Investment Strategy

Q12. On the basis that a one-size-fits-all investment strategy is losing its relevance, does your Fund have (or are you planning to implement) asset unitisation and bespoke investment strategies for different types of employer with varying funding levels and matching risk appetites?

Q13. If your funding level is lower than average, do you have a more adventurous (growth biased) asset allocation to move towards full funding? Conversely, if your Fund is better funded than average, does the asset allocation display a little more caution and a more risk averse nature?

Q14. Has your Fund considered a Liability Driven Investment (LDI) strategy (especially if the actuarial discount rate is gilt plus based)? If your Fund does contain LDI, does your Fund retain the ability to generate good returns over the long term, as well as generate inflation proofed income?

Challenged Fund

Q15. Could your Fund be considered a problem fund (below 60% funding level)? If so, is there a sufficiently robust plan to recover. Has your committee sought expert guidance to achieve this? Do you have faith in the overall governance process in terms of achieving a meaningful recovery in your funding level?

Final Check

Q16. Finally, have you carried out one final comfort check that you are assured that your Fund is striking the right balance between:

a. affordability of employer contributions;
b. the risk that your Fund is taking on with its investments;
c. the ability of those investments to generate the required return implicit in the funding strategy (see Q1(e))?

Phil Triggs CPFA

Deficit Management: Key Questions for LGPS Trustees

Actuarial Assumptions

Q1. In the 2016 valuation, what will your Fund's five key assumptions be?

a. Discount rate ...%
b. Longevity assumption ...years
c. Inflation outlook ...%
d. Earnings/salary growth ...%
e. Investment strategy performance ...%

Q2. Reference the discount rate, on what basis was this made?

a. Gilt yield plus
b. CPI plus
c. Economic model

Q3. How do these five assumptions compare to the Scheme Advisory Board's standardised assumptions? If there are significant variances, do you understand the reasons why and are you satisfied with those reasons?

Q4. What is your Fund's initial 2016 actuarial funding level:

a. according to your Fund's own assumptions?
b. according to the Scheme Advisory Board's standardised assumptions?

Q5. What are the main factors accounting for any major difference in your Fund's own calculation and the calculation using the Scheme Advisory Board's standardised assumptions? Are you satisfied with the explanations provided?

Data Quality

Q6. Do you assess and monitor the quality of your actuarial data? If so, how often is this reviewed and what percentage of your data meets common and conditional data quality standards?

Stability Mechanism

Q7. Is there a stability mechanism built into any of the employers' contribution rates? If so, does it relate to the future service rate only? Are your Fund's deficit contributions protected from the stability mechanism?

Deficit Contributions

Q8. On the basis that ongoing austerity may further reduce payrolls, do you set recovery payments as a monetary amount rather than as a percentage of payroll? Is there a defined policy setting different maximum recovery periods depending on the type or the covenant of the employer? If so, what proportion of the scheme is with employers already at the maximum recovery period following the 2013 valuation? Has the 2016 valuation resulted in any changes in recovery periods and if so, why? Are you comfortable that the recovery periods are reasonable?

Pension Strain

Q9. Does your Fund monitor the strain of:

a. early retirement
b. ill health retirement
c. significant salary increases?

Are these strains paid for at the time they occur or simply added to the overall liability (and thus the deficit)?

Employer Covenant Strength

Q10. Do you regularly assess the covenant strength and the affordability of the contribution schedule of all of your Fund's employers? If so, does the assessment result impact on asset allocation, investment strategy, or recovery period?

Q11. Do you require a charge on employer assets, a parent guarantee, an escrow account, or bonds to be in place by reference to a covenant assessment? If so, how often are these reviewed? Do you have contingency arrangements for employers expressing a wish for (or being forced to stage) an exit from the Fund?