

Teesside Pension Fund

2025 valuation

Pensions Committee: 12 March 2025

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Today's session

1. Change in environment since 2022

2. 2025 valuation

- Assumption setting
- Funding strategy

Questions and comments welcome throughout

Changes affecting financial markets since 2022

The main changes since the 2022 valuation date are set out below:

Economic conditions

- Increase in interest rates from historic lows to rates closer to the long-term average.
- Higher than expected inflation so far: Pension Increase Orders in 2023 (10.1%) and 2024 (6.7%) but expecting 1.7% in April 2025
- Increased market volatility, impacting expected future investment returns.

Climate risk

- Climate change could have significant implications for financial markets.
- In particular, there is evidence to suggest that the risk of extreme events occurring is increasing
- Further information on the uncertainty around future climate pathways will be available later this year.

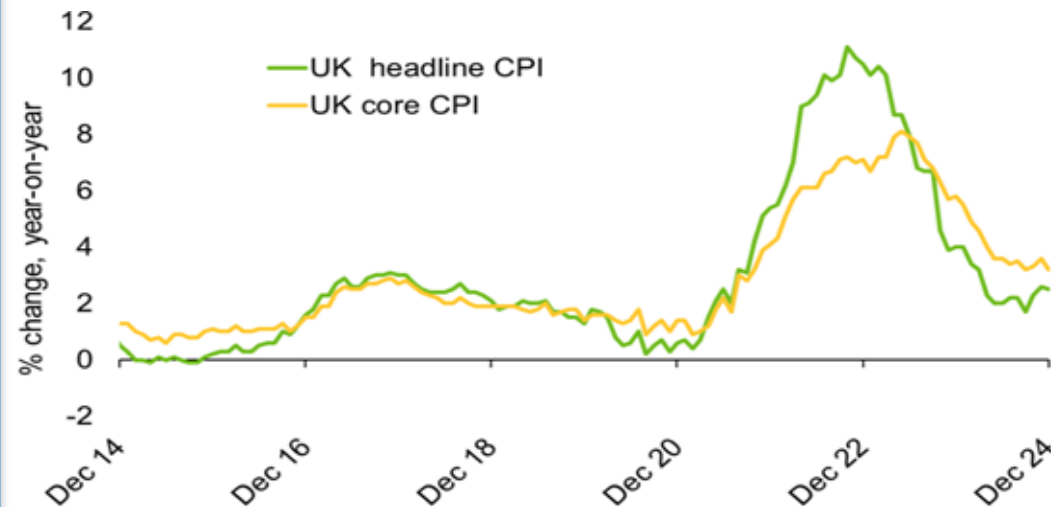
Political risks

- The geo-political landscape has shifted significantly e.g. increases in regional conflicts, potential trade wars
- In July 2024, the Government launched its Pensions Investment Review.
- In November 2024, the UK Government launched the “LGPS – Fit for the future” consultation.

Material change for the purpose of funding at 2025 valuation is the change in economic conditions

What has happened since 2022 valuation?

UK inflation over past 10 years



General insights



Whole Fund funding position has improved since 2022 (on comparable, updated basis)



Assets returns have been positive



Rising interest rates & high inflation



Higher expected future return on the Fund's assets

2025 valuation will reflect actual experience since 31 March 2022

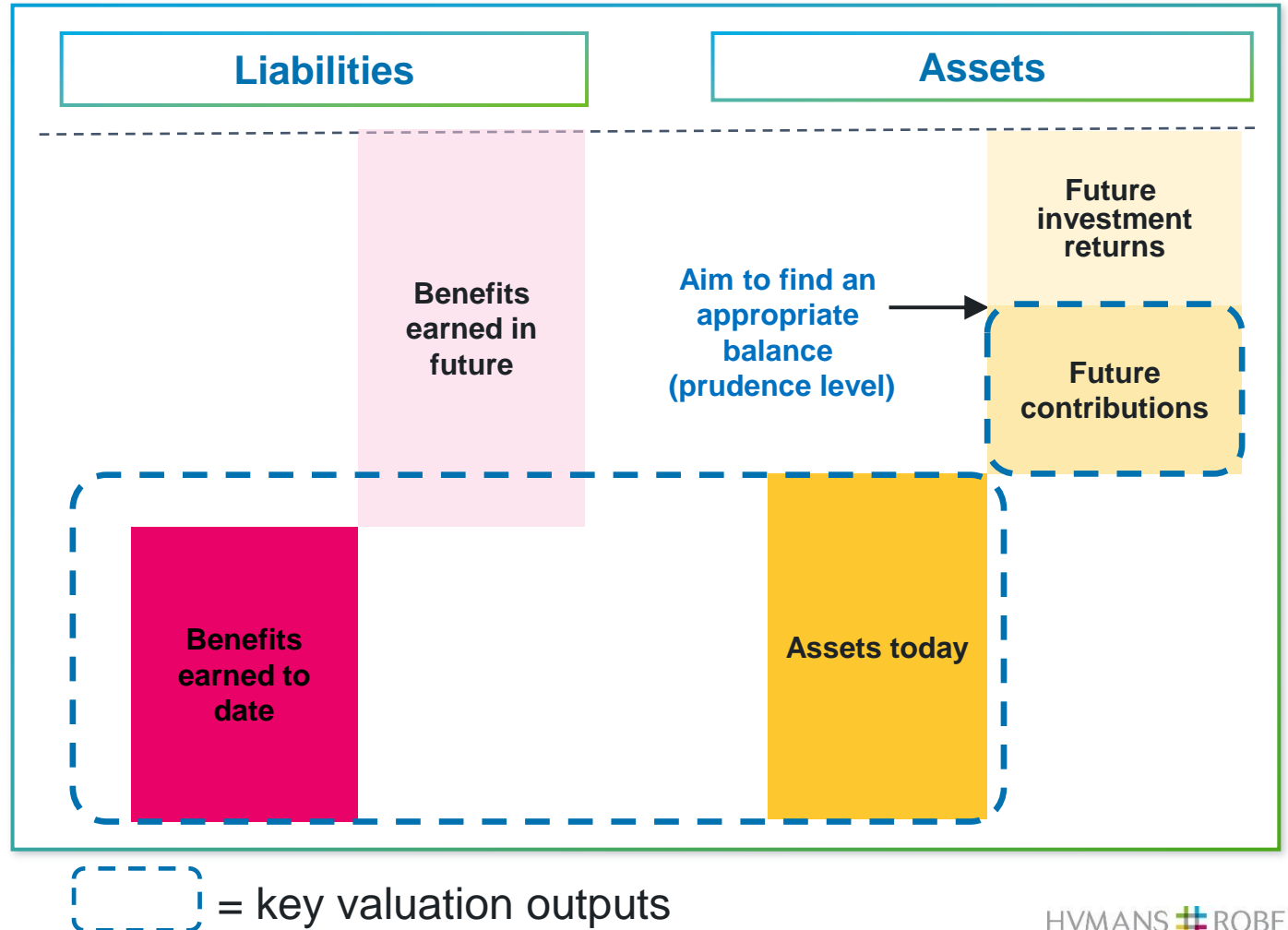
Why we need assumptions

Required for key valuation outputs:

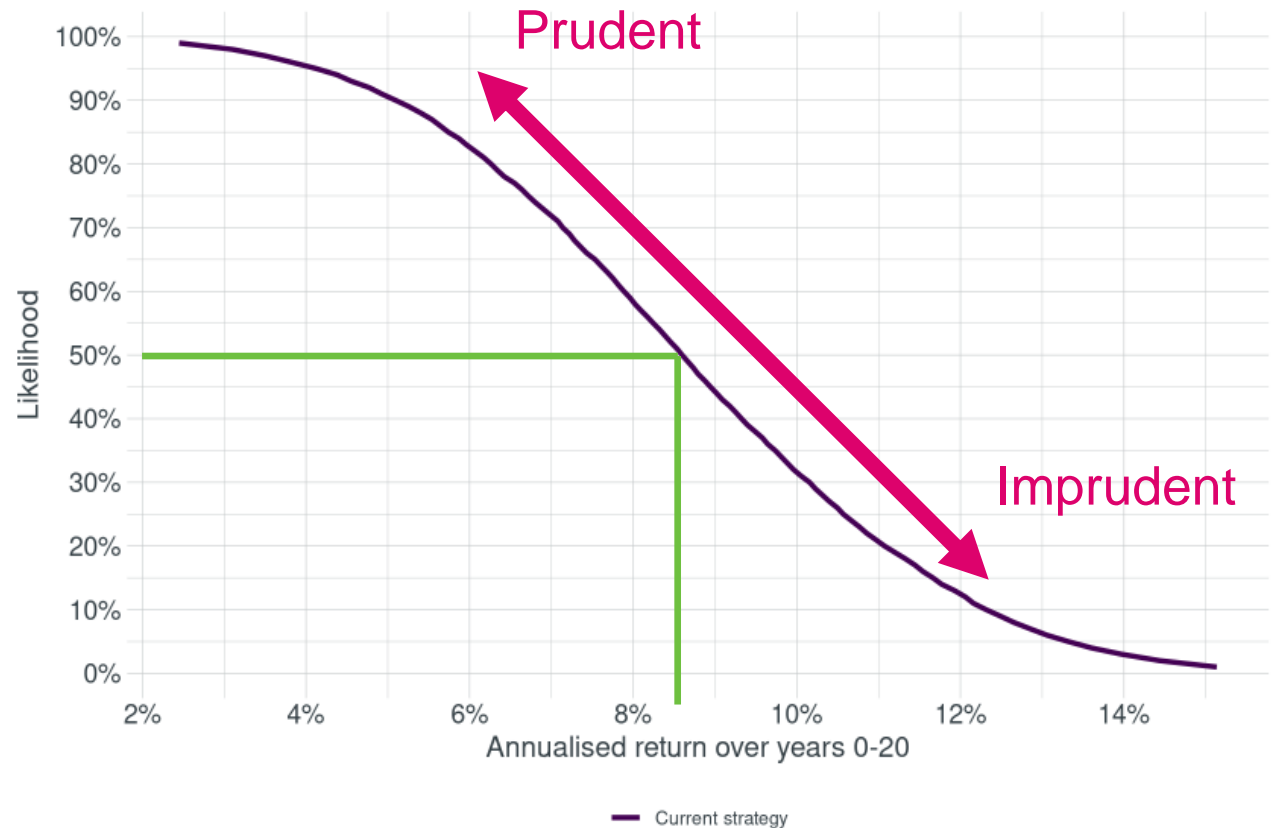
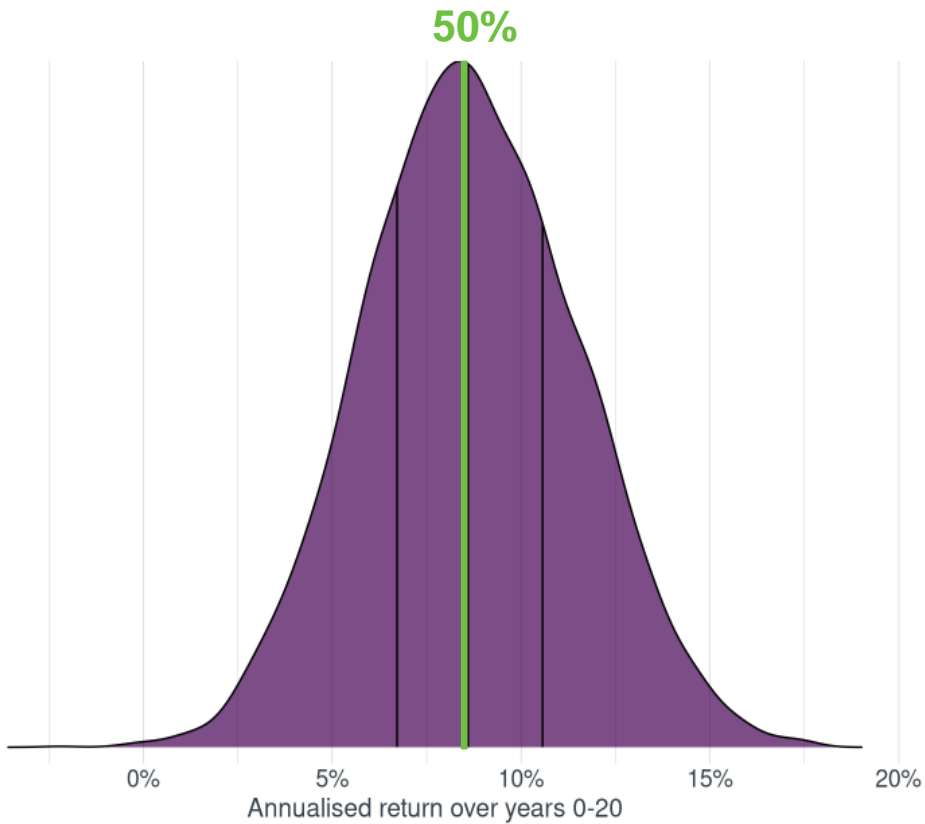
- **Employer contribution rates**
- **Funding level**

To calculate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments.

Assets today are known, but we need to make an assumption about future investment returns.



How much prudence is appropriate?



Fund must be prudent...but choosing the *level* of prudence is a subjective decision

Longevity – how long members live



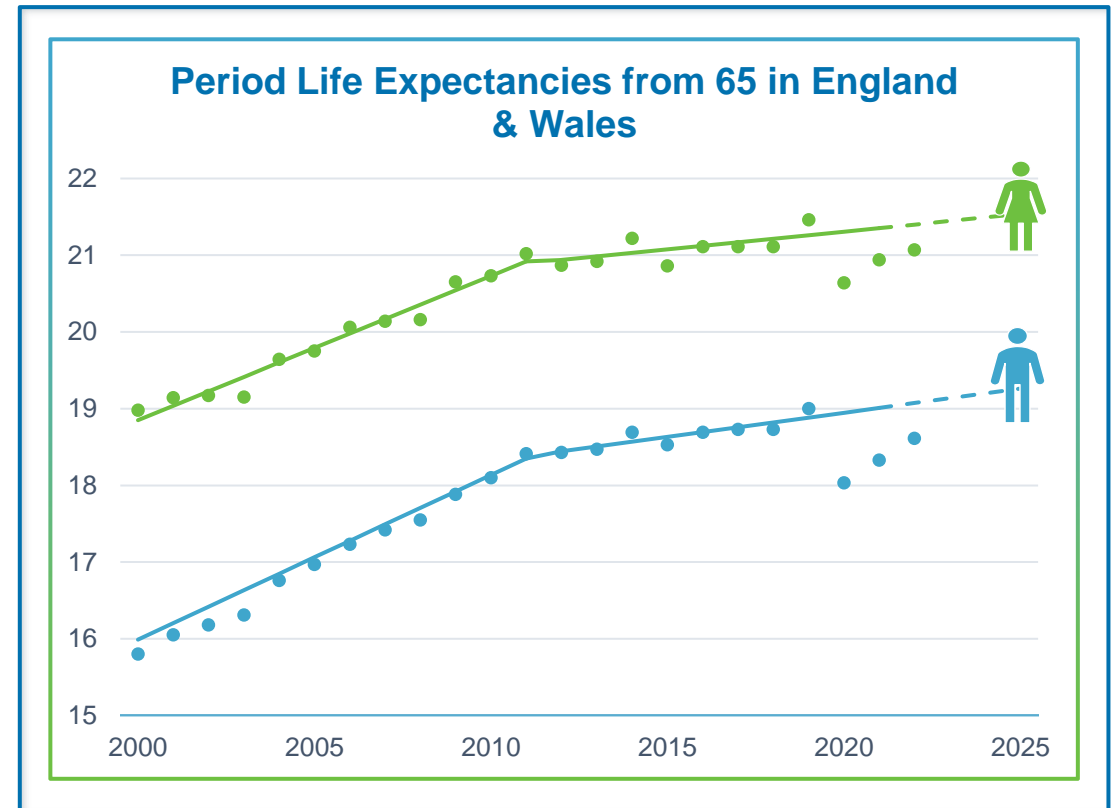
Baseline longevity assumption

How long people *currently* live, based on observed life expectancies



Future longevity improvement assumption

How will life expectancies change (increase) in the *future*



Source: CMI 2022 model. Life expectancies calculated using projected q_x rates, using calibration data, with W_{2020} through W_{2022} set to 100% and S_x set to 0%

UK life expectancy continues to increase...but at a slower pace than previously assumed

Funding strategy decisions

1. Long-term funding objective

Should the Fund change the amount of money it wants to set aside in the long-term to pay members' benefits? Consider the target funding level



2. Contribution rates

What is an appropriate contribution rate in the short and long-term? Consider the 3-year pattern, and the longer-term requirement



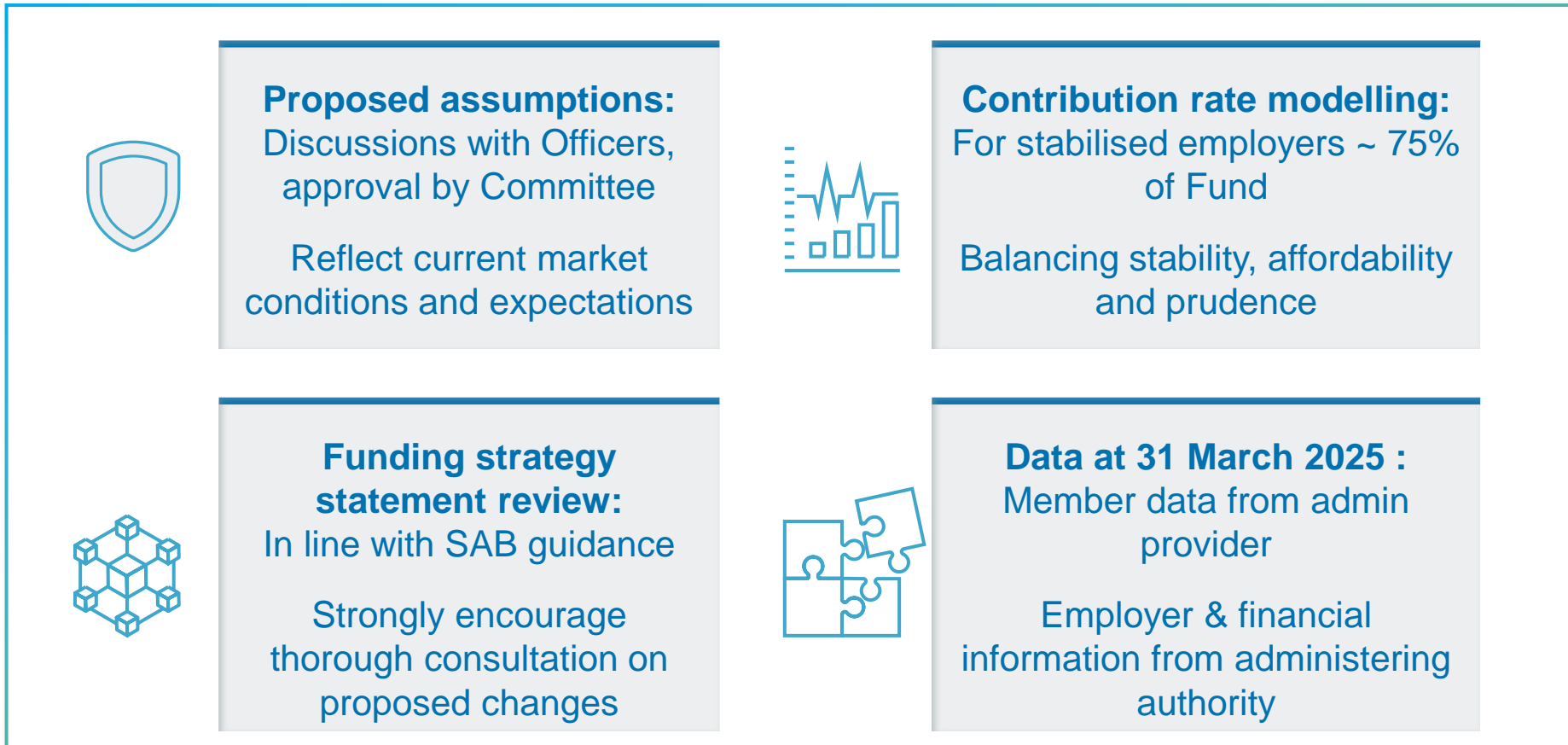
3. Investment strategy

How may a change in investment strategy impact the funding strategy? Both strategies need to support each other



Objective is to have a sufficient likelihood of being able to pay members benefits over the long term

Next steps in 2025



Stakeholder engagement is an important part of the valuation process

Thank you

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