

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

PENSION FUND COMMITTEE REPORT

22 JANUARY 2020

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

REVISED FUNDING STRATEGY STATEMENT

1. PURPOSE OF THE REPORT

- 1.1 To ask Members to approve the proposed revised wording for the Funding Strategy Statement prior to its circulation to stakeholders for comments.

2. RECOMMENDATION

- 2.1 That Members approve the proposed revised wording for the Funding Strategy Statement.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications arising from this report.

4. BACKGROUND

- 4.1 The Local Government Pension Scheme Regulations 2013 (as amended) required Administering Authorities to publish a Funding Strategy Statement by 31 March 2015 and to keep this statement under review, consulting with such persons as it considers appropriate when carrying out this review.
- 4.3. When preparing and revising the Funding Strategy Statement Administering Authorities should have regard to relevant guidance.

5. CHANGES

- 5.1 The proposed revised wording for the Funding Strategy Statement ('the Statement') is enclosed as Appendix A. The Fund Actuary has led the redrafting of the Statement – most of the changes are required because of the ongoing actuarial valuation and are needed to ensure the Statement is consistent with the final valuation report when it is signed off at the end of March. These most significant differences from the previous version are set out below.

5.2 Different Funding Targets apply to different employers as set out in section 4.3 of the Statement, which includes the following:

“Scheduled Bodies and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the Employer from the Fund

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature. This is known as the Ongoing (Scheduled Body/Subsumption) Target. At its discretion, the Administering Authority may agree to adopt this target for certain other bodies of sound covenant open to new entrants.

Admission Bodies and certain other bodies whose participation is limited

For Admission Bodies, bodies 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 the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities). This is known as the Ongoing (Orphan body) Funding Target. This funding target was introduced with effect from 31 March 2019 so, for a transitional period, it has been set below its intended long term target level so that the change in Funding Target for those affected employers will be phased in.

Orphan liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund, the assets notionally related to these liabilities will be assumed to be invested in low risk investments.”

5.3 These different Funding Targets lead to different discount rates applying and these are shown in the following table taken from the Statement:

Assumption	% p.a.
Discount Rate – Ongoing (scheduled body/subsumption) Funding Target	4.45
Discount rate – Ongoing (orphan body) Funding Target	
- In service	4.45
- Left service	3.00
Discount rate – orphan liabilities	1.30
Inflationary Salary Increases	3.1
Consumer Price Indexation (CPI)	2.1

5.4 Use of surplus: If an employer's funding level exceeds 105%, depending on what type of employer they are they may be able to use the excess surplus to reduce or avoid increasing their employer contribution rate. This is set out in section 4.7.2 of the Statement as follows:

“Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted, at the discretion of the administering authority, to reduce their contributions in the circumstances below:

- In line with the desirability of maintaining as nearly constant a contribution rate at this and future valuations, any employer with a funding level of between 100% - 105% will be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus.
- For tax-raising scheduled bodies, a contribution adjustment may be applied to the primary (future service) contribution rate equal to the surplus above the 105% funding level spread over 22 years.
- For other employers subject to the Ongoing (Scheduled Body / Subsumption) Funding Target, a contribution adjustment may be applied to the primary (future service) contribution rate not larger than the surplus above the 105% funding level spread over 22 years. Contribution rates will not be permitted to be reduced below the lower of:
 - the contributions being paid over the year immediately following the valuation date, and
 - the primary (future service) rate plus allowance for benefit improvement uncertainties.
- For employers subject to the Ongoing (Orphan body) Funding Target, a contribution adjustment for surplus will not be permitted unless the employer is over 100% funded on the expected basis to be used on exit.”

5.5 Pooling of risk benefits:

Section 4.7.6.3 of the Statement confirms the approach that taken in the Fund to pool the risk of death in service lump sum payments. It also extends this risk pooling to cover survivor pensions on death in service and payment of ill health pensions:

“All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service and, from 1 April 2019, survivors pensions on death in service and payment of ill health pensions – in other words, the cost of such benefits is shared across the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.”

5.6 Section 4.8 of the Statement sets out the following process for calculating any exit payment due from, or exit credit to pay to, an employer exiting the Fund:

“When employers exit the Fund the administering authority must look to protect the interests of ongoing employers and will require the actuary to adopt valuation assumptions for the exit valuation which, to the extent reasonably practicable, protect

the other employers from the likelihood of any material loss emerging in future. To give effect to this, the administering authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities remaining after any transfer of active members to another employer in the fund with low risk investments, generally Government bonds.

Any deficit would be levied on the departing admission body as a capital payment although, under exceptional circumstances, the administering authority, at its sole discretion, may allow phased payments.

Where the exit date is on or after 14 May 2018, if a surplus is shown, then the administering authority will return this surplus to the exiting employer within 3 months of the later of the exit date and the date at which all information has been provided to the administering authority to request a final exit valuation from the Actuary

For Best Value Admission Bodies, the relevant scheme employer will subsume the assets and liabilities of the exiting employer. For other employers, the administering authority may allow another participating scheme employer (such as a guarantor) to subsume the assets and liabilities of the exiting employer. The subsuming employer will assume responsibility for all assets and liabilities of the exiting employer and for the future funding of those assets and liabilities. In these circumstances, no exit payment would be required from the exiting employer. The administering authority will consider all such requests in accordance with its policy on employers exiting the Fund and retains its right to either accept or refuse such requests.”

- 5.7 In line with the revised assumptions being applied as part of the ongoing actuarial valuation, the probability of funding success has increased to 75% (from 70% at the last valuation)
- 5.8 The section on risk has been revised, and includes an explanation of the uncertainties around the benefit structure of the LGPS caused by decisions being awaited on GMP indexation and equalisation, the remedy to compensate scheme members for illegal age discrimination following the outcome of the McCloud case and the outcome of the cost management process.
- 5.9 The approach to setting funding levels for academies is being revised to set the maximum funding level a new academy can be set as the funding level of the original employer.

6. NEXT STEPS

- 6.1 Once the revised wording is approved, the Funding Strategy Statement will be circulated to relevant stakeholders (principally the scheme employers) for comments. If no significant changes result from this, the documents will be published in final form on the Fund's website. If significant amendments are requested the documents will be brought back to the Committee for approval before publication.

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