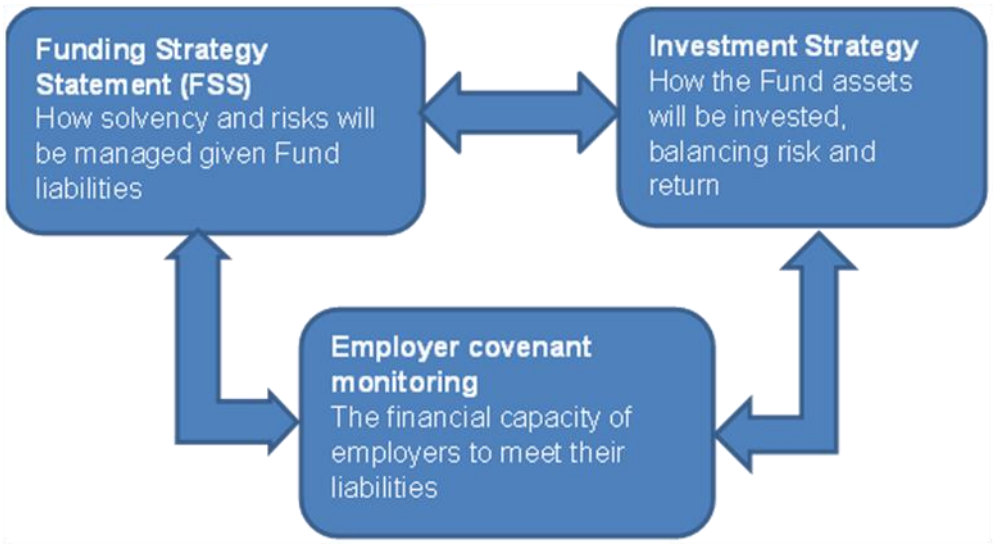
3.4.1 NILGOSC takes a risk-based approach to valuing the liabilities, which considers the liability and asset risk when setting the funding assumptions and employer contribution rates.

3.4.2 NILGOSC considers employer risk by monitoring employer covenant, and allowing for different types of employers when setting funding targets.

3.4.3 This is explained in more detail in the Key Funding Principles section of this FSS.

3.5 Integrated funding framework

3.5.1 The FSS together with the Fund's investment strategy and employer covenant monitoring framework ensure an integrated approach to funding strategy and risk management supporting the Fund in meeting the Regulatory funding requirements. The below diagram demonstrates this relationship:



3.5.2 The Fund's governance framework and decision-making processes is set out in the Governance Policy Statement. The Committee is responsible for setting the funding strategy as set out in the FSS. Other responsibilities relating to the implementation of the strategy, including ensuring the triennial valuation is completed within the required timescales and in line with the Regulations, are delegated to the NILGOSC officers.

4. Monitoring and review of the FSS

4.1 Review Process

4.1.1 NILGOSC undertook its latest substantive review of this FSS in Mar 2025.

4.1.2 NILGOSC formally reviews its FSS as part of each triennial Actuarial Valuation of the Fund unless circumstances arise which require earlier action.

4.1.3 NILGOSC will also consider a review of the FSS if it determines that circumstances have changed such that this is required, taking into account the implications for the funding strategy and for meeting the liabilities of employers. Circumstances which might lead to such a review include:

- material changes to the scheme benefit structure or regulations
- on the advice of the Fund Actuary
- significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond the expectations outlined in the existing FSS
- significant changes to the Fund membership and/or Fund maturity profile
- significant or notable changes to the number, type, or individual circumstances of any employers to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure which could materially impact cashflow and/or maturity profile and/or covenant)
- material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS
- recommendations from the Department for Communities/ Government Actuary's Department.

4.1.4 If such a review of the FSS were to take place, NILGOSC will consider:

- implications for the funding strategy for meeting liabilities of individual employers
- any amendments required to the Statement of Investment Principles or other Fund documents as a result

4.2 Employer Engagement

4.2.1 NILGOSC will consult with employers when proposing to update the FSS. Employers will be given at least 40 working days to respond to the consultation.

4.2.2 When the FSS is updated, NILGOSC will also communicate with any individual (or groups of) employers specifically impacted by any changes and, in particular, will reference any impact on employers on entry or exit from the Fund or in response to change in risk.

4.2.3 NILGOSC will publish a formal response addressing feedback or comments on FSS consultations, including informing employers how/whether comments have been incorporated into the revised FSS.

5. Key Funding Principles

5.1 Funding target

5.1.1 In order to satisfy the regulatory requirement to secure the solvency and long-term cost efficiency of the Fund, employer contributions are set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficit. The regulations require that an Actuarial Valuation exercise is carried out every 3 years, in order to set employer contributions.

5.1.2 The funding target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The Fund is deemed to be fully funded when the assets held are equal to 100% of the funding target . When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficit. The funding level is the assets divided by the funding target.

5.1.3 Employers' contributions will be set to ensure that 100% of the funding target can be met over the long-term using appropriate actuarial assumptions. NILGOSC believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100% (where the assets are equal to the funding target / liabilities).

5.1.4 NILGOSC recognises the different characteristics of the variety of participating employer organisations, and will set a funding strategy (including the funding target and deficit recovery contributions) appropriately having regard to factors such as:

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

5.1.5 At the last valuation there were 4 Funding targets:

- **Main Employer group (Main group) and subsumption bodies funding target**

This assumes indefinite future investment in assets similar to the Fund's holdings at the valuation date;

- **Intermediate funding target**
  This is for those employers who are deemed to be less likely to exit than the orphan admission bodies but which do not have a subsumption commitment and are deemed to be less secure than the Main Employer group employers;

- **Ongoing orphan funding target**
  For employers whose liabilities would be orphan on exit, where the discount rate has regard to the possibility that participation may cease and that the exit valuation would assume a low risk investment portfolio made up of long dated government bonds (gilts) at cessation; and

- **Low risk funding target**
  For "orphaned" liabilities that relate to employers which have already exited the Fund.

5.2 Risked based Funding Target

5.2.1 The Fund uses a risk-based funding strategy to calculate each of the funding targets where in each case the Actuarial Valuation is carried out on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk-based approach:

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

5.2.2 These three decisions, supported by risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the risk in the funding strategy approach.

5.2.3 Information about the assumptions used in the calculation of the each of the funding targets is set out in the section "Main actuarial assumptions".

5.3 Solvency Target

5.3.1 The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions.

5.4 Trajectory Period

5.4.1 The Trajectory Period in relation to an employer is the period between the Actuarial Valuation date and the date on which solvency is targeted to be achieved.

5.5 Probability of Funding Success

5.5.1 NILGOSC deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.

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

5.6 Subsumed liabilities

5.6.1 If another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficit in respect of the liabilities of an employer exiting the fund, for example as the result of a guarantee, the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer).

5.6.2 Subsumed liabilities will be assessed using actuarial assumptions used for the funding target of the accepting employer.

5.7 Orphan liabilities

5.7.1 Liabilities of former employers in the fund who did not have a subsumption commitment (or an apportionment agreement) from another employer in the fund are known as orphan liabilities. Details of how orphan liabilities are funded is set out below in the "Main actuarial assumptions" section.

6. Managing Risk

6.1 Risk management is integral to the governance and management of the Fund at a strategic and operational level.

6.2 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.

6.3 The risks most likely to impact the funding strategy are set out in Appendix 1 to this statement under the following headings:

- economic
- investment
- demographic
- climate change
- liquidity/maturity
- regulatory/compliance
- employer data quality
- governance
- orphan liabilities
- employer covenant
- grouped contribution

6.4 NILGOSC has a regulatory requirement to assess the level of risk of an employer at the point of admission. When considered appropriate, NILGOSC will seek an indemnity, bond or other form of security to mitigate the level of risk arising on premature termination due to future insolvency, winding up or liquidation. Further information on the regulatory requirement and NILGOSC's approach in this area is set out in NILGOSC's Admission and Exit Policy.

6.5 NILGOSC will ensure that funding risks are included within their overarching risk management framework and strategy.

7. Main actuarial assumptions

7.1 Financial Assumptions

7.1.1. The key financial assumptions are the discount rate and the pension increase/revaluation assumption.

7.1.2 **Discount rate**

7.1.2.1 The discount rate, or future investment return assumption, depends on the Funding Target used. The Funding Target used is determined by the type of employer in the Fund, the way any exit valuations will be carried out, and the employer risk/covenant. This is achieved by using different principles to derive the Solvency and Funding Targets for different employers in the Fund, as set out below.

7.1.3 **Pension and pay increase assumption**

7.1.3.1 The Scheme provides increases in line with increases in the Consumer Prices Index on the majority of pensions paid. The pension increase assumption is generally set by reference to the Fund Actuary's best estimate of Consumer Prices Index inflation over the long term. The pay increase assumption can then be derived from the CPI assumption, with

the pay increase assumption being set as CPI plus 1.5% at the 2022 Actuarial Valuation.

7.1.4 **Main employer group (Main group), and those employers with a subsumption guarantee from such an employer**

7.1.4.1 The assumption is based on indefinite investment in a broad range of assets, with reference to the Fund's strategic asset allocation as set out in the Statement of Investment Principles.

7.1.4.2 The assumption recognizes the need for prudence, and at the 2022 valuation was set such that there was a 75% Probability of Funding Success, although 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.

7.1.4.3 The Funding Target for such employers is called the Main employer group and subsumption bodies funding target.

7.1.5 **Intermediate funding target**

7.1.5.1 This funding target is used for those employers who are deemed to be less likely to exit than the orphan admission bodies but which do not have a subsumption commitment and are deemed to be less secure than the Main Employer group employers.

7.1.5.2 This includes employing authorities which are removed from the Main group but where it is possible that they might be re-admitted (e.g. on securing a guarantee and commitment from a Government Department to fund the liabilities should the employer exit).

7.1.5.3 For these employers, the discount rate would be set as for the main employer group for the period before contributing members are assumed to leave service. For the period after leaving service (or the period contributing members are assumed to have left service), the discount rate is set at a suitable margin below that used for the Main Employer Group to reflect the assumption of continued investment in a broad range of assets of higher risk than risk free assets for a longer period, albeit considering any likely change in notional or actual investment strategy as regards the assets notionally held in respect of the employer's liabilities when it exits. In the 2022 valuation this left-service discount rate was set at 1.0% per annum below the Main Employer Group discount rate.

7.1.6 **Employers whose liabilities would be orphan on exit**:

7.1.6.1 For employers for which no access to further funding would be available to the Fund after exit, the discount rate would be set as for the main employer

group for the period before contributing members are assumed to leave service.

7.1.6.2 For the period after leaving service (or the period contributing members are assumed to have left service), investment in a portfolio of UK Government bonds will normally be assumed and the investment return assumption will be based on the expected yields on those bonds.

7.1.6.3 The Funding Target for such employers is called the Ongoing orphan funding target.

7.1.7 **Already orphaned liabilities**:

7.1.7.1 For liabilities in respect of former employers in the Fund, for which no individual employer is responsible for funding, the discount rate/investment return assumption will be based on the expected yields on UK Government bonds.

7.1.7.2 The Funding Target for such liabilities is called the Low risk funding target and already orphaned liabilities will be assumed to be 100% funded at each valuation, which may involve notionally re-allocating assets within the Fund as required.

7.2 Demographic assumptions

7.2.1 Demographic assumptions relate to membership movements or decisions leading to benefit payments or ending of benefit payments, for example rates of mortality, ill health, turnover of staff, marital statistics and promotional increases in pay. How long members and their dependants are assumed to live after retirement (post-retirement mortality) is the key demographic assumption.

7.2.2 The demographic assumptions are reviewed by the Fund Actuary and updated once every three years. The demographic assumptions are intended to be best estimate and are designed to be applicable to the long-term future and should, therefore, not be too influenced by recent events. In addition, it is usually not practical, desirable or cost effective to set demographic assumptions at an employer specific level.

7.2.3 The post-retirement mortality assumption is set with reference to the Fund's own data on deaths, national mortality statistics, and the experience of other pension funds, including using members' postcodes to allocate them to different socioeconomic groups.

7.2.4 Where practical, the other demographic assumptions are also informed by the actual experience of the Fund's membership. Where this is not practical, other demographic assumptions are set by reference to national statistics and/or a larger sample of pension schemes with a similar socio-

economic profiles as LGPS (NI) members. Further information is set out in the Actuarial Valuation report.

8. Asset shares notionally allocated to employers

8.1 In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own asset share within the Fund.

8.2 This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

8.3 For employers in the Main group, the notional asset share for the whole group will be tracked allowing for all cashflows associated with the membership of the entire group, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. Where a notional asset value is required for individual employers in the Main group, those employers will be allocated the same proportion of notional assets as all other employers in the group, relative to the calculated level of their liabilities.

8.4 The notional asset share allocated to each employer at each triennial valuation will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below.

8.5 In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made halfway through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions.

8.6 Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous Actuarial Valuation.
- Allowance for any known material internal transfers in the Fund, as cashflows will not exist for these transfers. The Fund Actuary will assume an estimated cashflow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department, unless some other approach has been agreed.
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund.

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

8.7 In exceptional circumstances, information available will not allow for such cashflow calculations. In such circumstances another method will be agreed to calculate the notional asset share.

8.8 Attribution of investment income

8.8.1 NILGOSC has a single investment strategy and the Main group's and ungrouped employers' notional asset shares will generally be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those ungrouped employers for whom a tailored notional investment portfolio exists.

8.8.2 Where NILGOSC has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional investment portfolio.

8.8.3 For already orphaned liabilities, to the extent that NILGOSC decides not to match these liabilities with asset holdings of UK Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employers' notional assets.

9. Grouping or pooling and risk sharing arrangements

9.1 For the purposes of setting minimum employer contribution rates at triennial Fund valuations, certain employers are grouped together and contributions are set based on all employers in the group sharing all funding 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 Employers' own membership characteristics and underlying asset share.

9.2 All employers in the Fund are grouped with the exception of employers which are known to be closed to new entrants or employers which display characteristics that are not consistent with the Main group, including those employers assessed by NILGOSC as having a weak covenant or those of limited duration in the scheme, as part of an employer covenant assessment.

9.3 Employers can elect to pay contributions above the minimum level set by NILGOSC as set out in the Rates and Adjustments Certificate for

employers participating at the valuation date, but in the case of employers within the Main group such contributions will be allocated to the Main group as a whole rather than to the employer making the payment.

9.4 In order to ensure that other employers in the Main group do not have to pay for the decisions of individual employers within the Main group which affect the liabilities, key elements of experience will be monitored and employers asked to make additional contributions to cover the assessed cost of any additional liabilities arising due to decisions they have made.

9.5 All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in ill- health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. This pooling of risk is across all employers in the Fund regardless of whether or not they participate in the Main group. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low-cost approach to spreading the risk.

9.6 Where Employers are required to produce annual accounting figures under Financial Reporting Standard 102 (FRS102) or International Accounting Standard 19 (IAS19) and these are produced by the Fund Actuary, these will use the employer's notional asset share from the latest valuation (or accounting position if later) and the requirements of the relevant accounting standards. In relation to employers in the Main group, the asset share for accounting purposes will be derived from the triennial valuation calculations assuming all employers in the Main group have the same funding level at the triennial valuation date. This means employer's notional asset shares for accounting purposes are re-set at each triennial valuation once the Main group's position has been re-assessed.

9.7 Employers are reminded 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 FRS102/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 an exit valuation, unless specifically requested.

9.8 Guarantees from employers participating in the Fund

9.8.1 NILGOSC has a policy of requiring admission bodies to obtain a guarantor. NILGOSC maintains a list of employers and their associated Guarantors. NILGOSC, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits the Fund and/or defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by NILGOSC, the Guarantor may subsume the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities.

9.8.2 During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action may be to change the Funding and Solvency Targets for the employer, which could lead to reduced contribution requirements. An example of this may be where a departmental guarantee is secured for an employer subject to the Intermediate Funding Target, and the employer is then included in the Main Group as a result.

9.9 Guarantees from relevant public bodies and others

9.9.1 Some employers in the Fund may have guarantees from external public bodies.

9.9.2 Other guarantees from external bodies will be assessed individually by NILGOSC, with advice from the Fund Actuary, to determine the impact on the funding approach for the relevant employers.

10. Link to Statement of Investment Principles

10.1 Funding and investment strategy are closely linked. Investment strategy is set by NILGOSC, after taking investment advice.

10.2 NILGOSC has produced this FSS 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.

10.3 The current strategic asset allocation is based upon a triennial review carried out by NILGOSC and the resulting Asset Allocation is set out in NILGOSC's Statement of Investment Principles.

10.4 Employer and employee contributions and investment returns all contribute to funding. If investment returns or income are lower than expected, then higher employer contributions may be needed.

10.5 The investment strategy therefore takes account of the liability profile and funding position. The discount rate is calculated based on the strategic

asset allocation, and NILGOSC considers the consequent changes in funding position and solvency objective when setting investment strategy.

10.6 Equally, the funding strategy allows for the in-force investment strategy when setting the discount rate (which is based on expected investment returns on the Fund's long-term investments).

10.7 NILGOSC aims to invest the assets of the Fund prudently, ensuring an appropriate balance between risk and return so that the benefits promised to members can be provided, and to provide reasonable stability in contribution rates for the employers.

10.8 NILGOSC operates a single investment strategy for the Fund. It does however recognise the increased risk associated with those employers whose participation in the fund is believed to be of limited duration. Accordingly, NILGOSC notionally allocates a portion of its gilts (Government bonds) holdings to orphan employers. This allocation is purely notional and does not imply any formal subdivision of assets, nor ownership of any particular assets by an individual employer.

10.9 NILGOSC will continue to monitor the suitability of the investment policy in the light of the Fund's developing liabilities and finances. NILGOSC will continue to review the FSS and the SIP to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

11. Setting employer contributions

11.1 As part of each Actuarial Valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. NILGOSC also monitors the position and may amend contributions between Actuarial Valuations as permitted.

11.2 Further details of NILGOSC's policy in relation to reviewing contributions are set out in the Admission and Exit Policy.

11.3 Employer contribution rates are set using the same Funding Target assumptions as for the liabilities.

11.4 Employer contributions are made up of future service ("common") contributions, and additional adjustments to target the recovery of any deficit or return of surplus over an appropriate Recovery Period. These together make up the total contributions for each employer. The employer contributions are specified in the rates and adjustments certificate included with each Actuarial Valuation, and/or in any updates to the certificate between Actuarial Valuations.

11.5 The Actuarial Valuation report also shows a weighted average contribution rate based on the whole Fund payroll; both the average percentage rates payable and a total amount in respect of cash adjustments. The purpose of this is to show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.

11.6 Future service contributions

11.6.1 For open employers (i.e. those who still admit new members) 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 future service 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.

11.6.2 For employers who no longer admit new members (closed employers), the Attained Age valuation method is normally used. 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.

11.7 Adjustments to contributions

11.7.1 Where an employer has a surplus or a deficit, in other words where the funding position is more or less than 100%, a positive or negative adjustment to the future service contribution rate is needed to arrive at the total contributions each employer is required to pay. The adjustment may be expressed as a lump sum payment or as a percentage of payroll. For any employer, the contributions they are required to pay is the sum of the future service rates and any required adjustment for the past service funding position.

11.8 Recovery Periods

11.8.1 The recovery period is the time period over which the adjustments for the past service funding position are payable.

11.8.2 The recovery period applicable for each employer is set by the Fund Actuary in consultation with NILGOSC, taking into consideration the following:

- The aim to keep employer contribution rates stable
- The need to maintain solvency, which is consistent with a desire to set deficit recovery periods as short as possible
- The covenant of the employer, and any guarantee or subsumption agreement from another employer in the Fund
- The expected period of participation in the Fund of the employer

- Representations received from the employer and any guarantor
- The risk associated with adopting a recovery period for recovery of deficit (rather than requiring immediate payment), which increases as longer deficit recovery periods are chosen. The risk is that, by adopting this approach, relatively little action is taken to restore full funding between Actuarial Valuations.

11.8.3 NILGOSC has agreed with the Fund Actuary a maximum deficit recovery period of 20 years for employers which are assessed by NILGOSC as being a long-term secure employer, principally those in the Main group.

11.8.4 Where there is a deficit for employers over successive valuations, the aim will be to set the recovery period in successive valuations so that the existing deficit continues to target the same date of recovery, whilst new emerging deficits are recovered as set out in this section, and balancing this with the desire for stability in employer contributions

11.8.5 Recovery Periods for employers outside of the group may be shorter than those employers in the group, in order to suitably balance risk to the Fund and cost to the employer.

11.8.6 The default surplus spreading period is 20 years, unless the employer has a fixed term of participation in the Fund in which case the remaining period of participation will be used.

11.8.7 NILGOSC and Fund Actuary would be unlikely to agree to a Recovery Period longer than the remaining term of participation.

11.8.8 For employers that are closed to new entrants and do not have a fixed term of participation, the recovery period will generally be set to be the future working lifetime of the remaining active members.

11.9 Removal of surplus

11.9.1 In determining the approach to be adopted where the valuation discloses a surplus of assets relative to the funding target, NILGOSC's overriding aim will be to ensure any reduction in employer contributions is not deemed to lead to an unacceptable risk of contributions needing to be increased again in future, bearing in mind one of the key aims of the funding strategy is to keep contributions stable.

11.9.2 Consistent with a desire to keep employer contribution rates as stable as possible, and the requirement to maintain solvency for the Fund, the surplus allowed for in the calculation of the adjustments to the contributions to remove any surplus for employers subject to the Main Employer Group or Intermediate funding targets shall generally only apply to surplus in respect of an employer funding level above a certain threshold or "surplus buffer", which was 105% in the 31 March 2022 valuation. NILGOSC will

review this threshold level every three years in conjunction with the actuarial valuation and may amend the threshold or disapply this element of the strategy if it considers it appropriate to do so, having regard to the overall desirability of stability of contributions, and balancing fairness to participating employers and funding risks.

11.9.3 The period over which any surplus is removed will generally be set in line with the Recovery Periods section above.

11.10 Phasing in of contribution rates

11.10.1 Consistent with a desire to keep employer contribution rates as stable as possible, NILGOSC will consider, at each Actuarial Valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years (this could be an increase or decrease in employer contribution rates).

11.10.2 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.

11.10.3 NILGOSC adopts a contribution strategy that limits changes to the future service rate to plus or minus 1% of pay per annum for all employers in the Main group or those employers with a subsumption commitment from an employer in the Main group. NILGOSC will review this strategy every three years in conjunction with the actuarial valuation and may disapply this element of the strategy if it considers it appropriate to do so, having regard to the overall direction of travel of contributions for employers in the Main group. 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.

11.11 Fund maturity

11.11.1 To protect the Fund, and individual employers, from the risk of increasing maturity and declining payrolls producing unacceptably volatile contribution adjustments as a percentage of pay NILGOSC will normally require monetary contributions from employers in respect of any disclosed funding deficit.

11.11.2 In certain circumstances, for secure employers considered by NILGOSC as being long term in nature, contribution adjustments to correct for any disclosed deficit may be set as a percentage of payroll.

11.11.3 Where an employer is assessed to be in surplus and total contributions are to be set below the future service contribution rate this will be implemented

via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount (subject to a minimum overall contribution rate of zero).

11.11.4 Where defined streams of capital contributions are required for deficit recovery, 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. In particular, NILGOSC will determine how any emerging surplus or deficiency within the Main group will be apportioned between the employers in the group, with a view to adopting an approach which balances the need to act equitably between employers in the group and to adopt a cost effective, practical approach.

11.12 Grouped/Pooled employers

11.12.1 The assets and liabilities for employers will allow for any assets and liabilities the employer has agreed to subsume relating to employers who have exited or have been taken over / merged as a result of reorganisation. This will include employers who have exited and had a subsumption guarantee from another employer.

11.12.2 Where employers are grouped or pooled for funding purposes, employer contributions will be set allowing for the grouping/pooling. In particular, all employers in the Main pool will be set the same minimum contribution rate, based on the membership and funding position of the group as a whole.

11.12.3 All employers in the Main Employer Group share in all funding related risks equally, including investment risk, employer default risk, market conditions impacting costs of benefits and demographic risks.

11.13 Additional contributions

11.13.1 Employers will have to pay additional contributions to the Fund when granting additional member benefits:

- Awards of additional pension
- Retirement before normal retirement age on unreduced benefits (e.g. on redundancy), commonly called "strain costs"

11.14 Conflicts of interest

11.14.1 NILGOSC has a clear and transparent process for identifying, assessing and managing potential conflicts of interest set out in the Conflicts of Interest Policy. In relation to funding, the following measures are in place:

- The actuarial team advising NILGOSC does not provide actuarial advice to participating employers, with agreed conflict of interest protocols
- Maintenance of a register of interests and declarations of Committee members as a standing agenda item at all meetings
- The Committee agreeing high-level principles of funding strategy, and actuarial assumptions which apply to all employers, rather than making decisions on individual employer rates. The Fund Actuary will calculate resulting employer rates based on those high-level decisions around risk appetite and objectives
- The Fund Actuary is subject to professional standards which requires them to only certify contribution rates which are sufficiently prudent and in line with the Regulatory requirements

11.14.2 There is central oversight of the valuation process and whether it meets the requirements of solvency and long-term cost efficiency from the Government Actuary's Department review under Section 13 of the Public Service Pensions Act (Northern Ireland) 2014.

12. Monitoring employer covenant

12.1 An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities. The strength of each employer's covenant depends on the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

12.2 NILGOSC conducts a detailed review of each employer's covenant/risk as a matter of course with each triennial actuarial valuation and revisits annually with a particular focus on those employers where a risk criterion is triggered as part of the ongoing monitoring regime or otherwise identified through the normal course of business.

12.3 In its assessment of each employer's covenant/risk NILGOSC will focus on the following:

- Legal status and tax raising powers
- Enforceability of legal agreements
- Guarantee or bond in place and quality of same
- Option to call in contingent assets
- Need for monitoring of ongoing and cessation funding ahead of next actuarial valuation

12.4 Employer risk assessment

12.4.1 NILGOSC takes a holistic approach to its assessment of participating employers, conducting a detailed review of a number of assessment criteria in determining a risk score including but not limited to:

- Profitability, cashflow and financial flexibility
- Funding stream stability and sourcing over short, medium and long-term horizons
- Function of body and essential nature of service delivered
- Pattern of pension contribution payments

12.4.2 A proportionate approach is adopted with further consideration given to:

- Scale of the obligations in the pension scheme relative to the size of the employer's operating cashflows
- An estimate of the amount and recoverability available to the fund in the event of employer insolvency
- The presence and nature of any guarantee provided by another scheme employer

12.4.3 While the methodology is designed to be fair, objective and transparent, a degree of subjectivity may be required to ensure the unique circumstances of each employer is taken into account.

13. Link to Administration Strategy

13.1 Employers must comply with the Fund's administration strategy, and have regard to other relevant policies published on the Fund's website.

13.2 In particular, employers should note that it is important to provide accurate and timely data to NILGOSC, so that the funding strategy can be implemented correctly.

13.3 NILGOSC expects all employers in the Fund to take into consideration the effect of their behaviours on the Fund, for example when considering:

- Restructures
- Discretions policies
- Outsourcing decisions

13.4 All employers need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution, mergers with other organisations, or other decisions which will or may materially affect the employer's Fund membership.

13.5 Employers considering restructuring or outsourcing any services should advise NILGOSC at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.

14. Employer events

14.1 Joining the Fund

14.1.1 An employer who wishes to join the LGPS (NI) may apply to NILGOSC for admission, and if admitted they will become an Admission Body in the Fund.

14.2 Initial notional asset transfer

14.2.1 When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer. The Fund Actuary will calculate the funding target and hence the notional asset transfer at the new employer's commencement date.

14.2.2 When a new Admission Body starts in the Fund, they will usually start as fully funded (i.e. the notional asset transfer is set equal to the funding target appropriate to that employer).

14.2.3 Where the transfer is from an ungrouped employer the transferring employer will be required to make an immediate payment to the Fund in respect of any funding shortfall attributable to the members who are transferring to the new employer.

14.2.4 The Fund's approach to grouping means that in general, there is no need to calculate a notional asset transfer where there is an internal transfer from one grouped employer to another grouped employer between valuations.

14.2.5 Whenever liabilities are transferred to an inheriting body such as a Scheme employer using an apportionment agreement under regulation 71 of the Regulations, the inheriting body accepts future responsibility for funding the full liabilities and the full notional assets will be transferred.

14.3 Employer contributions

14.3.1 **Initial contribution rate**

14.3.1.1 When a new employer joins the Fund, the Fund Actuary determines the initial employer contribution rate payable from the new employer's commencement date. When setting the employer contribution rate the following elements will be taken into consideration:

- Whether the employer is in the Main Employer Group or subject to one of the ungrouped funding targets
- Any past service or inherited liabilities
- Whether the new employer is open or closed to new entrants

- For Admission Bodies, whether the admission agreement is fixed term or not, and the period of any fixed term contract period
- Other relevant circumstances

14.3.2 **Review of contributions**

14.3.2.1 The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers and may be increased or reduced.

14.3.2.2 NILGOSC also monitors the position and may amend contributions between triennial Actuarial Valuations.

14.3.2.3 Further details on the setting of contributions for new employers and contribution reviews is set out in the Admission and Exit Policy.

14.3.3 **Contributions for grouped/pooled employers**

14.3.3.1 Where an employer is joining the Main Group of employers, they will be set a contribution rate in line with the rate the other members of the group are paying.

14.4 Bonds and other securitisation

14.4.1 Paragraph 1 of Part 2 of Schedule 2 of the Regulations creates a requirement for

- in the case of a body admitted under paragraph 2(1)(h)(i) of Part 1 of Schedule 2 of the Regulations, the employing authority; or
- in all other cases, the admission body, to the satisfaction of NILGOSC,

to carry out 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.

14.4.2 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 it is not desirable for an admission body to enter into an indemnity or bond, the 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 the admission body.

14.4.3 In the case of Admission Bodies admitted under paragraph 2(1)(h)(i) of Part 1 of Schedule 2 of the 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.

14.4.4 In the case of:

- Admission Bodies admitted under paragraph 2(1)(h)(ii) of Part 1 of Schedule 2 of the Regulations
- Admission Bodies admitted under paragraph 2(1)(h)(i) of Part 1 of Schedule 2 of the Regulations where NILGOSC judges the employer not to be of sound covenant, and
- any other 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

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

14.5 Exit of an employer from the Fund

14.5.1 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 an exit valuation is therefore to be carried out immediately, or whether the exit valuation can be deferred under provision of Regulation 70(12) of the Regulations.

14.5.2 Where the employer is deemed to have withdrawn from the Fund, the Fund Actuary will carry out an exit valuation.

14.5.3 The notional assets allocated to the employer on exit will be determined based on a roll-forward from the notional assets at the last triennial valuation or commencement, if later, using the same approach as set out in the previous section of this FSS "Asset shares notionally allocated to employers".

14.5.4 The Funding Target used for the exit valuation will depend on the circumstances on exit and/or the type of employer exiting the Fund, including whether the liabilities will become orphan or transferred to / subsumed by a long-term secure employer.

14.5.5 The purpose of an exit 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 an exit valuation may be different (more prudent) than those adopted for an ongoing valuation as described elsewhere in this document.

14.5.6 The exit valuation may reveal either a surplus or a deficit, and how these are dealt with is set out below.

14.5.7 Further detail on how the exit valuation is carried out is set out in NILGOSC's Admission and Exit Policy.

14.6 Exit payments

14.6.1 Where the exit valuation reveals a deficit, NILGOSC will recover any exit payment from that organisation unless there is a successor organisation under an apportionment agreement (under Regulation 71 of the Regulations), which is also a participating employer in the Fund, which formally adopts the pension liabilities of the previous organisation as its own.

14.6.2 Where an exit payment is recoverable from an outgoing organisation, that exit payment 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.

14.7 Exit credits

14.7.1 Where the exit valuation discloses a surplus in the Fund in respect of the exiting employer, (and there is no apportionment agreement agreed by NILGOSC and any potential inheriting employer in respect of the remaining liabilities), this surplus will be repaid to the exiting employer.

14.8 Deferral of exit valuations

14.8.1 NILGOSC will take the following into account in determining whether or not an exit valuation can be deferred under Regulation 70(12):

- The financial position of the employer on deferral;
- The employer's funding position at the date of deferral;
- The future working lifetime of the active members immediately before the date of exit;
- The Funding Strategy Statement and funding target applicable to the employer during the deferral period;
- Specifics of the legal agreement with the Employer;
- Any actuarial or legal advice; and

- Any individual circumstances relevant to the request for deferral of the exit valuation

14.8.2 If, in the opinion of NILGOSC there is a material change in the circumstance of an employer, NILGOSC may, with the approval of the Department, vary the date of the deferred exit valuation and exit certificate.

14.8.3 Further detail is set out in NILGOSC's Admission and Exit Policy.

14.9 Partial terminations

14.9.1 A partial termination occurs where an employer exits the Fund in respect of non-active members only. In general, NILGOSC does not permit partial terminations and they are not defined in LGPS (NI) Regulations. However it is possible that apportionment agreements can be put in place to transfer some of an existing employer's liabilities to an inheriting employer, and revised contributions would then be required to be set under Regulation 71(3) for the remaining membership . Any requests from employers for "partial terminations" of this type will be considered on a case-by-case basis.

14.10 Bulk transfers

14.10.1 A bulk transfer may arise when two or more members are transferred between employers, for example on a re-organisation of public services.

14.10.2 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.

14.10.3 NILGOSC's policy on bulk transfers is set out in Appendix 2.

Funding Strategy Statement – Appendices:

Appendix 1:	**Key Risks**
Appendix 2:	**Bulk transfer policy**
Appendix 3:	**Roles and responsibilities**
Appendix 4:	**Glossary**

Appendix 1: Key Risks

Risk	Economic Risk
Explanation	Economic risks can affect both assets and liabilities. The main risks affecting the liabilities include interest rates and price inflation. NILGOSC will ensure that the Fund Actuary investigates these matters at each Actuarial Valuation or, if appropriate, more frequently, and reports on developments. NILGOSC will agree with the Fund Actuary any changes necessary to the assumptions used to calculate the liabilities to allow for observed or anticipated changes. Interest rates, inflation, and wider macro-economic risks can also affect the assets held. In addition, the assets may not be affected in the same way as the liabilities. Investment risk is covered in more detail below. 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. NILGOSC invests a substantial proportion of the Fund in assets which are expected to offer higher long-term rates of return on average but can be more volatile. This short-term volatility in returns can result in volatility in funding positions and employer contributions.
Mitigation	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. If significant funding changes become apparent between Actuarial Valuations, NILGOSC will notify all participating employers of the anticipated impact on costs that will emerge at the next Actuarial Valuation and consider whether any bonds in place for Admission Bodies require review. NILGOSC's policy is 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. Producing low volatility in employer contributions would require material investment in "matching" assets for the liabilities, i.e. investing in very secure assets that behave in a similar way to the liabilities as economic conditions alter (i.e. long-dated index-linked gilt investments). However, a matched strategy could increase employer contributions from their current levels. The Fund Actuary sets the discount rate by taking into account expected returns and volatility of each asset class in the long-term investment strategy. This can help mitigate the risk in that movements in asset values typically impact expected returns on those asset classes, and liabilities should move in a similar way to the assets, helping to manage the impact on the funding position.

Risk	Investment risk
Explanation	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: ▪ 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 The specific risks associated with assets and asset classes are: ▪ equities – industry, country, size and stock risks ▪ index-linked gilts – interest rate risk, inflation risk ▪ return seeking bonds – credit risk, interest rate risk, derivative risk including counterparty risk, liquidity risk, manager risk ▪ alternative assets – liquidity risks, property risk, alpha risk ▪ money market – credit risk and liquidity risk ▪ currency risk ▪ macroeconomic risks, including climate change
Mitigation	The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, as set out in the Statement of Investment Principles. NILGOSC ensures 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 ▪ monitoring the mis-matching risks that the investments do not move in line with the Fund's liabilities NILGOSC reviews each investment manager's performance quarterly and considers the asset allocation of the Fund formally by carrying out a triennial review with its Investment Advisors, Fund Managers and Fund Actuary. NILGOSC also regularly reviews the effect of market movements on the Fund's overall funding position.

Risk	Demographic Risk
Explanation	The main demographic risks that may affect the liabilities include life expectancy, changing retirement patterns and other demographic risks.
Mitigation	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. If significant liability changes become apparent between Actuarial Valuations, NILGOSC will notify all participating employers of the anticipated impact on costs that will emerge at the next Actuarial Valuation and consider whether any bonds in place for Admission Bodies require review. If there has been a relevant change in the circumstances of an employer NILGOSC may ask the Actuary to issue a certificate specifying an adjustment to the employer's contribution or any variation to an additional individual adjustment.

Risk	Climate Change
Explanation	The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The impact on financial markets and life expectancy / morbidity will also impact the value placed on the liabilities, which can also significantly change the funding level and any surplus or deficit, and the resulting employer contributions.
Mitigation	NILGOSC keeps the effect of climate change on future investment returns under review and will commission advice from the Fund Actuary on the potential effect on funding as required. At the 2022 Actuarial Valuation the Fund Actuary carried out scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period, and similar analysis will be carried out at the 2025 Actuarial Valuation. The analysis carried out will be in line with the key principles document agreed by the actuarial firms providing advice to LGPS funds and approved by the Government Actuary's Department, the Ministry for Housing, Communities and Local Government and the England and Wales LGPS Scheme Advisory Board. Employer's perception and response to Climate change risk is collated as part of the triennial and annual covenant risk assessment exercise

Risk	Liquidity and Maturity Risk
Explanation	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: • 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 their implications 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. NILGOSC recognises that permitting the Solvency Target to be achieved over a period (the recovery period) rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.
Mitigation	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. 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. 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.

Risk	Regulatory/Compliance Risk
Explanation	The risks relate to changes to general and LGPS (NI) specific regulations, national pension requirements or HM Revenue and Customs' rules. There are a number of uncertainties associated with the benefit structure at the time this FSS was last updated: • The outcome of the cost management process as at 31 March 2024. • The impact of the McCloud underpin to 2015-2022 pensions for those who joined the LGPS before 1 April 2012, particularly where full data is not yet available.
Mitigation	NILGOSC will keep abreast of all proposed changes. 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. In determining how the benefit structure uncertainties should be allowed for in employer contributions NILGOSC will have regard to the Fund Actuary's advice. For the purposes of the 2025 Actuarial Valuation, an appropriate allowance will be made in respect of the McCloud remedy based on data provided in respect of individual members.

Risk	Employer Data Quality Risk
Explanation	Actuarial calculations such as triennial Actuarial Valuations, employer contribution rates, and exit valuations, rely on accurate data being supplied. Where data quality is low, there is a risk that these calculations are not as accurate, which could lead to employer contributions and/or exit payments being set too high or too low.
Mitigation	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.

Risk	Governance Risk
Explanation	This covers the risk of unexpected structural changes in 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.
Mitigation	The policy is to require regular communication between NILGOSC and employers and to ensure regular reviews of such items as bond arrangements and funding levels. NILGOSC seeks to ensure that each employer complies with its Admission Agreement (if applicable) and the Regulations.

Risk	Orphan Liability Risk
Explanation	This risk arises from the risk of employers leaving the Fund and leaving orphaned liabilities. In addition there is also a risk that deficits might arise in respect of already orphaned liabilities.
Mitigation	Funding targets are set to target the assumed exit position, to reduce the risk of deficits arising on exit. NILGOSC will seek to minimise the risk to other employers in the Fund that any deficit arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficit. To give effect to this, NILGOSC will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low-risk investments, generally UK Government fixed interest and index linked bonds.

Risk	Grouped Contribution Risk
Explanation	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 individual prospective liabilities.
Mitigation	NILGOSC's policy is: • 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 consistent with the group from the grouped contribution rate; • to monitor experience of employers in the Group in relation to risks under an employer's control (e.g. pay growth) to ensure that other employers in the Group are not unfairly paying for additional liabilities created by the behaviour/choices of certain employers in the Group; and • to communicate the risk of underpaying or overpaying contributions to employers in the group.

Risk	Employer Covenant
Explanation	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 where employers are unable to meet their obligations to the Fund.
Mitigation	NILGOSC has a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer and other pension fund stakeholders. NILGOSC monitors employer payments and expects employers to engage with the Fund where their circumstances have changed, noting that contributions can be reviewed between triennial Actuarial Valuations under NILGOSC's Admissions and Exits policy. NILGOSC will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the FSS. NILGOSC carries out a covenant assessment exercise at least every three years to assess the strength of covenant of each of the employers in the fund and uses this information to inform the valuation. NILGOSC pools the risk associated with death-in-service and ill-health early retirement across all employers in the Fund. This reduces the risk of the funding position of a small, ungrouped employer being materially affected by a death-in-service or ill-health early retirement. In relation to the risk that an employer may default on an exit payment or other debt owed to the Fund, NILGOSC 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. If there has been a relevant change in the circumstances of an employer NILGOSC may ask the Actuary to issue a certificate specifying an adjustment to the employer's contribution or any variation to an additional individual adjustment. (See glossary in Appendix 4 for definition of relevant change).

Appendix 2: Bulk Transfer Policy

1. Background

1.1 A bulk transfer may arise when two or more members are transferred between employers, for example on a re-organisation of public services.

1.2 This Bulk Transfer policy applies to all employers participating in the Fund. This policy summarises how NILGOSC manages bulk transfers, the approaches that will usually be adopted to determine the amount of the bulk transfer and when additional funding or other payments may be required. The circumstances relevant to any particular case will be considered.

1.3 Bulk transfers from the Fund are specifically governed by regulations 110 and 111 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014. Nothing within this policy can take precedent over the relevant legislation.

1.4 The steps that are normally involved in a bulk transfer are as follows:

- The actuaries of the two funds/schemes agree the membership and data of the members transferring.
- The actuary of the original fund/scheme proposes a basis for a transfer payment, usually set out in an "actuary's letter".
- The actuaries of the two funds/schemes, together with the funds and the relevant employers, negotiate and agree the final basis for the transfer payment, and a final actuary's letter is produced and signed.
- A test is carried out to confirm that the rights that each member will acquire under the new scheme are at least equivalent to those which they would have obtained if they received a Cash Equivalent Transfer Value and it had been paid to the new scheme to secure benefits individually.
- Options are provided to members and the final transferring membership is confirmed when members confirm whether they will transfer.
- Example calculations are carried out and agreed between the actuaries.
- A payment date is agreed, and final payment is made.

2. Asset Shares

2.1 As a general principle, and subject to other overriding factors, NILGOSC and the Fund Actuary will use the asset shares attributable to the transferring employer at the date of transfer in setting the level of transfer (rather than the

Fund as a whole). The asset share in relation to employers in the Main group will be determined as set out earlier in this statement.

2.2 Additionally, unless the ceding employer will become an exiting employer, assets assumed to be held to meet the transferring liabilities will generally be calculated in proportion to the assets notionally held to cover the remaining liabilities of the transferring employer (i.e. the employer which employed the transferring members before the transfer date) with no adjustment to ensure that non-active liabilities of the transferring employer remain fully funded.

2.3 Where the employer is grouped with other employers (see section 6.8), the assets are not notionally apportioned to employers within the group at each valuation because this is not needed for the purpose of setting employer contributions. Where asset values are required, e.g. for employer accounting or exit valuations, the asset share will be calculated assuming all grouped employers have the same funding level relative to their liabilities.

2.4 In bulk transfer cases the asset share for an employer in the group will be determined by applying the estimated group funding ratio at the transfer date to the value of the transferring liabilities, where the group liabilities are assessed based on assumptions consistent with those used for the group at the last triennial valuation of the Fund updated for changes in market conditions and any change in the funding strategy statement as appropriate.

3. Internal Transfers Within the Fund

3.1 These will arise when there is a bulk transfer of members from an existing Scheme employer to another Scheme employer e.g. as part of government re-organisation or an outsourcing. It is usual for those members who are transferred to have continuous membership in the Scheme, unless they opt out. This means that their full service built up to the date of the transfer would transfer to the new employer.

3.2 In general, the Fund's approach is to require additional funding where needed to reduce the risk to the Fund. However, this will depend upon the circumstances and the employers involved in the transfer:

3.3 The Fund's approach to grouping means that in general, there is no need to calculate a notional asset transfer where there is an internal transfer from one grouped employer to another grouped employer between valuations. Any deficit contributions payable by the transferring and receiving employers will not change as a result of internal transfers unless any surplus or deficit in relation to the transferring liabilities is being passed from the ceding employer to the receiving employer and this is deemed to be sufficiently material to warrant amending their contributions. The total contributions payable by

grouped employers should not change by virtue of the transfer of liabilities between employers in the group.

3.4 If it is a transfer to a newly admitted Scheme employer e.g. due to an outsourcing, the new employer will usually commence fully funded with a funding target appropriate to that employer. Where the transfer is from an ungrouped employer the transferring employer will be required to make an immediate payment in respect of any funding shortfall attributable to the members who are transferring to the new employer. Where the transfer is from an employer within the Main group, where the surplus or deficit on the transferring liabilities is being retained within the Main group and the ceding employer's contributions have been set to allow for any surplus or deficit the transferring employer's contributions do not need to be amended.

3.5 Whenever liabilities are transferred to an inheriting body such as a Scheme employer using an apportionment agreement[1] and the inheriting body accepts future responsibility for funding the full liabilities, including any shortfall there will be no need to require any additional contributions by virtue of the transfer.

3.6 Other internal transfers, where the liabilities transferring are material to either the transferring or receiving employer, 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:

- Where several staff transfer from one employer in the Main group to another in the Main group, the grouping mechanism means that no formal calculations are required, and the assets notionally allocated to each employer will be rebalanced in line with the movement in liabilities at the following triennial valuation.

- Where members are transferring from an employer in the Main group to an employer not in the Main group, the liabilities which have transferred will typically be valued on a more prudent funding target for the ungrouped employer than if they remained in the Main group. In that case, the assets which will be transferred will be considered on a case-by-case basis with the aim of ensuring a fair and proportionate approach for the circumstances and employers concerned.

- Where members are transferring from an employer outside of the Main group to an employer in the Main group, the reverse is true, i.e. the liabilities which have transferred will typically be valued on a less prudent funding target for the Main group employer than if they remained with the ungrouped employer. In that case, the assets which will be transferred will

[1] The Local Government Pension Scheme Regulations (Northern Ireland) 2014, regulation 71

be considered on a case-by-case basis with the aim of ensuring a fair and proportionate approach for the circumstances and employers concerned.

- Where members are transferring in bulk from an existing employer in the Main group to new employer which is to be outside of the Main group (and the transfer is on the date of commencement), the liabilities which transfer will typically be calculated on a more prudent funding target for the new ungrouped employer than if they remained in the Main employer group. In most cases, e.g. if the transfer is due to an outsourcing, the assets which will be transferred will be such that the employer commences without a funding deficit in relation to those transferring members. This may require a contribution from the ceding employer in order to make good any funding shortfall.

4. Internal Transfers (where not in bulk)

4.1 Members may also transfer within the Fund on an individual basis where TUPE does not apply e.g. by moving to a new job with a different employer. If the member elects to aggregate their previous benefits accrued with their old employer with their new benefits, then responsibility for their accrued benefits will transfer to their new employer.

4.2 Where the transfer is between employers in the Main group the assets in the group are not notionally allocated between the employers for the purpose of setting contributions at each actuarial valuation (and where assets shares are required for employer accounting or other purposes they will be apportioned pro rata to the employer's share of the group's liabilities on the funding basis). Where both employers are in the Main group there is therefore no need to explicitly calculate an asset transfer in respect of the transferring liabilities and there is an implicit assumption that the transfer will be on a share of fund basis.

4.3 Where the transfer involves an employer who is outside of the Main group, it is necessary to consider what level of assets should notionally transfer between the employers in respect of these liabilities. In general, NILGOSC's approach is for the transferring assets to be calculated on a cash equivalent transfer value (CETV) basis (i.e. as if the members were taking individual transfers).

4.4 However, where members are transferring from an employer in the Main employer group to one of the employers not in the Main group, the liabilities which transfer will typically be calculated on a more prudent funding target for the ungrouped employer than if they remained in the Main employer group. This means that the assets which transfer are likely to be lower in value than the liabilities, resulting in an immediate deficit in respect of those members for the receiving employer.

4.5 Whilst the individual cash equivalent approach is the default, NILGOSC will consider such cases on an individual basis, depending upon the nature of the transfers and their materiality to the employers. The principles which NILGOSC will apply are to ensure fairness between employers with an overriding objective of protecting the Fund. Where a transfer of assets above the level of a CETV is transferred from the Main Group to an ungrouped employer in relation to an individual transfer of liabilities, the Main Group employer may, at NILGOSC's discretion and on actuarial advice, be asked to make an additional payment to ensure there is no reduction in the group's overall funding level.

5. External Bulk Transfers Out to an Employer Outside the Fund

5.1 Generally, NILGOSC will offer a 'capped share of fund' transfer, such that any funding shortfall in respect of the transferring members would be transferred to the receiving employer but no surplus would be transferred. Any shortfall is usually dealt with outside the Fund e.g. by a top up payment from the employer to the receiving scheme. In the event of a funding surplus the bulk transfer value will be capped at the value of the transferring members' liabilities calculated on the funding target appropriate to the paying employer.

5.2 Some exceptions to this are:

- Where the transferring employer has exited, or is expected to shortly exit the Fund, a 'reserved share of fund', will normally be used. This means that NILGOSC will firstly reserve in full for any non-transferring liabilities that it will retain, for example those liabilities relating to deferred members, pensioners and any non-transferring active members. This would generally be calculated on a low risk basis.
- Where the transferring employer makes immediate payment of any shortfall attributable to the transferring members or arising from the transfer, enabling a fully funded transfer to be paid.
- Any other circumstances which may be agreed between NILGOSC and the Fund Actuary and notified in writing to the transferring employer.

6. Bulk Transfers Into the Fund

6.1 There is no provision to allow for bulk transfers into the Fund and any incoming bulk transfer value will be dealt with in the same way as individual transfers.

Appendix 3: Roles and responsibilities

1. Responsibilities of NILGOSC

1.1. NILGOSC has overall responsibility for the administration of the pension fund which it must operate in line with scheme regulations. As the administering authority it is responsible for:

- collecting employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the scheme regulations;
- paying from the Fund the relevant entitlements as stipulated in the scheme regulations;
- take reasonable steps to ensure these contributions are paid by the due date;

1.2. To this end and in accordance with sections 73, 74 and 75 of the 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, including the requirement to report material breaches of the law to the Pensions Regulator.

1.3. Employers' contributions are due to NILGOSC on the first day of the month following the month that they were deducted from employees' pay. If contributions are overdue by 10 days NILGOSC will levy an interest charge in accordance with Regulation 77(4).

1.4. NILGOSC will ensure that action is taken to recover liabilities from employing authorities (including admission bodies) that cease to participate in the Fund. The Fund Actuary will calculate the exit payment due at the date of exit of the employer and NILGOSC will notify the employer of the exit payment required to meet any deficit at the exit of the employer ensuring that cash is available to meet liabilities as and when they fall due;

1.5. NILGOSC monitors the fund's cash position on a daily basis to ensure that there is sufficient liquidity to meet all pension obligations as they fall due;

- investing surplus monies in accordance with the Investment Regulations; and
- managing the valuation process in consultation with the Fund Actuary;

1.6. NILGOSC liaises with the Fund Actuary on a regular basis 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 follows the Funding Strategy, including the setting of grouped or individually assessed employer contribution rates under Regulation 68(7);
- ensure that participating employers receive appropriate communication throughout the process; and
- ensure that reports are made available as required by Guidance and Regulation.

1.7. NILGOSC will take measures to safeguard the Fund against the consequences of employer default.

1.8. 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 admission bodies (e.g. contractors) that join for a limited period;
- those employers who are funding one-off strain costs through employers' contributions; and
- those employers which are assessed by NILGOSC as having a weak covenant. NILGOSC will carry out an employer covenant assessment exercise on a triennial basis to assess the strength of covenant of each of the employers in the fund and will regularly monitor covenant strength between triennial assessments.

1.9. NILGOSC will prepare and maintain a Funding Strategy Statement (FSS) and a Statement of Investment Principles (SIP), both after proper consultation with interested parties. NILGOSC will comply with the Regulations and follow best practice in the formulation of both of these policies.

1.10. 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.

1.11. NILGOSC will effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme Employer.

2. Responsibilities of Individual Employers

2.1. Individual employers are responsible for:

- complying with the Regulations;
- deducting contributions from employees' pay;
- paying all ongoing 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 additional contributions 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;
- providing the information requested by NILGOSC for employer covenant assessment exercises on a timely basis;
- paying any exit payments on ceasing to participate in the Fund; and
- noting and, if desired, responding to consultations regarding the Funding Strategy Statement.

3. Responsibilities of the Fund Actuary

3.1. The Fund 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 at a level to ensure fund solvency and long-term cost efficiency, 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 such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Valuations on the cessation of admission agreements or when a body ceases to employ any active members;
- Bonds and other forms of security to NILGOSC against the financial effect on the Fund of employers' default; and
- Such advice will take account of the funding position and Funding Strategy Statement, along with other relevant matters when instructed to do so.

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

3.3. 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.

Appendix 4: Glossary of Terms

The following is a glossary of pension terms used throughout the Funding Strategy Statement:

TERM	DEFINITION
Actuary	Expert on pension scheme assets, liabilities, life expectancy and probabilities. An actuary works out whether enough money is being paid into a pension scheme to pay the pensions when they are due.
Actuarial Valuation	An assessment performed by an actuary, usually every three years, to determine how much money needs to be put into a pension scheme to ensure that there are enough funds available to meet future pension payments.
Adjustments to the employers' future service contributions for past service position	The adjustment to the future service rate to allow for the recovery of any past service deficit or surplus is required to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the future service rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the Fund Valuation Date falls. For any employer, the rate they are required to pay is the sum of the future service rate and the adjustments for past service. The actuary should also disclose the adjustments to contributions for the past service position for the whole scheme in each of the three years beginning with 1 April in the year following that in which the Actuarial Valuation date falls. These should be calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.
Admission agreement / Admission body	A written agreement which provides for a body to participate in the Fund as a scheme employer. An admission body is an employer admitted to the Fund under an admission agreement.

TERM	DEFINITION
Assumptions	Assumptions about the future need to be made by the Fund Actuary in order to calculate how much money the Fund needs at the Valuation Date to pay for the benefits that have been earned up to the Valuation Date. These assumptions are estimates of future experience for example, pay growth, longevity of pensioners, inflation, and investment returns.
Code of Practice	The Pensions Regulator's General Code of Practice.
Consumer Price Index (CPI)	CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. Pension increases in the LGPS are linked to the annual change in CPI.
Contributions	The money paid by an individual or his/her employer into a pension fund.
Cost Efficiency	Long-term cost efficiency addresses the rate at which employer contributions are set to ensure the this doesn't give rise to additional costs.
Deficit	If the assets are lower than the liabilities, then a deficit exists. The deficit is the difference between the Past Service Liabilities and the assets.
Employer Covenant	The degree which an employer participating in the LGPS(NI) is able to meet its legal funding requirements of the scheme, both now and in the future.
Fund	Local Government Pension Scheme for Northern Ireland (LGPS(NI)).
Fund actuary	An actuary appointed by NILGOSC to provide advice to the Fund, including carrying out Actuarial Valuations.
Funding Basis	The manner in which money is set aside to meet future benefit obligations (liabilities).
Fund Manager	A professional manager of investments often employed by a pension scheme to manage assets on their behalf.

TERM	DEFINITION
Fund Solvency	In the pension scheme context this refers to the legal responsibility to ensure that all pension obligations will be met.
Funding Strategy Statement (FSS)	A Funding Strategy Statement (FSS) is a written framework which captures the processes by which the administrator of a pension scheme will determine employers' contributions to the Fund, manage its funding risks and ensure there are sufficient assets to meet pension obligations both now and in the future.
Funding Target	An assessment of the assets required to be held now in order to meet the benefits to be paid in the future. The desired funding target is to achieve a funding level of a 100% i.e. assets equal to the past service liabilities assessed using appropriate actuarial assumptions.
Fund valuation date	The effective date of the triennial fund Actuarial Valuation.
Future service rate of the employers' contribution	Each employer's future service contribution rate is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer (including any risk-sharing arrangements operated by NILGOSC), the actuarial method chosen and/or the employer's covenant. The future service rate for the whole Fund is the weighted average (by payroll) of the individual employers' future service rates.
Gilts	Bonds issued by the Government.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor may mean that the fund can consider the employer's covenant to be as strong as its guarantor's.

TERM	DEFINITION
Ill−health retirement	If a member meets the qualifying criteria for ill-heath retirement, their benefits will be brought into payment early. Active members receive enhanced pension benefits, depending on the severity of their medical condition.
Index	In the stock market, an index is a device that measures changes in the prices of a basket of shares, and represents the changes using a single figure. The purpose is to give investors an easy way to see the general direction of Shares in the index.
Index Linked Gilts	A type of bond where the interest payment is guaranteed to rise in line with an inflationary index.
Inflation	The general rate of increase in prices and wages over a period.
Investment Strategy	The long-term distribution of assets among various asset classes; it takes into account the Fund's objectives and attitude to risk.
LGPS (NI) Regulations	The statutory regulations setting out the contributions payable to, and the benefits payable from, the Local Government Pension Scheme and how the Funds are to be administered. These include the Local Government Pension Scheme Regulations (Northern Ireland) 2014 and various transitional regulations.
Long-term cost efficiency	The notes to the Public Service Pensions Act (Northern Ireland) 2014 state that long-term cost efficiency implies that the contribution rates 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:

TERM	DEFINITION
Long-term cost efficiency (continued)	▪ the implied average deficit recovery period ▪ the investment return required to achieve full funding over different periods, e.g. the recovery period ▪ if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future ▪ the extent to which the required investment return above is less than NILGOSC's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.
Non-statutory guidance	Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents.
Notifiable events	Events which the employer should make NILGOSC aware of.
Past service liabilities	This is the cost or present value of the benefits to which members are entitled based on benefits built up to/in payment at the date of calculation, assessed using the agreed assumptions. It generally allows for projected future increases to pay or pension as appropriate through to retirement or date of leaving service.
Pensions Administration Strategy	A statement of the duties and responsibilities of scheme employers and administering authorities to ensure the effective management of the scheme.
Probability of Funding Success	The probability of achieving the Solvency target under a risk-based approach.
Rates and Adjustment Certificate	A certificate required at each actuarial valuation by the Regulations, setting out the total contributions payable by employers for the 3 years from the 1 April that falls in the calendar year following the Fund Valuation Date.
Relevant change	If there has been a relevant change in the circumstances of an employer NILGOSC may ask the Actuary to issue a certificate specifying an adjustment to the employer's contribution or any variation to an additional individual adjustment. In this context

TERM	DEFINITION
Relevant change (continued)	"relevant change" includes one or more of the following: ▪ The employer has obtained a Departmental guarantee of its entire liabilities to the Fund in a form satisfactory to NILGOSC; ▪ The employer has provided security in a legal binding form satisfactory to NILGOSC for its entire liabilities to the Fund; ▪ A risk assessment has been carried out to the satisfaction of NILGOSC and this has demonstrated that the risk arising on premature termination by insolvency, winding up or liquidation has reduced significantly since the existing certificate was issued; ▪ The employer was expected to have become an exiting employer but is now expected to participate indefinitely; or ▪ The was an error or omission in the original information provided to the Fund Actuary for the purposes of calculating the rates and adjustments certificate which the Actuary believes had a significant impact on the contributions certified for that employer.
Solvency	The notes to the Public Service Pensions Act (Northern Ireland) 2014 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% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act (Northern Ireland) 2014, 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 Fund of 100% over an appropriate time period and using appropriate actuarial assumptions; and either ▪ employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in

TERM	DEFINITION
Solvency (continued)	order to continue to target a funding level of 100%; or ▪ there is an appropriate plan in place should there be, or if there is expected in future to be, no or 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.
Solvency target	The Solvency target is based on a prudent assumption that the Fund's overall investments will deliver long-term returns above pension increases and the rate of employer contributions shall be set at such a level as to ensure that the liabilities can be met as they arise.
Surplus	If the assets are higher than the Past Service Liabilities, then a surplus exists. The surplus is the difference between the assets and the Past Service Liabilities.
Target Funding Period	This is the weighted average future working lifetime of the active membership but longer/shorter for different employers depending on their own membership profile.
Trajectory Period	This is the period between the actuarial valuation date and the date at which solvency is targeted to be achieved. This will vary depending on whether the employer belongs to the Main group or funding approach is considered based on the individual employer's membership profile.
Transfer Value	The value of an individual's pension rights which may be transferred, subject to conditions, to another pension scheme to provide alternative benefits if they have left the Local Government Pension Scheme.