

lgps

Local Government
Pension Scheme



Dyfed Pension Fund

Discretionary Notional Investment Strategy Policy

March 2026



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Overview of Arrangement

When an employer ceases to participate in the Fund (when the last active contributor ceases) the employer then becomes an “exiting employer” under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s former employees, along with a termination contribution certificate showing any exit debt or exit credit due from or to the exiting employer.

For some employers (those without a guarantor within the Fund) this assessment incorporates a more cautious, lower risk basis of assessment as detailed in Appendix F of the Fund’s Funding Strategy Statement (FSS): Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements.

The Fund has historically implemented a single investment strategy applying to all employers which includes a significant proportion of higher risk assets with the aim of supporting long-term cost-efficient benefit provision for ongoing employers. In the case of employers exiting the Fund on a lower risk basis, the Administering Authority is aware that this could lead to exit debts that are large and volatile, which would reduce an exiting employer’s funding certainty.

In limited circumstances, where employers are aware they are nearing the end of their participation within the Fund and are looking to plan their exit strategy, they may request the application of a notional lower risk investment strategy to reduce volatility prior to exiting (and therefore better match the overall changes to the exit liabilities), which will be considered at the sole discretion of the Administering Authority.

However, employers also need to be aware that adopting this approach will potentially have implications for their contributions to the Fund in the period until they cease participation. Employers cannot choose to revert to the previous arrangements or assumptions once the notional investment strategy has been approved.

Requirements for Being Considered for this Arrangement

For the Administering Authority to consider an employer's request to adopt a notional investment strategy the following criteria need to apply:

- Closed to new entrants
- Have no guarantor and so the low risk termination basis applies
- Expected remaining participation of 5 years or less
- Fully funded on the low risk termination basis

At the discretion of the Administering Authority and where it is felt to be beneficial to the long-term financial health and security of the Fund and other participating employers, specific employers (that do not meet all the criteria listed above) may be considered for this arrangement upon request from an employer to manage employer risk within the Fund.

Application of the Arrangement

By moving to a notional lower risk investment strategy, the employer's liabilities at the point of strategy change and at each subsequent actuarial valuation prior to termination will be assessed on a discount rate based on the prudent expected investment return on the de-risked strategy. This will be in line with that applied for the lower risk basis termination basis as detailed in Appendix F of the Fund's FSS (Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements). In addition, the inflation assumption will be adjusted to be in line with the lower risk basis termination basis assumptions to better match the position at termination. This provides a notional investment strategy linked to index-linked gilts matching the duration of the employer's liabilities. It does not fully match or "lock in" the termination liabilities for the reasons outlined below but does allow employers more stability in the run up to exit.

At the point of strategy change the employer's asset share will be derived in line with the Fund's Asset Share Policy, as detailed in Appendix A of the Fund's FSS. For each subsequent actuarial valuation prior to termination and at the point of termination of participation, the Actuary will apply an "analysis of surplus" approach whereby the surplus/deficit position will be calculated according to their actuarial gains or losses since the previous valuation (or change in strategy date where later).

This analysis of surplus approach will be in line with Appendix A of the Fund's FSS (Asset Share Policy) with the exception of the investment returns which will be set to match movements in liabilities over the period resulting from changes to the notional discount rate and inflation assumption due to market movements.

Changes in the funding position can therefore arise from the following:

- Contributions – The extent to which contributions (both employer and employee) payable over the inter-valuation period are more/less than the cost of benefits being accrued. This will include any early retirement strain costs incurred and any contributions paid towards those over the period.
- Membership Experience – The extent to which membership experience (e.g. salary growth, pension increases, ill-health retirements, deaths etc.) has deviated from that expected based on the assumptions made at the preceding valuation (or change in strategy date, if later).
- Benefit Payments – For the most part, the combined total of transfers received/paid (both individual and bulk), lump sum payments (retirement and death), pension payments, and other payments to leavers will be broadly neutral on the “analysis of surplus” approach as they impact on the assets and liabilities equally, although the timing of such payments will be allowed for.
- Membership Data Changes and Intrafund Transfers – The “analysis of surplus” approach ultimately allows for changes in the underlying membership data where an actual cashflow does not emerge, in particular individual member movements between employers within the Fund (which trigger a notional “intrafund” payment) and/or the restatement of any underlying membership data between valuations. The impact of any notional transfers to new employers / from exiting employers would be adjusted for in the Actuary's assessment.
- Demographic assumptions changes – The impact on liabilities of amendments to the demographic assumptions at the latest actuarial valuation (including real salary increases and changes in life expectancy).
- Legislative changes – The impact of any amendment to the LGPS benefits under the Regulations.

Once an employer has moved to a notional lower risk investment strategy their employer contributions in respect of benefits accruing from that date will be based on the assumptions that would be used for the termination assessment, rather than on the normal future service basis for the assessment of contributions ongoing employers. These contributions will be assessed at the point of strategy change and at each

subsequent actuarial valuation prior to termination. In general, at the point of change, this is expected to lead to an increase in contribution requirements (both primary and secondary). Going forward, all else being equal, there will be increased stability in the employer's funding position and therefore their secondary contribution requirements. However, changes in primary contribution at subsequent assessments can be more volatile due to changes market conditions.

Process for Requesting to Move to this Arrangement

If an employer would like to move to a notional lower risk investment strategy, then the following process will apply:

1. The employer must notify the Fund of their request for consideration in writing
2. The Fund will need to consider whether it is appropriate to allow the change in strategy, considering all relevant factors
3. The employer will be notified of any change in contributions that will apply following the switch (e.g. a move to the notional lower risk strategy may lead to a increase in future service and deficit contributions). Although in practice the change in contributions may be deferred until the next valuation.
4. Assuming that both the Fund and employer are content to proceed, the Fund will agree in writing with the employer an appropriate date for the switch to become effective – based on the circumstances of the case.
5. Employers cannot choose to revert to the previous arrangements or assumptions once the notional investment strategy has been approved.

Review Process

This policy will be formally reviewed and updated at least every three years. The next review is due in 2029 unless matters arise which require the policy to be reviewed earlier.

Contacting Dyfed Pension Fund

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