

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 10

## TEESSIDE PENSION BOARD REPORT

15 APRIL 2019

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

### Update on Current Issues

#### 1. PURPOSE OF THE REPORT

- 1.1 To provide Members of the Teesside Pension Board (the Board) with an update on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

#### 2. RECOMMENDATIONS

- 2.1 That Members note this report.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications in respect of the information contained in this report.

#### 4. ACTUARIAL VALUATION

- 4.1 Members will be aware that 2019 is a valuation year for the LGPS. The scheme actuary (AON) will carry out a valuation of the assets and liabilities of the Fund as at 31 March 2019. The final report must be published by 31 March 2020 and the valuation outcome will set employer contribution rates for all the Fund's employers for the period from 1 April 2020 up until the day before the outcome of the next valuation applies (currently expected to be 31 March 2023).
- 4.2 Preliminary discussions and meetings have been held with AON to agree a timetable for the work required to carry out the valuation. This is set out below – note, the target date for provision of data to the actuary will be late June 2019 (depending on the amount of data cleansing XPS needs to do).

**Valuation timetable from AON's valuation terms of reference paper.**

<b>Stage</b>	<b>Date</b>
Pre-valuation meeting to discuss the 2019 valuation process and the results of the demographic experience analysis	February 2019
Informal dialogue on financial assumptions and outlook	April - May 2019
Formal Assumptions advice	End of May 2019
Review Funding Strategy Statement	May - October 2019
Provision of data <b>(1)</b> : <ul style="list-style-type: none"> <li>• Membership Data</li> <li>• Cashflow data in the Valuation Information Model</li> <li>• Employer information in the Valuation Information Model</li> </ul>	Expected to be June / July 2019
Data validation and queries issued by AON	Data in + 1 week
Response to data queries provided by Admin Authority	Data in + 2 weeks
All data queries resolved	Data in + 2-3 weeks
Provision of final data to Government Actuary's Department (GAD) <b>(2)</b>	1 September 2019
Preliminary whole of Fund and Main Council results <b>(3)</b>	Date all data queries
Standardised basis results to be provided to the Scheme Advisory Board <b>(4)</b>	30 September 2019
Final assumptions chosen and updated whole of Fund	October 2019
Individual employer results (to be provided in tranches)	October - December 2019
Finalise employer contribution rates if changes required to individual employer funding strategies	December 2019 - February 2020
Draft Valuation Report	Early March 2020
Sign Report and Rates and Adjustments Certificate	March 2020

**Notes**

- (1) The 2016 valuation membership data was provided on 31 August 2016, and the cashflow data on 6 October 2016.
- (2) Assuming that the GAD timescales are the same as in 2016.
- (3) These results will be based on an agreed probability of funding success. If additional results are required based on different probability of funding success then these would fall under note (5).
- (4) Assuming that the SAB timescales are the same as in 2016.

4.3 Asset values as at 31 March 2019 are expected to be above the level forecast at the last valuation, equity markets have risen over the three months to the end of March, having suffered a dip at the end of 2018. However assets are only one part of the valuation equation. The value of the Fund's liabilities is highly significant as well – the actuary may have a more pessimistic view of future long-term investment returns,

and this will impact on the way liabilities are valued. As will the actuary's view of the risk return profile of the Fund's current and prospective future asset mix.

- 4.4 One particular challenge for the Teesside Pension Fund at this valuation is that if the outcome is an improvement in funding level, there may be a perception that this will result in reductions in contribution rates. However, as the Fund is already well funded, there is little scope for employers to see a benefit from a funding level improvement (through reduced deficit contributions for example). There is a significant risk that there will be upward pressure on future service contribution rates for employers, if the long term outlook for future investment returns has worsened. The position on this will become clearer over the coming weeks as dialogue with the actuary continues.

## **5. LGPS COST MANAGEMENT PROCESS**

- 5.1 Following the last Board meeting, the Scheme Advisory Board has confirmed that it will not progress with proposals under the cost management process to increase the cost of the scheme by improving member benefits and reducing member contributions. All changes to public service pension schemes under cost management processes have been put on hold pending the eventual legal outcome of the 'McCloud Case'. This case (which the Government intends to appeal) was where the Court of Appeal held in December 2018 that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory.
- 5.2 After a survey of opinion from administering authorities, the Scheme Advisory Board has agreed to issue central guidance to Funds (and actuaries) on how the uncertainty over additional cost caused by the potential application of the McCloud case outcome to the LGPS, or the application of the delayed cost management process, should be dealt with in the current actuarial valuation.

## **6 CONSULTATIONS**

### *6.1 Consultation on implementation of late retirement factors*

On 28 March 2019 LGPS administering authorities were contacted to let them know that the Ministry of Housing Communities and Local Government (MHCLG) is conducting a consultation on proposed changes to the late retirement increase factors and guidance. The consultation document, draft guidance and examples can be found on the Scheme consultations page of [www.lgpsregs.org](http://www.lgpsregs.org). The proposals include a change in methodology as well as a change in factors which is intended to remove the 'cliff edge' that was the result of the last factor change in January 2017 for some members. This short consultation will close at 4pm on Wednesday 17 April 2019. The Head of Pensions Governance and Investments will discuss and agree with XPS Administration what response to give to this consultation – focussing on the administrative practicalities of the proposed change to the methodology.

## 6.2 *Consultation on changes to Fair Deal*

MHCLG circulated proposals in January 2019 to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government's October 2013 Fair Deal guidance that applies in relation to transfers from central government. The consultation closed on 4 April 2019. XPS Administration contributed to a consultation response from the LGPS Technical Group, and AON has also produced its own response – both of which were largely supportive.

## **7. ADMINISTRATION GUIDE**

7.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) and AON have produced a new guide for UK administering authorities. The guide, entitled 'Administration in the LGPS', highlights the importance of effective management and monitoring of administration matters and was published on 11 March 2019. A copy is attached at Appendix A.

7.2 The following quote from Catherine Pearce, Senior Public Sector Consultant at AON was also circulated when the guidance was launched: "LGPS administration teams have gone through an unprecedented period of change in the last decade and this is likely to continue. It is important that those tasked with the governance of LGPS pension funds fully understand how to raise the quality and improve the timeliness of their administration."

## **7. NEXT STEPS**

7.1 Further updates on current issues will be provided periodically.

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