TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 9

TEESSIDE PENSION BOARD REPORT

24 APRIL 2017

STRATEGIC DIRECTOR FINANCE, GOVERNANCE AND SUPPORT – JAMES BROMILEY

FUND ACTUARIAL VALUATION

1. PURPOSE OF THE REPORT

1.1 To present to Members of the Teesside Pension Board (the Board) the final results of the triennial valuation of the Teesside Pension Fund and update Members of the next steps following the valuation.

2. RECOMMENDATIONS

2.1 That Members note the outcome of the triennial valuation for 2016, note that an Asset/Liability Study be carried out and review of employer covenant risk will be carried out.

3. FINANCIAL IMPLICATIONS

3.1 The changes to employer contribution rates certified in the valuation report will have financial implications for some scheme employers as well as the Fund as a whole with greater or smaller rates affecting the cash flow from employer contributions.

3.2 In calculating the contribution rate, the Actuary calculates the rate needed to be collected at a whole fund level and for individual employers and the new, employer contribution rates have been communicated to each employer.

3.3 An assessment of employer covenant risk could lead to a re-assessment either the bond/guarantee required and/or the employer contribution rate required from certain employers.

4. 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 as at 31 March 2016 and as at 31 March every third year afterwards. The final Actuarial Valuation Report for 2016 is attached as Appendix A.

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 valuation is 31 March 2016, with any contribution rate changes effective from April 2017.

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

Funding Level 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 £24.6m. This is a small decrease of £12.4m compared to the last valuation where the fund was also 100% solvent.
Cost of future benefits (Primary Contribution Rate) 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. The employers' average cost of future service benefits is 15.7% of pensionable pay with effect from 1 April 2017; this is an increase from the 14.4% set at the 2013 valuation. The main reasons for the increase are: • The Actuary has a more pessimistic view of future returns achievable from the investment assets owned by the Fund; and • Membership changes, in particular a fall in active members contributing to the Fund and an increase in pensioner members receiving payments from the Fund.
Deficit recovery period 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 *deficit recovery period*. At this valuation the deficit recovery period has been set at 20 years, an increase from 11 years at the last valuation. The reason for the increase is to assist and stabilise employer contribution rates and the affordability of the Fund for employers whilst ensuring the Fund remains solvent.

Asset/Liability Study

4.5 Following the actuarial valuation it has become standard practice to undertake an Asset/Liability Study. The Study looks at the long-term liabilities of the Fund and constructs a benchmark setting out what mix of investments would be best suited to match those liabilities over the medium and long-term. The Study would be carried out by the Fund's advisors and the Head of Investments in conjunction with the Fund Actuary.

Employer Covenant Risk

4.6 In past valuations, the same funding target assumptions were used across all employers. The employer covenant risk was not taken into account in the calculations, and, with some employers, the risk of calculating the employer contribution rate on an on-going basis only for these employers to face a cessation valuation on exit from the scheme at a lower discount rate, based on the gilt rate, and which could result in a large invoice due to the Fund.

4.7 After this valuation, a full assessment of employer covenant risk will be undertaken and reflected in future versions of the Funding Strategy Statement.

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