

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

PENSION FUND COMMITTEE REPORT

15 MARCH 2023

DIRECTOR OF FINANCE – HELEN SEECHURN

REVISED FUNDING STRATEGY STATEMENT

1. PURPOSE OF THE REPORT

- 1.1 To ask Members to agree to the revised Funding Strategy Statement enclosed at Appendix A.

2. RECOMMENDATION

- 2.1 That Members agree to the revised Funding Strategy Statement.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications relating to this report, although the Funding Strategy Statement does set out how employers in the Fund have their contribution rates set and are treated on exiting the Fund.

4. REVISED FUNDING STRATEGY STATEMENT

- 4.1 The Fund actuary presented the 21 October 2022 Committee with a paper setting out proposals to consult with the Pension Fund Employers on changes to the Funding Strategy Statement. That paper summarised the purpose of the Funding Strategy Statement (FSS) as follows:

“Under Local Government Pension Scheme Regulations, all LGPS funds have a statutory obligation to produce an FSS. It is a key document for the Fund, in two ways:

1. The inputs it requires: the Fund’s officers and Pensions Committee need to go through a process to be satisfied that the Fund is managing funding risks and will be collecting an appropriate level of contributions from all employers in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas.
2. The outputs it gives: the finalised FSS itself should be a clear and transparent reference point for the Fund’s stakeholders. It will set out how the Fund manages funding risks and provide evidence that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

The FSS is prepared in collaboration with the Fund Actuary and forms an integral part of the triennial valuation. The FSS also outlines how the funding strategy fits in with the investment strategy.”

4.2 The paper explained that the revised FSS would have a changed format to make it more accessible and would take into account the changing regulations and environment the Fund works in and reflect the updated approach to funding working with the new Fund actuary (Hymans Robertson).

4.3 The most significant changes to the FSS include

4.3.1 Review of funding assumptions and approach

The actuary has reviewed the funding approach and assumptions as part of the 2022 valuation. These have been updated to reflect Hymans Robertson’s actuarial methodology, and emerging experience and market conditions as at 31 March 2022, The revised approach and assumptions are incorporated into the updated FSS.

4.3.2 Climate risk

The Fund recognises that climate change is a key risk due to the open-ended time horizons of the liabilities. As part of the modelling analysis for reviewing the Council’s contribution strategy, the actuary has stress-tested the results under additional climate scenarios. The updated FSS includes this ongoing work.

4.3.3 Risk-based exit valuation approach

The Fund has reviewed the approach to cessation valuations that are carried out when an employer leaves the Fund. The previous approach was closely tied to gilt yields on a particular day, an approach which introduces much volatility into cessation valuations over time. The revised approach is instead linked to the expected investment return of the assets held by the Fund, with a prudent level of risk incorporated for the protection of the Fund.

4.4 All Fund employers were sent a copy of the revised draft FSS as part of the consultation process. A small number of employers responded, with one providing a detailed response. After careful consideration, it was felt no changes were required to the draft FSS following the consultation.

4.5 The final updated FSS is enclosed at Appendix A. The Fund actuary will be present at the meeting to assist with any questions Members have in relation to the FSS.

5. NEXT STEPS

5.1 If approved by Members, the revised FSS will be published on the Fund’s website.

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