Teesside Pension Fund – 2022 FSS review

Purpose and scope

This paper has been commissioned by and is addressed to Middlesbrough Council, the Administering Authority to Teesside Pension Fund ("the Fund"). Its purpose is to set out how the key principles of the Funding Strategy Statement ("FSS") may change as part of the 2022 valuation of the Fund.

Process and consultation

The FSS is reviewed and consulted on at least every three years in line with the LGPS Regulations. As part of the consultation process, the Fund invites all interested parties to feedback on the Fund's approach to funding and managing pension risks.

Fundamental changes to the FSS are not expected as part of the current review. The suggested changes are designed to better manage risk in the Fund and improve the employer experience.

This document sets out the key principles and policies contained in the current FSS and how these are expected to change as a result of this review.

Key funding principles and suggested changes

The tables below set out the key principles contained in the FSS, and the current expectation with regards to how these may change as part of the 2022 review.

Assumptions

Principle	Current position	Change
Solvency objective	Achieve a 100% solvency level over the long term	No change.
Prudence	75% likelihood	No change
Discount rate	Ongoing (scheduled body/subsumption) discount rate - Model portfolio returns and select the return target which meets the Fund's prudence target of 75% Ongoing (orphan body) discount rate – 'left service' liabilities for orphan body employers were measured on a more prudent basis Orphan discount rate – based on gilt yields	Ongoing (scheduled body/subsumption) discount rate – no change Ongoing (orphan body) discount rate has been discontinued as it may mislead employers planning exit from the Fund who will ultimately be measured on the orphan discount rate (cessation basis) on exit. Orphan discount rate has been renamed the 'cessation' or 'low risk' discount rate.
Consumer Price Inflation (CPI) – pension increase rate	Equal to long-term RPI less 1.0% per annum	A revised approach to recognise the distortions caused in the market price of RPI by the planned harmonisation of RPI with CPIH from 2030
Salary growth	CPI plus 1.0% per annum plus a separate age related allowance for promotional increases.	No change
Baseline longevity	Standard mortality tables published by the actuarial profession's Continuous	Based on Club Vita tables allowing for the specific characteristics of each individual

	Mortality Investigation (CMI) group adjusted to reflect the characteristics of Fund members	member. In effect, a separate mortality assumption is set for each member of the Fund based on relevant factors (e.g. lifestyle, affluence etc)
Longevity improvements	Based on the latest future improvements tables provided by the CMI	No change

Setting contributions

The focus at the 2022 valuation will be in setting total contribution rates that are sufficient to lead to the employer being fully funded at the end of their appropriate time horizon.

Principle	**Current position**	**Change**
Stability for long term secure employers	Desire for as nearly a constant rate as possible	No change
Deficit recovery periods	Typical maximum of 20 years for statutory bodies, colleges, universities, academies and 'community admission bodies' with funding guarantees Maximum of remaining contract length for best value admission bodies Maximum remaining period of the deferred debt agreement for deferred employers. Maximum of future working lifetime for all other employers	No change with the exception of 'community admission bodies' where average future working lifetimes will apply unless the employer is both open to new entrants and has a funding guarantee.
Surplus	Certain limitations may apply on recovering surpluses and recovery period set at a maximum of 22 years	Limitations removed. The administering authority will apply its discretion to manage the Fund's objective of maintaining stability of rates
Phasing of contribution rates	Up to 6 years for rate increases, up to 3 years for rate reductions, and none for best value admission bodies.	Limitations removed. The administering authority will apply its discretion to manage the Fund's objective of maintaining stability of rates

Other funding issues

Issues	**Current position**	**Change**
McCloud & cost management valuations	0.9% of pay added to employer rates to cover these potential costs	Allowance for the McCloud remedy will be included in the measurement of the past service liabilities and (where appropriate) future service contribution rates, for all employers as a matter of course.

		No allowance is being made for cost management valuations.
Ill health retirement strains and death in service strains	All ill-health and death in service risks are shared across all employers.	No change to ill health arrangements The death in service arrangement has been amended to cover death-in-service lump sums specifically.

New policies

Policies	**Details**
New employers	Elements of the FSS covering the approach to new employers joining the Fund have been moved into a stand-alone policy.
Bulk transfers	New policy setting out the Fund's approach to members transferring into and out of the Fund.
Academies & free schools	Elements of the FSS covering the approach to the participation of academies and free schools has been moved into a stand-alone policy.
Employer exits	Elements of the FSS covering the approach to exits, including deferred debt agreements, deferred spreading arrangements and exit credits, has been moved into a stand-alone policy.

Reliances and limitations

This paper has been prepared for the Teesside Pensions Authority for the purpose described above. It has not been prepared for use for any other purpose and should not be so used.

This paper may be shared with participating employers for consultation purposes but should not be considered as advice to the employers.

This paper should not be disclosed to any other third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Steve Law FFA – Fund Actuary

Julie Baillie

Julie Baillie FFA – Fund Actuary

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For and on behalf of Hymans Robertson LLP