# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

**AGENDA ITEM 7**

## PENSION FUND COMMITTEE REPORT

**22 JANUARY 2020**

**STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY**

## DRAFT ACTUARIAL VALUATION OUTCOME

**1. PURPOSE OF THE REPORT**

1.1 To provide Members with details of the draft outcome of the actuarial valuation as at 31 March 2019.

**2. RECOMMENDATION**

2.1 That Members note the report.

**3. FINANCIAL IMPLICATIONS**

3.1 There are no specific financial implications arising from this report. The final valuation report will be published at the end of March 2020 and will set the employer contribution rates for scheme employers for the three year period starting 1 April 2020.

**4. BACKGROUND**

4.1 The Local Government Pension Scheme (LGPS) Regulations 2013 (as amended) require Administering Authorities to obtain an actuarial valuation of the assets and liabilities of their fund as at a specific date every three years – the effective date for the current valuation is 31 March 2019. There is also a requirement to obtain a report from the Fund actuary in respect of the valuation and a rates and adjustments certificate prepared by the actuary setting out the contribution rates due from employers over the period from (in this case) 1 April 2020 onwards. The report and certificate have to be obtained within a year of the effective date of the valuation.

4.2 Becky Durran from AON (the Fund actuary) and her team have been working with the Council (in its role as Administering Authority) and XPS Administration (the Council's outsourced pension administration provider) to progress the 31 March 2019 valuation of the Fund and is on course to publish the final report by the end of March 2020.

4.3. A draft summary report is provided at Appendix A setting out the whole of Fund results. Many of the scheme employers (including all the larger employers) have already been provided details of how the valuation outcome will affect them, including details of their expected future employer contribution rate for the three year period from 1 April 2020. An update will be provided at the meeting in relation to when any employers that have not received this information yet can expect to receive it.

4.4 Members may recall that the Government consulted last year on transitioning the LGPS from a three-year to a four-year valuation cycle. The consultation closed on 31 July 2019 and no final outcome has been announced, however the Ministry for Housing Communities and Local Government (MHCLG) has confirmed that the next valuation date will be 31 March 2022 and that the current valuation should be based on the regulations as they currently exist.

## 5. DRAFT VALUATION OUTCOME

5.1 The valuation outcome at a whole Fund level has been very positive, with the funding level improving from around 100% to around 116%, largely because of investment returns significantly above the level forecast at the last valuation. This has resulted in many employers being in surplus and, in some cases (depending on the type of employer) being able to use some of that surplus to maintain or reduce their employer contribution rate.

5.2 At the same time as an improved funding level, the cost of providing Fund benefits has increased significantly. This is primarily a result of changes to the financial assumptions: reducing the discount rate (the expected future return on investments) and increasing the probability of funding success (the chance that the Fund will achieve its funding objectives over the longer term). Another factor in the increased cost of the scheme is the allowance made to cover the expected cost of both the payments to settle the McCloud case (which identified the way the career average LGPS was introduced was age discriminatory) and to cover the 'cost sharing' adjustment (the mechanism which increases the cost of the scheme if it is judged to drop below a reference level).

5.3 As part of this valuation a distinction is being made between how contribution rates are set for different employers. Previously, all employers with active member in the Fund had their contribution rate set using the same assumptions – effectively treating them all as if they had as strong a covenant as a tax-raising employer.

5.4 Going forward a different funding target, with associated different financial assumptions, will normally apply to admission body employers closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit. Therefore, these types of employer are likely to see increases in employer contributions as part of this valuation. This is reasonable as it allows these employers to pay contributions which better target the funding required on exit from the fund, and will help mitigate the risk this type of employer poses to the remaining employers in the Fund should they exit without fully paying their Fund liabilities. Where possible, employers who are seeing significant increases in their contribution rate will be given the opportunity to spread the implementation of that increase over a number of years.

5.5 The main tax-raising employers will see material reductions in their employer contribution rate for the three years up to the next valuation because of their ability to use surplus to reduce their ongoing contribution rate. This surplus distribution is being carried out in a prudent way by the Fund, with distribution being spread over a 22-year period and not reducing an employer's funding level below 105%. In practice, employer contribution rates will be reassessed following the next (31 March 2022) valuation, and this regular reassessment provides a further safeguard for the Fund. Further prudence is being applied by the Fund in increasing the probability of funding success / reducing expectations of the level of future investment returns, and putting in place a different method of assessing employer contribution rates in respect of employers with a weaker covenant (as described above).

5.4 Further details of the draft valuation outcome at a whole of Fund level is included in the actuary's report as Appendix A. At the time of writing this report, work continues on determining the contribution rate in respect of a number of employers – an update will be provided on this at the meeting. Finalising the report may lead to some of the overall Fund numbers quoted in Appendix A changing slightly in the final report, but not materially and this will not affect the draft valuation outcomes already shared with employers.

## 6. NEXT STEPS

6.1 The actuary will continue to work to complete the remaining individual employer outcomes and they will be issued as they are finalised. The final valuation report will be completed by 31 March 2020 and will be published on the Fund website with a link circulated to all employers and other relevant parties including Committee and Teesside Pension Board Members.

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