

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 4

## PENSION FUND COMMITTEE REPORT

22 JULY 2020

DIRECTOR OF FINANCE – IAN WRIGHT

### Draft Annual Pension Fund Report and Accounts 2019/20

#### 1. PURPOSE OF THE REPORT

- 1.1 To present Members with the 2019/20 draft Annual Report and Accounts for the Teesside Pension Fund.

#### 2. RECOMMENDATION

- 2.1 That Members note the 2019/20 Annual Report and Accounts (Appendix A).

#### 3. FINANCIAL IMPLICATIONS

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

#### 4. BACKGROUND

- 4.1 The terms of reference for the Teesside Pension Fund Committee require the Annual Report and Accounts to be received by Members. Attached to this report is the Draft Report and Accounts for the year ended 31 March 2020.

#### 5. PERFORMANCE SUMMARY

- 5.1 In the markets there was significant volatility during 2019/20, with increases towards the start of the year eclipsed by a large drop in in global financial markets towards the end of the year as a consequence of the Covid-19 pandemic and concerns about its financial impact. Domestic issues such as the 2019 general election outcome and the UK leaving the European Union on 31 January 2020 were overshadowed by the impact of the pandemic. Similarly, global issues such as US / China trade negotiations and the nature of the eventual trading relationship between the UK and EU were also put to one side as the focus quickly moved to the effect of the pandemic on economies, industries, trade and growth. The Fund is overweight in equities and consequently saw a significant fall in value by the end of the year, as global equity markets suffered substantial falls. As a long-term investor the Fund can accept volatility in its risk assets, and is not in a position where it needs to sell equities when they are at a low level.

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- 5.2 The overall financial performance of the Fund for the year to 31 March 2020 was negative. The Fund's value fell to £3.739 billion, a decrease over the year of approximately £350 million. This drop in value somewhat overshadowed what was a very positive outcome of the latest triennial valuation of the Fund, details of which are set out in paragraph 5.7 below.
- 5.3 The membership of the Fund has increased, with total membership at the year-end now standing at 71,577 an increase of 1,509 over last year. The number of active members has increased by 714 or 3.1% over the year, and increased by 3.5% over the past four years. The number of pensioners increased by 668 or 2.8% over the year, and increased by 13.6% over the past four years. The number of deferred members increased last year by 127 or 0.5%, and increased by 4.6% over the past four years.
- 5.4 Where a member retires early on the grounds of redundancy or business efficiency there is a cost to the Fund arising from the fact that a pension is drawn earlier than the Actuary had assumed and for these types of retirement the normal early retirement reductions do not apply. It is the policy of the Fund to recharge the actuarial cost of these retirements to the employers. This policy has the advantage that the Fund recovers the cost of an early retirement at the outset. For the employer the advantages are twofold;
- 1 the impact of retirement decisions is transparent; and
  - 2 the cost is invoiced separately rather than being recovered in the employer's contribution rate, which was once the case.
- 5.5 In this financial year the Fund received just under £4.0 million from these early retirement recharges, down on last year's figure of £4.1 million, a 2% decrease on last year.
- 5.6 Every three years the Fund actuary, AON Hewitt, carries out a full actuarial valuation of the Fund. The purpose is to calculate how much employers in the scheme need to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, will be covered. Unlike all the other major public sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities.
- 5.7 The latest actuarial valuation of the Fund was as at 31 March 2019, with the final report published at the end of March 2020. The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level. The aim of the Fund is to be 100% funded, and at the latest valuation the actuary was able to declare a funding level of 115%. This is particularly pleasing since it is the third time

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in succession that the Fund is able to declare it is fully funded. The next valuation is due to be carried out as at 31 March 2022 with the final report due to be published in March 2023 and any changes required to employer contribution rates due to come into force from April 2023.

### **6. FRS / IAS REPORTS**

- 6.1 Financial Reporting Standards (FRS) and International Accounting Standards (IAS) require employers to disclose in their accounts their share of the assets and liabilities in the Pension scheme. The Fund's actuary, Aon Hewitt, produces reports for the employers in the Teesside Pension Fund containing the figures which each needs to disclose in order to comply with the requirements of these standards.
- 6.2 Although the Fund is "actuarially" fully funded the employers still have FRS / IAS deficits because of the way the figures in the reports are calculated. It should be noted that the FRS / IAS calculations have no impact on the actual Funding Level of the Fund or the Employers within it.

### **7. INTERNATIONAL FINANCE REPORTING STANDARDS (IFRS)**

- 7.1 The Council adopted International Finance Reporting Standards (IFRS) from 1 April 2010. The Pension Fund, accounts comply with the reporting standards.

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