

# Sixty second summary

Is it time for a more accessible, usable and practical FSS?



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With 2022 valuations making excellent progress, now is the time to consider how a Funding Strategy Statement refresh can help engage stakeholders, help facilitate a successful valuation and gain the benefits of better informed employers.

Changes to LGPS Regulations have led to several revisions to Funding Strategy Statements (FSSs) over recent years, not least, due to the introduction of exit credits and the new employer flexibilities. Even if your FSS complies with the latest regulatory requirements, can steps be taken to unlock the potential of the FSS?

As part of the 2022 FSS review, we believe the biggest gains can be made by restructuring the document to recognise the diversity of employers, increasing complexity of the LGPS and widening range of uses. The goal is to develop the FSS into the catalyst for improving employer knowledge and engagement.

## FSS – key principles

LGPS Employers should be able to understand how their LGPS obligations will be funded from reading the FSS. From the determination of initial asset allocation and contributions, to what happens at cessation, the FSS should set out the policies and approaches taken by the Fund to ensure that pension obligations are appropriately funded, and that risks are being managed.

The FSS should therefore be practical, useable and accessible for employers. Steps to help support these aims include:

1. The FSS should be written in plain language so it can be easily understood. The use of pensions jargon is off-putting and should be avoided if this is to be employer friendly.
2. The FSS should be structured in a way that allows the employer to easily access elements of strategy that apply to them and in circumstances where they have an issue, problem, concern or query. So, for example, if an employer wants to access information on the Fund's policy to allowing prepayment of contributions, it should be relatively easy to find this.
3. The FSS should be circulated in good time and with supporting guidance to allow high-quality engagement and consultation. For example, providing an accompanying communication for each employer sector/type which flags the suggested main areas of focus which apply to them and any changes which have been applied.

A refresh of the FSS at the 2022 valuation would aim to satisfy the three key principles outlined above.

## FSS refresh

The typical FSS has become increasingly unwieldy – successive changes to LGPS Regulations have led to different policies being ‘bolted-on’ over the years with focus on compliance and protecting the fund. Less time has been spent on reviewing the accessibility and useability of the document.

With relatively few regulatory or technical updates required to the FSS as part of the 2022 valuation, there is an opportunity to restructure and modernise.

Our proposed structure is for a streamlined “Core” FSS document, supported by a number of short “Satellite” policy documents.

- **Core FSS** – this would include all the information required by LGPS Regulations and Statutory Guidance. It would be written in a clear way, with little jargon, and this would be sufficient to ensure that each employer is able to understand the key principles and elements of the funding strategy, for example, how contribution rates are set.
- **Satellite policies** – separate or appended documents covering different elements of funding strategy would be prepared. Working both to complement the FSS and as standalone documents. These documents would set out the Fund’s policies with regards to specific elements of strategy and would be written in a clear and more practical way.

## Which areas might warrant satellite policies?

Any separate aspect of LGPS funding can be included as a separate policy, for example:

- **Cessations** – the FSS should set out the Fund’s approach to ceasing employers, but the recent introduction of **exit credits** and **employer flexibilities** has increased the complexity and options. A complementary cessations policy which covers the key principles, approaches and practicalities would help reduce the detail in the core FSS.
- **Pre-payments** – the recent QC opinion on prepayments provided useful clarity to LGPS Funds on this topic. A separate policy document setting out how this would work in practice would help Employers understand their options and consider if this is something that would be of benefit.
- **Pass through policy** – Pass through is becoming much more prevalent in the LGPS as a means of allowing small contractors to participate in the LGPS in a way that better manages the allocation of risk during the period of participation. Again, separate policy setting out the Fund’s approach to setting rates, sharing risk and documenting these agreements could help with managing the process of letting out services.

## Consultation

Better informed employers lead to better outcomes from a funding, governance and administration perspective. Employers will be more engaged in funding discussions and more focus can be placed on designing solutions (as opposed to explaining policy).

This can start with a high-quality consultation at the 2022 valuation and work can start now on restructuring the FSS and creating the satellite policies to help facilitate this. If you’re feeling brave enough, you may even leave some policy options open for employers to decide their own preference. A recent example of this was asking Awarding authorities decide the approach for setting contribution rates for ‘pass through’ employers.

If you would like to discuss further, please contact your usual Hymans Robertson consultant.