

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION FUND COMMITTEE REPORT

19 SEPTEMBER 2018

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

FUNDING UPDATE REPORT - 2018

1 PURPOSE OF THE REPORT

- 1.1 To inform Members of the Teesside Pension Fund Committee (the Committee) of the outcome of the Actuary's Funding Update Report, as at 31 March 2018 (Appendix A).

2 RECOMMENDATION

- 2.1 That Members consider the report and pass comment.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications from the update report, however, it does give Members an indication as to how the performance of the Fund's assets has impacted on its funding level, and provides guide to the outcome of the next Actuarial Review, due in 2019.
- 3.2 Changes to the Fund's Employer's contribution rates can only be made every three years after a full Actuarial Review.

4 2016 ACTUARIAL VALUATION

- 4.1 The Administering Authority is required by Regulation 62 of the Local Government Pension Scheme Regulations 2013 to appoint an actuary to carry out a full valuation of the Fund.
- 4.2 The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which employing bodies in the Fund should contribute in the future to ensure that the existing assets when combined with future contributions from both employers and scheme members will be sufficient to meet future benefit payments from the Fund.
- 4.3 The Actuary must balance the desirability of maintaining as stable a contribution rate as possible with the requirement to set contribution rates

which ensure the solvency and long term cost efficiency of the Fund. The effective date of the last valuation is 31 March 2016, with contribution rate changes effective from April 2017.

- 4.4 The following summary shows the main findings of the valuation:

<p>Funding Level</p> <p>The position of the Fund is very good and, on a whole of fund basis, the funding level is 100%. The value of assets (£3.1bn) exceeds the liabilities by £11.1m.</p>
<p>Cost of future benefits (Primary Contribution Rate)</p> <p>At each valuation the actuary determines how much it will cost to buy new or future service. That is any service bought going forward from the valuation. The assumption is that by paying the future service rate any service purchased will be paid for in full.</p> <p>The employers' average cost of future service benefits is 15.7% of pensionable pay with effect from 1 April 2017.</p>
<p>Deficit recovery period</p> <p>Whilst, the fund is fully funded overall, the funding level of individual employers vary. Some employers still have deficit which need to be recovered and the payments required are spread over a number of years; the <i>deficit recovery period</i>. At the 2016 valuation the deficit recovery period has been set at 20 years.</p>

5 FUNDING UPDATE REPORT AS AT 31 MARCH 2018

- 5.1 The Fund's Actuary, AON Hewitt, were asked to provide a Funding Update Report as at 31 March 2017 (Appendix A). The report was based on the movement in the Fund's assets over the period since 31 March 2016, but did not consider changes to the Fund's membership base.
- 5.2 The purpose of the report is to guide the Fund and prepare Pension Fund Committee and Board Members and Scheme Employers for the next Actuarial Valuation, which has an effective date of 31 March 2019 and will be carried out over financial year 2019/20. The comparison to the 2016 Actuarial Valuation and previous funding update report is shown below:

	2016	2017	2018
Funding Level	100%	118%	112%
Surplus	£11.1 M	£588.0 M	£421.1 M
Future Service Rate	15.7%	16.7%	17.3%
Total Employer Contribution Rate	15.6%	8.2%	11.2%

- 5.3 This funding update was produced on the basis of no change to the investment strategy of the Fund. A second update has been commissioned to reflect the proposed changes to the investment strategy following the Asset Liability Study reported to the Teesside Pension Fund Committee in March 2018 (see table below).

	Customised Benchmark	Proposed Benchmark
Equities:	70%	50%
UK Equities	30%	21.4%
Overseas Equities	40%	28.6%
Property & Alternatives:	15%	30%
Property	10%	15%
Other Alternatives	5%	15%
Bonds & Cash	15%	20%
UK Bonds	7%	7%
UK Index Linked	4%	4%
Overseas Bonds	2%	2%
Absolute Return Bonds	0%	5%
Cash	2%	2%

- 5.4 In addition, the Fund's Actuary has also been asked to look at mortality for the Fund, looking at targeting mortality rates away from national and regional statistics to something that better reflects the Fund's membership with targeted post-code mortality rates.
- 5.5 The change in the funding level and surplus is due to a combination of the 2017/18 investment performance report being lower than the previous year and below the required rate of return, and the outlook for future market returns has deteriorated reducing the discount rate and increasing the cost of future benefits and increasing the future service rate.
- 5.6 A note of caution is that the Actuary, when setting the assumptions used in each valuation, is working on long term (25 year) assumptions. Favourable updates to the funding level are welcomed, but any action taken should be for the long term benefit of the Fund; improving solvency and long term cost efficiency in line with the DCLG requirements for management and investment of LGPS Funds, as well as for the Fund's wider stakeholders.

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