Teesside Pension Fund 2022 Actuarial Valuation

- Notification of draft employer results

Introduction

This schedule contains a summary of the results of the 2022 actuarial valuation of the Teesside Pension Fund ("the Fund"), specifically those relating to the Employer or Pool/Group named above. Its main purpose is to notify you (the Employer) of the contribution rates payable from 1 April 2023 to 31 March 2026 as well as your funding position on the valuation date. It also contains detailed technical information explaining the results and how they have changed since the previous valuation. This information may be of use to any professional advisors examining your valuation results. Please see the final section of this schedule for further information, and read these in conjunction with the Funding Strategy Statement (FSS) which you will receive from the Fund for consultation purposes.

Contribution rates

	Primary	Secondary		Total	
Employer contribution rates for year ending	**% of pay**	**% of pay**	**£**	**% of pay**	**£**
31 March 2023				15.7%	0
31 March 2024	19.2%	-3.5%	0	15.7%	0
31 March 2025	19.2%	-3.5%	0	15.7%	0
31 March 2026	19.2%	-3.5%	0	15.7%	0

The above contribution rates are the minimum rate required by the Fund, subject to further discussions and agreement with the Fund. In most circumstances you can pay additional contributions to improve your funding position but this should be referred to the actuary first. The Primary Rate includes an allowance of 0.6% of pay for administration expenses. Employer contribution rates are due in addition to employee contributions. The average employee contribution rate is 6.3% of pay.

The contribution rates payable from 1 April 2023 have been determined based on the following funding strategy and employer circumstances:

Funding strategy	Last valuation / Opening position	This valuation
Funding target (see FSS for details)	Ongoing (Scheduled Body / Subsumption)	Ongoing
Funding time horizon (years)	20	20
Likelihood of achieving funding target by end of horizon		75%
Investment strategy	Whole Fund	Whole Fund
Open / Closed to new entrants	Open	Open

The previous Fund actuary's assessment of the Likelihood of Success and of setting a suitable time horizon is not directly comparable. This funding strategy has been determined by the Administering Authority, taking into account the type of organisation the Employer is and the nature of its participation in the Fund. The approach to setting employer contribution rates, and the Employer's funding target, is explained further in the draft FSS. Further details on the Employer's investment strategy is included in the Fund's Statement of Investment Principles/Investment Strategy Statement.

Funding position

Your funding position as at 31 March 2022 is shown below, along with a summary of the assumptions and data underlying it.

Employer funding position (£000)	Last valuation / Opening position	This valuation (Ongoing)
Past service liabilities - Employees	7,827	7,155
Past service liabilities - Deferred pensioners	3,174	3,325
Past service liabilities - Pensioners	4,979	5,882
Past service liabilities - Total	**15,980**	**16,362**
Asset share	**15,358**	**20,307**
Surplus/(deficit)	**(622)**	**3,946**
Funding level	**96%**	**124%**

If you cease to participate in the Fund then your liabilities will be recalculated on a more prudent basis to reflect the fact that you won't be around in future to make any additional contributions which may be required. Using more prudent assumptions leads to a larger value being placed on the liabilities (see the draft FSS for details of these assumptions, please note that the low risk exit basis is subject to finalisation following the recent consultation). The table below shows the estimated funding position if you had ceased to participate in the Fund on the valuation date (the estimate position shown is an indicative risk-based cessation approach which is still under review).

Low-risk funding position (£000)	This valuation
Liabilities	20,933
Asset Share	20,307
Surplus/(deficit)	(626)
Funding level	97%

Assumptions

The financial and longevity assumptions underlying the funding positions disclosed are detailed below. Details of the demographic assumptions are available in the FSS.

Financial assumptions p.a.	Last valuation / Opening position	This valuation
Investment return (Ongoing)	4.4%	4.2%
Investment return (Low-risk)		3.0%
Salary increases	3.1%	3.7%
Benefit increases/revaluation	2.1%	2.7%

Longevity assumptions	Last valuation / Opening position	This valuation
Baseline longevity	SAPS (S2N)	2021 VitaCurves
Future improvements (Ongoing basis)	CMI 2018: A=0%, LTR=1.5%,Sk=7.5	CMI 2021: A=0.25%, W=0, LTR=1.5%, Sk=7
Future improvements (Low-risk basis)		CMI 2021: A=0.25%, W=0, LTR=1.75%, Sk=7

Based on the above longevity assumptions, and taking into account characteristics of the individual membership of the Employer, the average life expectancies are summarised below.

Life expectancy from age 65 31 March 2022	Ongoing	Low-risk
Current pensioners - male	20.9	21.1
Current pensioners - female	23.9	24.1
Future pensioners - male	21.9	22.4
Future pensioners - female	25.5	25.9

Figures for future pensioners are a weighted average of active and deferred members.

Membership Data

All the results in this schedule are based on the membership data summarised below which was supplied to us by the Fund for the purpose of the valuation.

Member	Membership data	Last valuation/Opening position	This valuation
Employee members	Number	108	87
	Total actual pay (£000)	2,492	1,976
	Total accrued pension (£000)	471	465
	Average age weighted by liability	53	52
Deferred pensioners	Number	130	130
	Total accrued pension (£000)	160	202
	Average age weighted by liability	53	52
Pensioners	Number	111	121
	Total accrued pension (£000)	309	399
	Average age weighted by liability	70	71

Change in funding position compared to last valuation/opening position

The following table shows a detailed breakdown of the change in your assets and liabilities over the period since the last valuation (or the date you joined the Fund, if this is later). This information may be of use to any professional advisors with an interest in your valuation results.

(£000)	Source of change	Assets	Liabilities	Surplus/(deficit)
Last valuation / Opening position		15,358	15,980	(622)
Cashflows	Employer contributions paid in	1,414		1,414
	Employee contributions paid in	404		404
	Benefits paid out	(1,575)	(1,575)	0
	Net bulk and individual transfers in/(out) [1]	9		9
	Other cashflows (e.g. expenses)	(1)		(1)
Expected changes in liabilities	Interest cost on benefits already accrued		2,288	(2,288)
	Accrual of new benefits		1,812	(1,812)
Membership experience vs expectations	Salary increases greater/(less) than expected		250	(250)
	Benefit increases greater/(less) than expected		(122)	122
	Early retirement strain (and contributions)	48	24	24
	Ill health retirement strain [2]		(52)	52
	Early leavers (more)/fewer than expected		0	0
	Pensioner deaths (more)/fewer than expected		125	(125)
	Commutation less/(greater) than expected		40	(40)
	Impact of bulk transfers		0	0
	Other membership experience		(2,534)	2,534
Changes in market conditions	Investment returns on the Employer's assets	4,650		4,650
	Change in future inflation expectations		1,687	(1,687)
Changes in actuarial assumptions	Change in demographic assumptions (excl. longevity)		(213)	213
	Change in longevity assumptions		(130)	130
	Change in salary increase assumption		52	(52)
	Change in discount rate		(1,270)	1,270
This valuation		20,307	16,362	3,946

1. *The impact of individual member transfers (in/out) on the liabilities is included in the Other membership experience item.*
2. *Payments in respect of ill health retirements are recorded under Employer contributions or Other cashflows above.*

Important information: addressee, purpose and professional notes

Hymans Robertson have prepared valuation results for all employers participating in the Teesside Pension Fund and provided those to the Administering Authority. This Notification of draft employer results schedule has been created on behalf of the Administering Authority of the Fund to be shared with the Employer named above. Its purpose is to notify the Employer of the principal results from the 2022 actuarial valuation, and allow the Employer to check that the membership and participation details reflect their circumstances.

The draft Funding Strategy Statement (FSS) will contain further information on the assumptions and methodology used to calculate employer contribution rates and funding position set out in this report.

Please note that this schedule does not constitute advice to the Employer or any other third parties and Hymans Robertson LLP accept no liability to the Employer or any other third parties. If the Employer is a member of a funding pool or group within the Fund, the contribution rates, funding level and membership data shown in this report relate to the pool/group as opposed to the individual employer (unless stated otherwise).

The contribution rates shown in this schedule should be considered draft until finalised in the Rates and Adjustments Certificate, due to be published by 31 March 2023. The other results may also be revised by that point, for example due to changes in data or assumptions.

The figures shown in this document have been rounded and therefore the sum of figures within a table may not appear to add up exactly.

If you have any questions on the FSS or the results in this schedule please contact the Fund in the first instance.

Technical Actuarial Standard (TAS) 100 has been complied with to a proportionate degree in the preparation of this report.

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HYMANS ROBERTSON

Briefing note

Local Government Pension Scheme 2022 actuarial valuations Employer results: Frequently Asked Questions

This briefing note has been prepared for the Administering Authorities of Hymans Robertson's English and Welsh LGPS clients who are undertaking an actuarial valuation in 2022. It is designed to help address questions we expect participating employers to ask when receiving valuation results.

Alongside this note, we have also prepared further additional resources:

- A video to help employers understand how contributions are calculated (How are your contributions set?)
- A video to help employers understand their valuation results (https://vimeo.com/758744777)
- The 2022 Valuation Hub (2022 LGPS Valuation Hub Page)

Questions

1 Funding positions

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1.2 What are my 'liabilities' and how are they calculated?

1.3 What is my 'funding position/level' and 'surplus/deficit'?

1.4 How important is my funding level?

1.5 Why has my funding position changed compared to the last valuation/my opening position?

1.6 How does my 2022 valuation funding position compare to the equivalent figures in my 2022 accounting FRS102/IAS19 results?

2 Contributions

2.1 How are my contributions calculated?

2.2 What is the difference between the 'primary rate' and 'secondary rate'?

2.3 My funding level is over 100% – does that mean I will pay no secondary contributions?

2.4 Why have my contributions changed compared to those I'm currently paying?

2.5 Can I pay any of my contributions in advance?

2.6 What happens if I can't afford the contributions that have been proposed?

2.7 What can I do if I want to leave the LGPS?

2.8 Where can I get advice on LGPS matters which is independent of the fund(s) I participate in?

Our responses

1 Funding positions

1.1 What are my 'assets' and how are they calculated?

Each employer's asset value is tracked separately so we know how much you already have to cover the cost of benefits earned by your employees and ex-employees. The asset share reflects the contributions you've paid in, the investment returns earned and the benefits paid out to your employees and former employees. The assets are invested in line with the fund's investment strategy. To help keep contributions affordable, this strategy seeks to generate returns by investing in assets such as shares, property, bonds etc, so investment returns can be volatile. Some funds invest assets differently for different employers depending on their circumstances, so your investment returns may not be the same as for every employer in the same fund.

1.2 What are my 'liabilities' and how are they calculated?

Your liabilities are an estimate made by the actuary of the total cost of all the benefits currently promised to your employees and ex-employees. This estimate depends on two key inputs: the membership data held by the Fund, which is ultimately based on data provided by you, and assumptions about the future, such as life expectancy and inflation. As most benefits will be paid many years in the future, the actuary calculates a value in today's money by estimating what the future return may be on the assets in the fund. Some employers may have liabilities calculated using a different, more prudent future return on assets depending on their circumstances.

A summary of the membership data used to calculate your liabilities can be found in the valuation results schedule whilst further information on the assumptions is available in the draft Funding Strategy Statement.

1.3 What is my 'funding position/level' and 'surplus/deficit'?

'Funding position' or 'funding level' are summary indicators of how well the benefit payments currently promised to your employees and ex-employees ('liabilities') are covered by your assets. A funding level is the ratio of assets to liabilities. An employer with a funding level that is greater than 100% will have more assets than liabilities and vice versa.

If your asset share is less than your liability value i.e. the funding level is less than 100%, you will have a 'deficit'. If your assets exceed your liabilities you have a 'surplus'. The surplus or deficit is the asset value minus the liability value.

1.4 How important is my funding level?

Some employers will eventually stop participating in the LGPS, for example at the end of a contract or when their last employee leaves. If you are in this situation then the funding level and the surplus/deficit are very important because when you leave the fund you need to be exactly 100% funded. In general, when you stop participating in the fund, if the assets are less than the liabilities you will need to pay off

the deficit, and if the assets exceed the liabilities you may in some circumstances receive the surplus as a payment from the fund.

However, most employers in the LGPS continue to offer membership to new employees and participate in the Fund indefinitely. Therefore, these employers will never reach a point where they will leave. If you are in this situation then you will never have to pay off the deficit in one go, and the funding level is of less importance. It is desirable to be in a strong funding position, but it is not essential to be exactly 100% funded.

Whatever situation you are in, it is important to remember that the funding position is a snapshot on a single date, it will vary from day to day as asset and liability values change in line with financial market movements.

1.5 Why has my funding position changed compared to the last valuation/my opening position?

Every employer's circumstances are different but the most significant factors affecting your funding position are likely to be:

- Investment returns on your assets. The fund saw very strong investment returns over the last few years, leading to a large increase in asset values.
- Contributions paid in by you and your members. These are likely to be particularly significant for new employers like academy schools.
- Accrual of new benefits – i.e. the cost of new benefits earned by your employees since the previous valuation or, if you are a new employer, when you joined the fund.
- Changes in future inflation assumptions. Based on current market expectations, the actuary expects inflation to be higher in future than was assumed at the previous valuation. This increases the estimate of the liabilities as it means future benefit payments are expected to be higher.
- Change in the future return on assets. The actuary updates their assumptions at each valuation, which affects the value placed on the liabilities. See answer 1.2 for further details.

1.6 How does my 2022 valuation funding position compare to the equivalent figures in my 2022 accounting FRS102/IAS19 results?

The assets and liabilities reported at the 2022 valuation will differ from the assets and obligations reported in your 2022 FRS102/IAS19 report (note that 'obligations' is just the accounting term for 'liabilities'). There are three main reasons for this:

- Date – your accounting numbers may be at a different date (e.g. 31 July or 31 August), so they will be based on different investment returns and market conditions
- Data – your 2022 accounting figures were based on membership data provided for the 2019 valuation of the fund (or the date you joined the fund as a new employer, if later). The accounting obligations do not capture changes to your employees' details which do not match the actuary's assumptions. The difference will be more prominent if you have had major events such as an ill-health retirement or a significant number of individual transfers in or out. Your 2023 accounting numbers will be based on the data provided for the 2022 valuation.

- Assumptions – the financial assumptions used for the valuation results are set by the fund actuary, with agreement from fund officers and the Pensions Committee. The equivalent assumptions for accounting purposes are set in line with the relevant accounting standard (FRS102 or IAS19). These differences, particularly in the discount rate, can lead to large differences between the valuation liabilities and the accounting obligations. At the moment the difference in assumptions means that accounting obligations are typically much greater than valuation liabilities (all else being equal).

2 Contributions

2.1 How are my contributions calculated?

Employer contribution rates are calculated for each employer individually, based on your membership, asset share and circumstances. In every case, the long-term target is for your liabilities to be at least 100% funded at the end of a specified time horizon. Because the future is unknown we can never guarantee that a given contribution rate will achieve this target. Instead, the actuary models thousands of possible future scenarios and calculates the contribution rate which achieves the long-term target in a given proportion of scenarios. The higher the proportion, the more certain we can be that the contributions will be enough.

You will see the parameters that have been used to set your contribution rate in the results schedule and in the Funding Strategy Statement. The key parameters are:

- **Funding target**: usually 100% funded on a given basis which depends on the nature of your participation in the fund. Open, long-term employers are usually funded on the 'ongoing' basis. If you will eventually leave the Fund without another employer guaranteeing your liabilities, you may be funded on a more prudent basis (known as the 'low-risk exit' basis) and pay higher contributions (all else being equal).

- **Funding time horizon**: depends on your participation in the fund. Open, long-term employers will have longer horizons, whilst other employers will have time horizons based on their individual circumstances e.g. when their contract is due to finish.

- **Required likelihood of achieving target**: a percentage less than 100%, usually between 66% and 80%. This percentage represents how likely it is that the contributions will achieve the target at the end of the horizon. A higher percentage results in higher contributions. The percentage is greater than 50% in order to be prudent. In other words, we have to set a contribution that is "more likely than not" to achieve the funding target.

  The Fund will require different likelihoods for different employers depending on your circumstances. If you are guaranteed by another employer, pooled with a Local Authority employer or can provide security (e.g. a bond or a charge on assets) the fund may require a lower likelihood of success, leading to lower contributions (all else being equal).

Further detail on how your fund sets contribution rates, including any special arrangements for specific types of employer, is included in the Funding Strategy Statement. All employers in the fund have been consulted on this document as part of the 2022 valuation process.

2.2 What is the difference between the 'primary rate' and 'secondary rate'?

The primary rate is the contribution rate to cover the cost of new benefits accruing in future according to the methodology described in answer 2.1. Because the benefits earned by your employees are proportional to their pay, the cost of these benefits is also proportional to pay. For this reason the primary rate is always expressed as a % of pay.

The primary rate is independent of the value of your assets and liabilities, it is solely related to benefits building up in future.

Secondary contributions are paid in addition to the primary rate and are in respect of funding benefits earned up to the valuation. If you are in a weak funding position, secondary contributions will be higher than if you are in a strong funding position (all else being equal). Some employers with very strong funding positions may even have a zero or negative secondary rate. Your total contribution rate can never be less than zero.

2.3 My funding level is over 100% – does that mean I will pay no secondary contributions?

Not necessarily. The funding level is a snapshot in time and fluctuates from day to day depending on investment returns, contributions paid, membership details etc. Although you were over 100% funded on 31 March 2022, it does not mean you are still fully funded, and nor it does not mean you will be fully funded at the end of your time horizon. You may therefore have secondary contributions to pay if you are over 100% funded at the valuation date. Likewise, you may even have a negative secondary contribution if you are under 100% funded. The result depends on how your funding position is expected to evolve in the future.

2.4 Why have my contributions changed compared to those I'm currently paying?

As with your funding position, contribution rates are calculated individually for each employer so the change compared to the 2019 valuation will depend on lots of factors such as changes to your membership data or parameters used to set your contributions. Funding positions are also generally better in 2022 than in 2019 due to strong investment returns as mentioned under answer 1.5. A stronger funding position will lead to lower (or even negative) secondary contributions but has no effect on primary contributions.

2.5 Can I pay any of my contributions in advance?

Yes, but you need to discuss with the fund in the first instance and also check with your auditor around the accounting treatment of such an action. Note that this option may not be available to all employers.

2.6 What happens if I can't afford the contributions that have been proposed?

If you have concerns about affordability you should discuss with the fund as soon as possible. The fund is different to other public sector pension schemes in that there is greater flexibility around contribution rates. For example, you may be able to negotiate a reduced rate in return for offering security such as a bond or a charge on assets.

If contributions are still unaffordable despite this then you may be able to consider leaving the LGPS. See answer 2.7 for further details. Some types of employer may be legally required to offer LGPS membership to their employees so this option is not open to everyone.

2.7 What can I do if I want to leave the LGPS?

This is a complex decision with implications extending beyond simply the cost of contributions. You may face legal or contractual barriers, you will still need to offer a pensions arrangement to your staff, and you will need to settle any deficit remaining in the LGPS fund(s) in which you participate. If you do wish to consider this, we would advise you to seek professional advice.

2.8 Where can I get advice on LGPS matters which is independent of the fund(s) I participate in?

Hymans Robertson has a dedicated team of LGPS experts for employers looking for advice that is independent from their fund. Please contact employersinLGPS@hymans.co.uk for further details.