London Pensions Fund Authority

Funding Strategy Statement

October 2022

Contents

Introduction	2
Regulatory framework	2
Purpose of the Funding Strategy Statement in policy terms	2
Aims and purpose of the Fund	2
Responsibilities of the key parties	3
Solvency and long-term cost efficiency	3
Actuarial valuation as at 31 March 2022	3
Amending contributions between actuarial valuations	3
Ceasing participation in the Fund	4
Links to investment policy	4
Key risks and controls	4
Consultation and publication	4
Monitoring and review	4
Annex 1: Assumptions, methodology, and contribution policy for the actuarial valuation as at 31 March 2022	5
Annex 2: Summary of key risks & controls	9

This Funding Strategy Statement ("FSS") is a summary of London Pensions Fund Authority's approach to funding liabilities in respect of the Fund. It is not an exhaustive statement of policy on all issues.

For more information please contact corporate@lpfa.org.uk

London Pensions Fund Authority Funding Strategy Statement

Introduction

This is the Funding Strategy Statement (FSS) of the London Pensions Fund Authority Pension Fund (the Fund), for which the London Pensions Fund Authority (LPFA) is the Administering Authority. It was prepared in collaboration with the Fund's actuary, Barnett Waddingham (the Fund Actuary), and after consultation with the employers participating in the Fund.

This FSS, together with LPFA's Admission and Cessation Policy and Contribution Review Policy, facilitates use of flexibilities under Regulations 64A and 64B of the LGPS Regulations 2013. The FSS has been prepared with regards to the 2016 CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement. The Fund Actuary has had regard to this statement in carrying out the 2022 valuation of the Fund.

Regulatory framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers fund the liabilities in respect of their own employees.

This FSS forms part of a regulatory framework which includes:

- the Local Government Pension Scheme Regulations 2013,
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;
- the Public Service Pensions Act 2013;
- the Rates and Adjustments Certificate, which is issued in addition to the Fund's actuarial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service or pension;
- the Investment Strategy Statement (ISS); and
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

This is the framework within which the Fund Actuary carries out actuarial valuations to set employers' contributions and provides recommendations to LPFA when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers that are required to make payments to the Fund either under the LGPS Regulations or under any other legal agreement between the employer and LPFA.

Purpose of the Funding Strategy Statement in policy terms

The purpose of the FSS is as set out by the Department for Communities and Local Government and the 2016 CIPFA Pensions Panel Guidance on preparing and maintaining a Funding Strategy Statement:

- "to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework taking into account the requirement to set contributions so as to ensure solvency and long-term cost efficiency under relevant legislation and the desirability of maintaining as nearly constant a primary employer contribution rate as possible*; and
- to take a prudent longer-term view of funding those liabilities."

These objectives are desirable individually but may be mutually conflicting. This statement, therefore, sets out how LPFA has balanced the conflicting aims of ensuring solvency, affordability of contributions, transparency of processes, desirability of stability of employers' contributions and prudence in the funding basis.

Aims and purpose of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively;
- ensure that sufficient resources are available to meet all liabilities as they fall due;
- safeguard the Fund against the consequences of employer default;
- set contributions to ensure Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile to the Fund and LPFA and employers' risk profiles (Public Service Pensions Act);
- enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled, designated, resolution and admitted bodies (LGPS Regulations);
- seek returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive 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 set out in 2016 CIPFA Pensions Panel Guidance and defined in regulation 62 of the Local Government Pension Scheme Regulations 2013.
** As set out in the 2016 CIPFA Pensions Panel Guidance and defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties

The sound management of the Fund can only be achieved if all interested parties exercise their statutory duties and responsibilities conscientiously and diligently. Although a number of these parties, including investment fund managers and external auditors, have responsibilities to the Fund, the following are of particular relevance for the FSS.

The Administering Authority (LPFA) should:

- collect employer and employee contributions, investment income and other amounts due to the Fund;
- operate a pension fund paying benefits as they become due;
- invest monies in accordance with the Regulations and agreed strategy;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund Actuary;
- notify employers of the expected timing of key events and actions related to completion of the valuation process;
- prepare and maintain an FSS and an ISS, both after proper consultation with interested parties, including participating employers;
- monitor the Fund's performance and funding and amend the FSS and ISS accordingly;
- take measures to safeguard the Fund against the consequences of employer default;
- manage potential conflicts of interest arising from its dual role as fund administrator and a scheme employer;
- enable the Local Pension Board to review the valuation process as set out in their terms of reference.

Each employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate in accordance with LGPS Regulations;
- pay all ongoing contributions, including employer contributions determined by the Fund Actuary and set out in the Rates and Adjustments Certificate, promptly by the due date;
- develop policies on discretions and exercise discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain including payment of penalties for late payment;
- notify LPFA promptly of all changes to membership or other changes that might affect future funding;
- comply with the valuation timetable where required and respond to communications as necessary to complete the process;
- follow all requirements laid down in the Pensions Administration Strategy;
- send timely and accurate data to LPFA, as required;
- discharge their responsibility for compensatory added years which LPFA pays on their behalf and is subsequently recharged to the employer;
- comply with The Pensions Regulator requirements outlined within any relevant codes of practice;
- pay any exit payments required under the LGPS Regulations on ceasing participation in the Fund;

The Fund Actuary should:

- prepare valuations including the setting of employers' contribution rates having regard to the FSS and LGPS Regulations;
- set contribution rates in order to secure the Fund's solvency and long-term cost efficiency having regard to the desirability of maintaining as nearly constant a contribution rate as possible;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- provide advice and valuations on the exiting of employers from the Fund;
- assist LPFA in assessing whether any increase is required in an individual employer's contributions under Regulation 64(4) of the LGPS Regulations 2013;
- agree a timetable for the valuation process with LPFA and provide timely advice and results.

Solvency and long-term cost efficiency

The principal issues facing the solvency of the Fund include the ability to finance liabilities as and when they arise, the volatility of employer contribution rates, the pace at which deficits are recovered (or surpluses used up), and the returns on the Fund's investments within reasonable risk parameters.

Securing solvency and long-term cost efficiency are regulatory requirements; maintaining as constant as possible employer contribution rates is a desirable outcome. LPFA will prudentially seek to ensure the income stream from contributions and investments are sufficient to achieve the aim of paying benefits as and when they fall due.

All Fund employers are expected to fully meet their pension obligations outlined within the LGPS Regulations using the methodology applied by the Fund Actuary.

Actuarial valuation as at 31 March 2022

The assumptions, methodology, and policy for setting contributions for the actuarial valuation as at 31 March 2022 are set out in **Annex 1.**

LPFA may, at its discretion, deviate from the policy set out in Annex 1 where doing so would be in the best interest of the Fund and/or employers collectively.

Amending contributions between actuarial valuations

Where appropriate, LPFA may exercise its power to amend contributions under Regulation 64A of the LGPS Regulations 2013. LPFA's policy on amending contributions between valuations is set out in its Contribution Review Policy.

Ceasing participation in the Fund

LPFA's policy in relation to employers ceasing participation in the Fund is set out in its Admission and Cessation policy.

On the cessation of an employer's participation in the Fund, the Fund Actuary will carry out an actuarial valuation to determine the assets and liabilities in respect of the benefits held in respect of the exiting employer's current and former employees, as required by the LGPS Regulations.

The assumptions used for the cessation valuation will not necessarily be the same as the long-term funding assumptions used for ongoing actuarial valuations. In particular, cessation valuations will reflect the amount of funding support available after the employer ceases participation. The value of the liabilities on a minimum risk basis will be a relevant consideration in some circumstances. Details of the methodology used to value liabilities on a minimum risk basis and the relevant assumptions as at 31 March 2022 are set out in **Annex 1.**

Following the cessation of an employer in the Fund, LPFA may consider entering into a Deferred Debt Agreement under Regulation 64(7B) of the LGPS Regulations 2013. LPFA may also consider spreading any exit payment under Regulation 64B of the LGPS Regulations 2013. LPFA's policy on Deferred Debt Agreements and its policy on spreading exit payments are set out in its Admission and Cessation Policy.

Links to investment policy

Funding and investment strategy are inextricably linked. LPFA's investment strategy is set after taking investment advice and is set out in its Investment Strategy Statement.

LPFA does not account for each employer's assets separately. Instead, the Fund Actuary is required to notionally apportion the assets between the employers at each actuarial valuation using the income and expenditure figures in relation to each employer. In addition, any bulk transfers between employers or individual transfers of which the Fund Actuary is aware are allowed for through notional transfers between the employers. This approach aims to broadly replicate the assets that would have resulted had each employer participated in their own ring-fenced section but some approximations are required with regard to internal transfers and the timing of cashflows.

The limitations in the process of notionally apportioning assets are recognised but, having regard to the extra administration cost of formally segregating assets, LPFA considers that the Fund Actuary's approach addresses the risks of employer cross-subsidies to an acceptable degree.

Key risks and controls

LPFA has an active risk management programme in place to identify, measure and control key financial, demographic, regulatory, climate change, and governance risks as well as employer and liquidity risk. The key risks are summarised in **Annex 2** and are reviewed regularly.

Consultation and publication

LPFA has prepared and updated the FSS in collaboration with the Fund Actuary and consulted the employers in the Fund through written correspondence. The FSS has been published on the LPFA website and printed copies are available on request.

An electronic copy of the FSS has been sent to each employer, the Fund Actuary, the Department for Levelling Up, Housing and Communities, and the Local Pension Board.

Scheme members will be informed of the publication and the key elements of the strategy.

A summary of the funding principles which underpin the strategy will also be published in the LPFA Annual Report and Accounts.

Monitoring and review

The key funding principles will be monitored on an annual basis and a statement of significant variance will be incorporated into the actuarial report as part of the LPFA Annual Report and Accounts.

As a policy statement, the FSS is reviewed in detail at least every three years ahead of completion of the triennial valuation, with the next full review due to be completed by 31 March 2026 in order to inform the 31 March 2025 actuarial valuation.

The FSS will be reviewed in the event of any significant or material change arising prior to the next valuation and a revised statement issued accordingly.

Annex 1
Assumptions, methodology, and contribution policy for the actuarial valuation as at 31 March 2022

Financial assumptions

The financial assumptions used to calculate liabilities are derived to some extent from observable investment market statistics. These statistics are smoothed by using the average of the daily observations over the period 1 January 2022 to 30 June 2022. Asset values are also smoothed in a consistent way.

The smoothed financial assumptions adopted for the valuation as at 31 March 2022 are set out below.

Discount rate

The discount rate reflects an assumed best-estimate rate of future investment returns based on LPFA's long-term investment strategy, with a margin for prudence deducted from this best-estimate view. For the 2022 valuation, the best-estimate of future investment returns is assessed by the Fund Actuary as 6.3% pa.

The margin for prudence, and therefore the discount rate, depends on the covenant grade applied to the employer in accordance with LPFA's Employer Risk Management Framework. A higher margin for prudence is applied where the employer is assessed as posing a higher risk to the Fund.

The margin for prudence is considered in the context of the best-estimate return (which would represent no margin for prudence) and the yield available on UK government bonds (which would represent the maximum margin for prudence). For the 2022 valuation, the smoothed UK government bond yield is assessed as 1.9% pa.

The discount rate assumptions as at 31 March 2022 are set out below.

Covenant grade	Discount rate (% pa)	Relative to best-estimate (% pa)	Relative to government bond yields (% pa)
A	5.4%	(0.9%)	3.5%
B1	5.0%	(1.3%)	3.1%
B2	4.7%	(1.6%)	2.8%
C1	4.3%	(2.0%)	2.4%
C2	4.0%	(2.3%)	2.1%
D	1.9%	(4.4%)	0.0%

Employers that provide security to LPFA (or any other form of covenant support such as a bond or guarantee) can improve their covenant grade and benefit from a higher discount rate. Further details of this are provided in LPFA's Employer Risk Management Framework.

For the purpose of the assessing funding levels and setting contribution rates at the 2022 valuation, covenant support will be reflected in the discount rate where it is fully in place by 28 February 2023. Covenant support put in place after this date will be addressed in line with LPFA's Contribution Review policy

Consumer Prices Index (CPI) inflation

CPI inflation is assumed to be **2.9% pa**

Future CPI inflation is assumed to be a flat rate that is the same in each future year. The assumption is set by considering the level of inflation implied by the prices of 20-year government bonds. A deduction is made to reflect an expectation that future CPI inflation will be lower than implied by government bond yields.

Increases in pensionable pay

Pensionable pay increases are assumed to be **3.9% pa**

This assumption reflects an expectation that over the long term pensionable pay will increase in line with CPI plus 1% pa. It affects the value of past service liabilities for active members with pre-2014 service but does not affect the primary contribution rate.

This assumption includes an allowance for promotional salary increases.

Demographic assumptions

The demographic assumptions used to calculate the liabilities are based on statistical analysis of recent membership patterns, and judgement about how these patterns might develop in future. Demographic assumptions are set for the Fund as a whole and do not depend on the employer's individual circumstances.

The main demographic assumptions as at 31 March 2022 are set out below.

Current and future longevity

The valuation liabilities have been calculated using Club Vita 2021 mortality tables, which assign a mortality assumption to each individual member based on characteristics that can affect how long the member might live. These tables are then adjusted by a suitable multiplier to reflect the Fund's unique mortality experience.

Allowance is made for members' mortality to improve in the future, using the 2021 version of the CMI model with a 5% loading to the 2020 and 2021 weight parameters,0% initial addition to improvement parameter, a smoothing parameter of 7.0 and a long-term rate of improvement of 1.25% pa.

Members leaving active service

The assumed rates of leaving employment and death before retirement are in line with the most recent study of national LGPS experience, as assessed by the Government Actuary's Department.

No allowance has been made for individual member transfers out based on member experience up to the 2022 valuation date.

Retirement patterns

The assumed rates of ill-health retirements reflect the Fund's specific recent experience. The assumption is set at 50% of the most recent study of national LGPS experience, as assessed by the Government Actuary's Department.

75% of ill-health retirements assumed to be at Tier 1, 15% at Tier 2 and 10% at Tier 3.

For each tranche of benefit, members have an age at which they are able to take their benefits unreduced. This is:

- their "Rule of 85" age for service prior to 1st April 2008,
- their "Rule of 85" age (for older members) or 65 (for younger members) for service between 1st April 2008 and 31st March 2014, and
- their State Pension Age (but with some transitional protection for members in service at 31 March 2012) for service after 1st April 2014.

It is assumed that each member will retire at the average of these ages (weighted by accrued pension).

The capitalised cost of early retirements, other than on ill-health terms up to the levels of experience assumed by the Fund Actuary, and augmentation of service or pension will be funded by the employer by lump sum payment at the time of retirement.

At retirement members are assumed to commute 50% of the maximum pension allowed by HMRC at a rate of 12:1. This assumption is based on an analysis of recent commutation rates for LPFA members at retirement.

Dependants

75% of males and 70% of females are assumed to have an eligible dependant at retirement or earlier death. For members that have already retired, allowance is made for their dependant to have died since retirement.

Allowance for the McCloud/Sargeant judgement

On 20th December 2018 a judgement was made by the Court of Appeal in relation to two employment tribunal cases (McCloud and Sargeant), which were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

The Court of Appeal ruled that the transitional protection offered to some members as part of the scheme reforms amounted to unlawful discrimination.

For the 2022 valuation, it is assumed that legislation will be brought forward to implement the proposals outlined in the written ministerial statement made on 13 May 2021. The liabilities in respect of each member will be valued in line with these proposals. This will involve projecting each active member's benefits to retirement and comparing it with the equivalent final salary benefit. Where the data required for accurate calculations is not available, estimates will be made by the Fund Actuary.

Minimum risk basis

In addition to the ongoing valuation, which is based on the assumptions set out above, the liabilities of each employer are also assessed on an alternative "minimum risk" basis. The purpose of this minimum risk valuation is to assess the level of assets that would be required in the event that the employer ceases participation in the Fund and responsibility for the liabilities is not passed to another employer.

The assumptions adopted for the minimum risk valuation are the same as for the ongoing valuation, except that:

- the employer is assumed to cease participation in the Fund on the valuation date and all active members are assumed to become deferred pensioners;
- the assets and CPI inflation assumption are based on investment market conditions on the valuation date rather than being smoothed (this results in a CPI inflation assumption of 3.0% pa as at 31 March 2022); and
- the discount rate is set in line with the 20-year spot yield on conventional gilts as at the valuation date, less a deduction for expenses (this results in a discount rate of 1.8% pa as at 31 March 2022).

Reflecting employer circumstances

The circumstances of each employer's participation in the Fund are taken into account in the areas outlined below.

New entrant status

For many employers in the Fund, all eligible employees can build up benefits in the LPFA Fund. However, in some cases restrictions are placed on employees becoming members of the Fund. For valuation purposes, each employer is assessed by LPFA as being either open or closed to new entrants. This assessment is based on the provisions included in any admission agreement and recent experience of the number of new members joining the Fund.

The open or closed status of the employer affects other elements of the assumptions and methodology as described elsewhere in this document.

Projected cessation basis

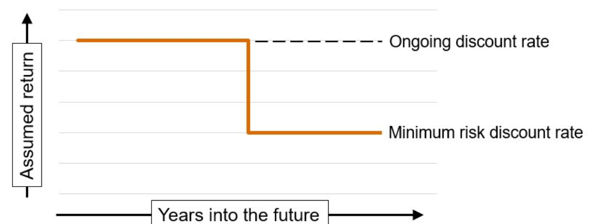
Where an employer is assessed as being closed to new entrants, it is likely that the number of active members will reduce over time until none remain. When the last active member leaves pensionable service, the employer ceases participation in the Fund and LPFA will follow the process set out in its Admission and Cessation policy.

In some cases, the Admission and Cessation policy may require employers to make an exit payment to the Fund sufficient to result in full funding on a minimum risk basis. The amount of the payment is dependent on the specific circumstances of the employer, but it can be large relative to ongoing contributions.

In order to avoid a large and potentially unexpected exit payment, a "projected cessation" approach can be adopted for the valuation. Under this approach the discount rate is set as follows:

Future year	Investment returns assumed to be received during the year
Years between the valuation date and when the last active member is expected to leave service	The ongoing discount rate applicable for the employer's covenant grade
Years in which no active members are expected to remain in service	The minimum risk discount rate

This is illustrated graphically below.



The period of time until the last active member is expected to leave service is determined by the Fund Actuary, based on professional judgement, the membership profile of the employer's remaining active members, and the demographic assumptions adopted for the valuation.

This approach is likely to result in higher employer liabilities and contributions during the period until the last active member leaves service but can reduce the amount of the exit payment required when the employer ceases participation in the Fund significantly.

Annex 1

Assumptions, methodology, and contribution policy for the actuarial valuation as at 31 March 2022

For the 2022 valuation, LPFA will engage with employers that are both closed to new entrants and assessed as being required to make an exit payment under LPFA's Admission and Cessation policy when the employer ceases participation in the Fund. In these cases, LPFA will adopt a projected cessation approach unless the employer's circumstances justify an alternative approach.

Treatment of related employers

Some employers within the Fund are closely related to one another. For example they may be part of the same group structure or have a commercial relationship such as an outsourcing contract. In these situations, it is possible to reflect the relationship between employers in the valuation. For example:

- The overall funding position of the employers can be combined (so that they both receive the same funding level and contribution rate)
- The future service rate can be combined (so that they pay the same primary rate but different secondary rates depending on their separate funding levels)
- The required contributions can be apportioned between the employers (for example a service provider may pay a specified rate, with the outsourcing employer paying the balance)

Where employers are related, combining or apportioning funding arrangements is permitted, subject to consent from all affected employers and LPFA.

Setting the primary contribution rate

The primary contribution rate is the value of the liabilities being accrued each year by active members, net of member contributions, expressed as a percentage of pensionable payroll.

The primary rate is calculated by the Fund Actuary based on the profile of each employer's active members and the employer's new entrant status.

- For employers that are open to new entrants the primary rate will be based on the projected unit method of calculation.
- For employers that are closed to new entrants the primary rate will be based on the projected unit method of calculation with an appropriate control period, where the control period is the period over which the membership is assumed to age. The control period may reflect the length of a contract, the time to the next valuation, or the expected time to cessation as determined by the Fund Actuary.

The primary rate payable by each employer will be subject to a minimum of 12% of pensionable pay.

Neither primary rate contributions nor member contributions are permitted to be paid in advance.

Setting the secondary contribution rate

The secondary contribution rate is an adjustment to the primary rate intended to affect the employer's funding position. For the 2022 valuation, LPFA's approach to setting the secondary rate in respect of each employer depends on the funding position of its liabilities in the Fund. The secondary rate will be:

- positive (i.e. deficit contributions) where the employer's funding level is less than 100%,
- negative (i.e. a reduction to contributions) where the employer's funding level is greater than 120%,
- nil where the employer's funding level is between 100% and 120%.

These three possible outcomes are described further below.

Where the employer funding level is less than 100%

In this situation there is a valuation deficit that must be addressed. A positive secondary rate will be calculated in order to address the deficit over time. These contributions are expressed as cash sums, increasing each year in line with the assumed rate of pensionable pay increases. LPFA will consider requests to express the contributions as a percentage of pensionable pay where the employer is open to new entrants and can demonstrate a stable or increasing active membership and pensionable payroll.

Secondary rate contributions will be set using the following process in order:

1. Where the valuation is carried out using a projected cessation basis, contributions will be spread over the remaining period until the last active member is expected to leave service.
2. Where a Deferred Debt Agreement or other funding agreement is in place, contributions are set in line with that agreement.
3. Secondary rate contributions will be set such that the employer's total contributions are maintained at the existing level (increasing in line with the assumed rate of pensionable pay increases) where this is expected to address the deficit over a period of less than 10 years from the valuation date.
4. Where an employer's admission agreement has a remaining term of less than 10 years (for example where the admission agreement is linked to an outsourcing contract), the secondary rate contributions will be spread over the remaining term of the admission agreement.
5. In all other cases, secondary rate contributions will be spread over a period of 10 years from the valuation date.

This approach is intended to:

- Address ongoing funding deficits within a period of 10 years, or sooner where this can be achieved without increasing existing contribution levels or where the employer's admission agreement is due to come to an end.
- Recognise that employers that are subject to a projected cessation approach, Deferred Debt Agreement, or other funding agreement are typically seeking to achieve a higher funding target than ongoing employers, and it can therefore be appropriate to spread contributions over a longer period than 10 years.

LPFA will consider requests to pay secondary contributions in advance where this is requested by the employer. Where contributions are paid in advance, the Fund Actuary will determine the appropriate amount to result in equivalent present value.

Where the employer funding level is greater than 120%

In this situation LPFA considers that the liabilities are sufficiently well funded that employer contributions can be reduced by setting a negative secondary contribution rate. Negative secondary contribution rates are expressed as a percentage of pensionable pay. There is no option to express the negative secondary rate as a cash sum.

The secondary rate contributions will be set by identifying the amount of assets in excess of 120% of the liabilities. This amount is then spread over a 10-year period (such that the funding level is expected to be 120% in 10 years' time). The maximum negative secondary rate is -10% of pensionable payroll.

Where the employer has an admission agreement that is guaranteed by another entity, that entity's consent to the secondary rate will be required.

LPFA may, at its discretion, set the secondary rate to fully offset the primary rate where the employer is fully funded on a minimum risk basis.

Where the employer funding level is greater than 100% and less than 120%

In this situation the secondary rate will be nil. There is no deficit to address, and the surplus is not sufficiently large for LPFA to consider it appropriate to reduce employer contributions. In taking this stance, LPFA is seeking to strike a balance between the desire for contribution stability and the need to take a prudent long-term view of funding liabilities

Annex 2
Summary of key risks & controls

The Fund's primary objective is to ensure that over the long term the Fund will meet all liabilities as they fall due. The Fund is exposed to a large number of risks, the three most significant of which are outlined below.

Funding risk

This is the risk that the value of assets and/or the value of liabilities change in such a way that contributions are required from employers at an unaffordable level. This risk is managed in several ways, including:

- Selecting an appropriate investment strategy after taking appropriate advice. Further details of how the investment strategy is intended to manage funding risk is set out in LPFA's Investment Strategy Statement.
- The use of a funding risk management framework to set metrics intended to identify and manage emerging funding risks at an early stage.
- Regular funding valuations to assess the Fund's financial position.
- The cost control mechanism included within the benefit structure of the LGPS provides a limit on the potential increase in contributions.

Operational risk

This is the risk of failing to have adequate structures in place to ensure LPFA meets its obligations to members and employers. The operational delivery of the Fund is carried out by the Local Pensions Partnership Administration (LPPA) on LPFA's behalf. Much of the ongoing management of operational risk therefore lies with LPPA. LPFA carries out oversight of LPP's risk management by:

- Putting in place service level agreements to ensure delivery in line with required standards.
- Reviewing regular reporting from LPP identifying issues and potential risks.
- Monthly meetings between LPFA Officers and the head of LPPA's risk management team.

Controls to manage operational risk within LPFA include:

- Business Continuity Plans in place in respect of LPFA's internal functions.
- Cyber risk controls in place via LPFA's outsourced IT service.

External influence risk

This is the risk that issues outside LPFA's control affect the ability to deliver obligations. For example, this would include the risk of additional liabilities (such as created by the McCloud judgement) or issues that affect the ability of employers to make contributions to the Fund (such as climate change, the COVID-19 pandemic or challenges relating to the UK's exit from the EU). This risk is addressed by:

- Adopting an employer risk management framework setting out how LPFA measures and manages employer-related risks.
- Regular contact with external stakeholders and industry bodies to identify upcoming issues and influence them to the extent possible.