

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION BOARD REPORT

22 JULY 2019

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

Draft Annual Pension Fund Report 2018/19

1. PURPOSE OF THE REPORT

- 1.1 To present Board Members with the 2018/19 draft Annual Report and Accounts for the Teesside Pension Fund.

2. RECOMMENDATION

- 2.1 That Board Members note the 2018/19 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 requires 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 2019 which will be presented to the Pension Fund Committee on 24 July 2019.

5. PERFORMANCE SUMMARY

- 5.1 In the markets there was a mixed performance during 2018/19, with the US stock market performing well but significantly smaller gains in other overseas markets and the UK. Despite an overall small increase in value over the financial year, markets were volatile, particularly on geopolitical news over the year. Much of this centred on speculation over the eventual outcome of US / China trade negotiations and continuing uncertainty over the UK's future relationship with the European Union.
- 5.2 The overall financial performance of the Fund for the year to 31 March 2019 was a reasonable positive increase. The Fund's value increased to £4.08 billion an increase over the year of approximately £187 million or 4.8%.

5.3 The membership of the Fund has increased, with total membership at the year-end now standing at 72,266, an increase of 2,971 over last year. The number of active members has decreased by 363 (1.6%) over the year, but increased by 1.6% over the past four years. The number of pensioners increased by 967 (4.2%) over the year, and increased by 12.7% over the past four years. The number of deferred members increased last year by 2,367 (10.2%), and increased by 4.8% 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 over £4.1 million from these early retirement recharges, down on last year's figure of £4.5 million, a 9.4% 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 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 last valuation the actuary was able to declare a funding level of 100%. This is particularly pleasing since it is the second time 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 2019 with the final report due to be published in March 2020 and any changes required to employer contribution rates due to come into force from April 2020.

6. FRS17 / IAS19 REPORTS

6.1 Financial Reporting Standard 17 (FRS17) Retirement Benefits and International Accounting Standard 19 (IAS19) Employee Benefits – 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 FRS17 / IAS19 deficits because of the way the figures in the reports are calculated. It should be noted that the FRS17 / IAS19 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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