Tyne and Wear Pension Fund

Annual Meeting

Prepared for: South Tyneside Council
Prepared by: Jonathan Teasdale FIA and Scott Campbell FIA
Date: 10 November 2020

Agenda

1

Recap of 2019 valuation results

2

Update of funding position and contribution outlook

- Secure scheduled bodies
- Other employers

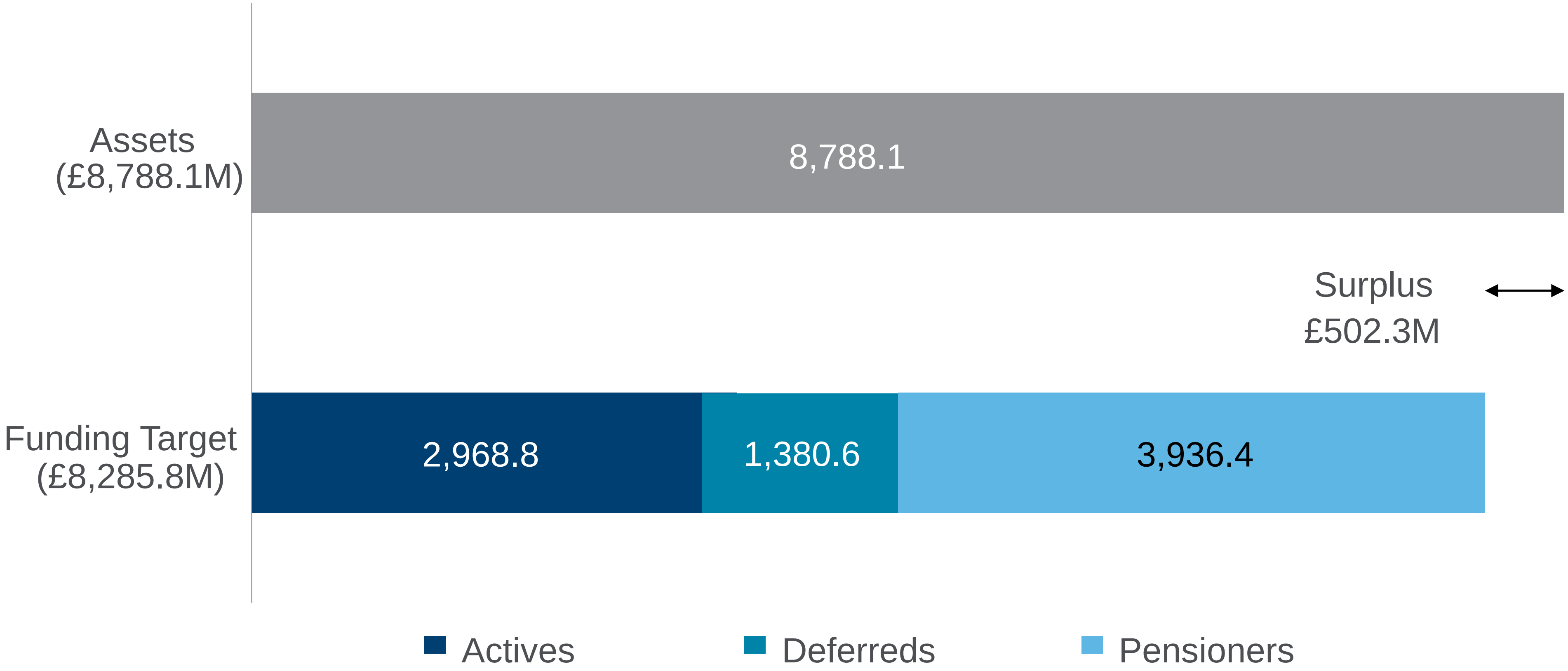
3

Other developments

- Mortality / Covid 19 impacts
- Update on cost pressures (McCloud, Goodwin, GMP)
- McCloud – in more detail
- Employer flexibilities legislation
- 95K exit cap

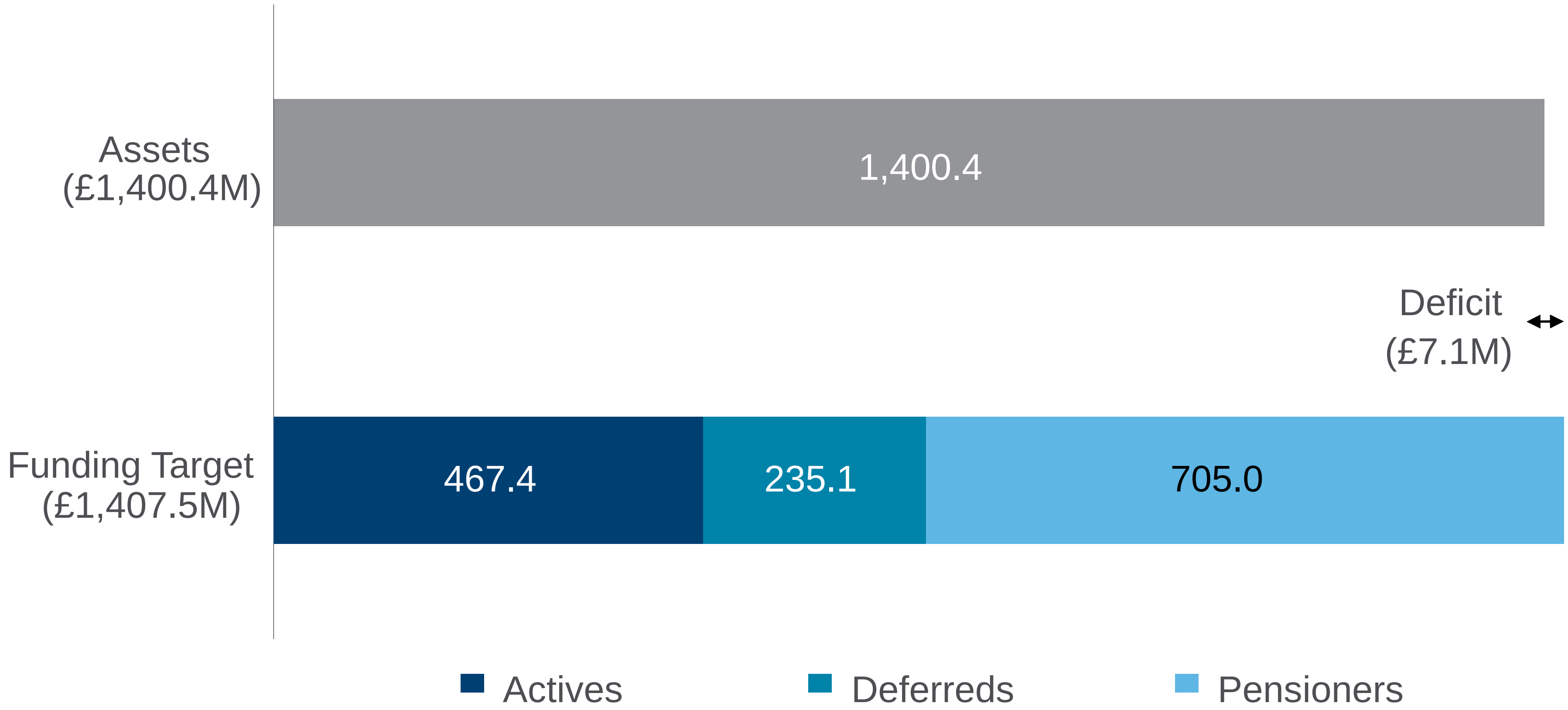
Recap of 2019 valuation results

2019 Valuation - funding position – TWPF



Whole of Fund funding ratio: 106% (Total Assets/Total Liabilities %)

2019 Valuation - funding position – NCCPF



Whole of Fund funding ratio: 99% (Total Assets/Total Liabilities %)

AON

Fund merger impact – recap

Contributions

- Contribution rates remain as set at 2019 valuation of the relevant Fund (NCCPF for ex-NCCPF employers)
- TWPF funding strategy will apply at future events (e.g. employer exits, 2022 valuation)

Expenses

- Fixed costs to be spread over all TWPF employers
- Therefore, lower ongoing expense allowance for ex-NCCPF employers in future
- Merger has also reduced risk of TWPF allowance having to be increased

2022 valuation will use a common set of assumptions for the merged Fund, including expense allowance, based on TWPF funding strategy.

2019 Valuations – employer contributions

TWPF average: 19.1% Primary + 0.6% Secondary = 19.7% Total

NCCPF average: 20.6% Primary + 0.9% Secondary = 21.5% Total

TWPF – 5 Main Councils

18.9 % - 19.9% Pay

TWPF – Other employers

0% - 39.9% Pay
+
£ deficit payments, increasing at 3.6% p.a.

Northumberland County Council

21.0% Pay
+
£ deficit payments, increasing at 3.6% p.a.

NCCPF - Other employers

0% - 37.7% Pay
+
£ deficit payments, increasing at 3.6% p.a.

Allowances within the above for:	TWPF	NCCPF
	% Pensionable pay	
Possible costs of McCloud / Cost Management	1.2%	0.9%
Administration expenses	0.4%	0.7%

Summary of key assumptions for 2019 valuations

		TWPF 2019 Assumptions (% p.a.)	NCCPF 2019 Assumptions (% p.a.)
Discount rate	Secure scheduled bodies (1)	4.30%	4.10%
	Orphan bodies (in service / left service)	4.30% / 1.60%	4.10% / 1.60%
	Intermediate funding target - Standard approach (in service / left service)	4.30% / 3.76%	N/A
	Intermediate funding target - Strong covenant (in service / left service)	4.30% / 4.03%	N/A
	Low risk	1.30%	1.30%
Pension increases	CPI inflation	2.10%	2.10%
Pay growth (2)		3.60%	3.60%

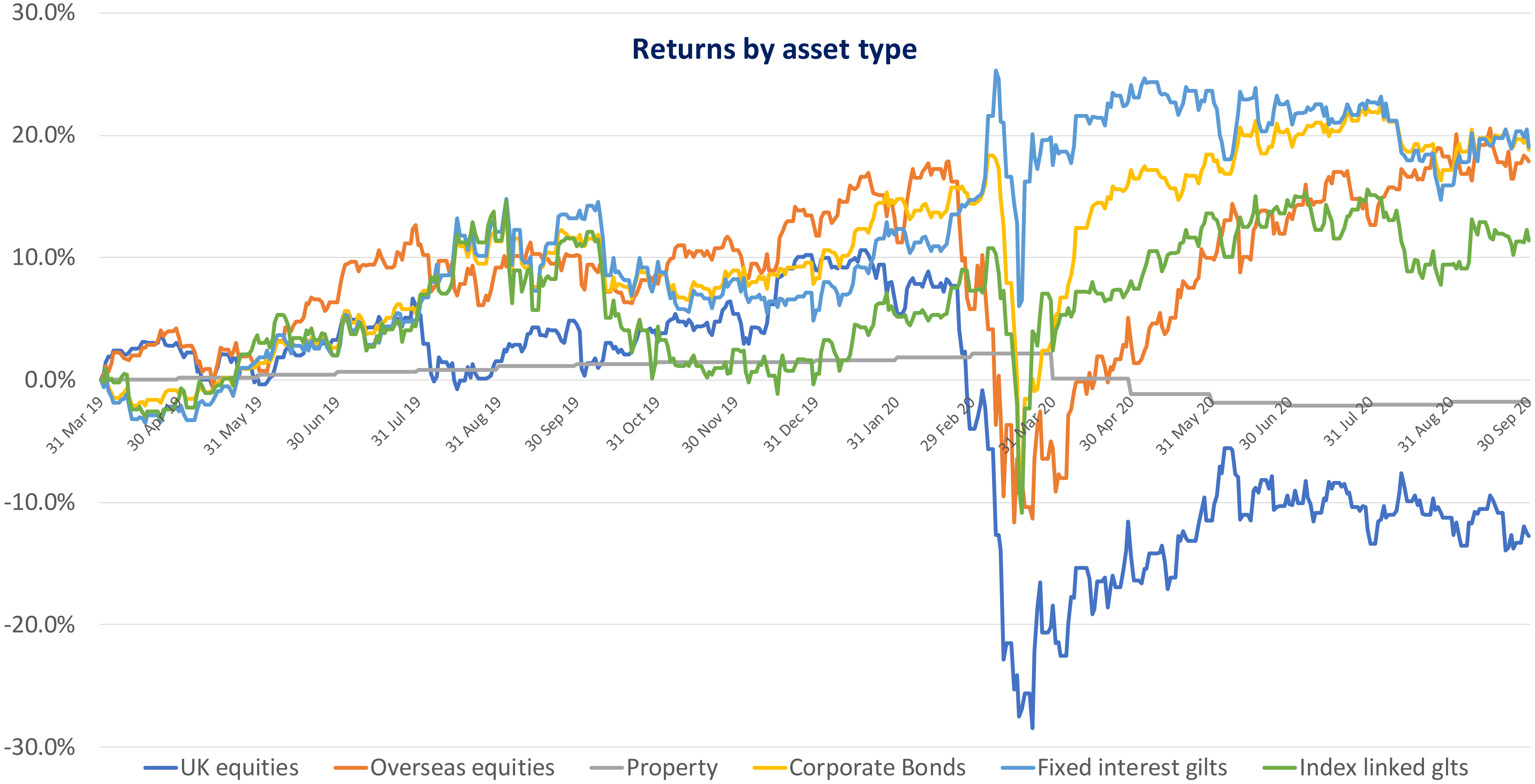
(1) includes admission bodies whose assets/liabilities will be subsumed by a secure scheduled body on exit

(2) plus an age-related promotional pay scale

Demographic assumptions based on analysis of each Fund's experience

Update of funding position and contribution outlook

Investment performance since 2019



Sources: FTSE Russell, IPD and IHS Markit

Indices used: UK equities (FTSE All Share index total return), Overseas equities (FTSE All World ex UK equity index), Property (IPD all property index total return), Corporate bonds (iBoxx AA corporate bonds 15 years + total return), Fixed interest gilts (UK gilts over 15 years total return), Index linked gilts (FTSE Index linked UK gilts over 5 years total return).

TWPF return since 31 March 2019 approx. +5% to 30 June 2020

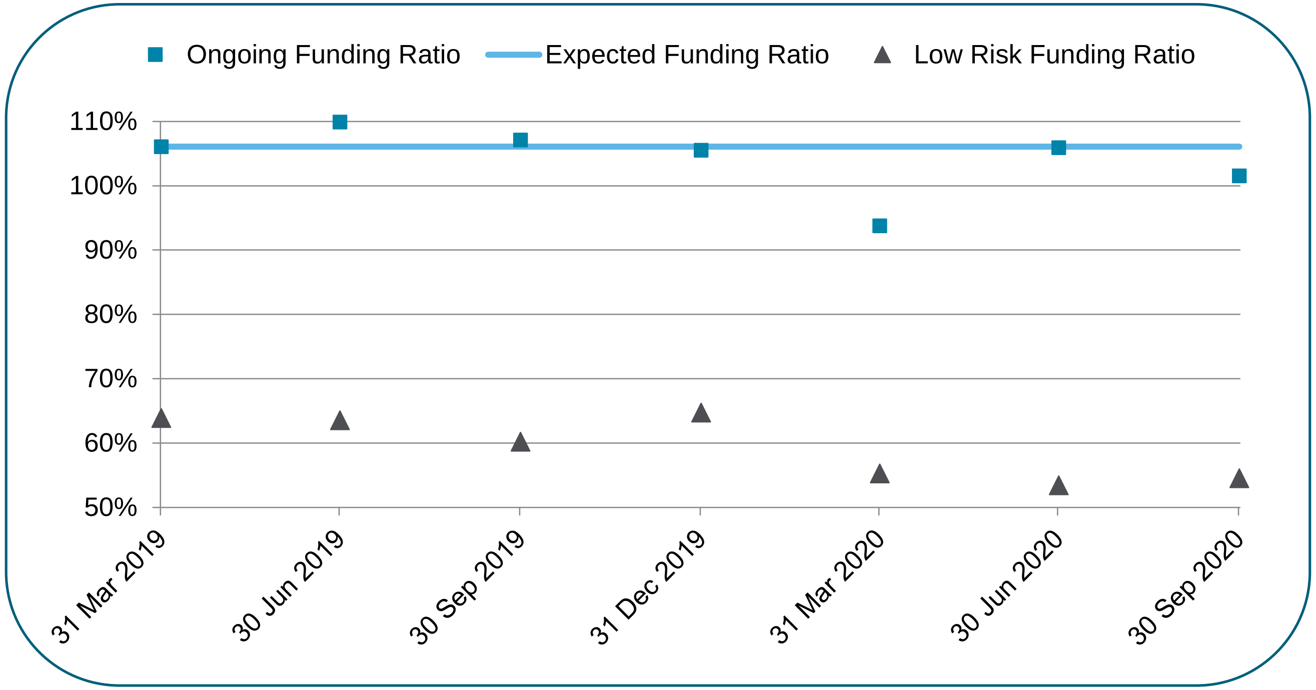
NCCPF return since 31 March 2019 approx. +4% to 30 June 2020

Merged Fund return from 30 June 2020 to 30 September 2020 approx. 0.3%

Movement in overall TWPF funding position

Funding level at 31 Mar 2019 (pre merger)	Surplus at 31 Mar 2019 (pre merger)	Funding level at 30 Sept 2020 (post merger)	Surplus at 30 Sept 2020 (post merger)
106%	**£502M**	**102%**	**£163M**

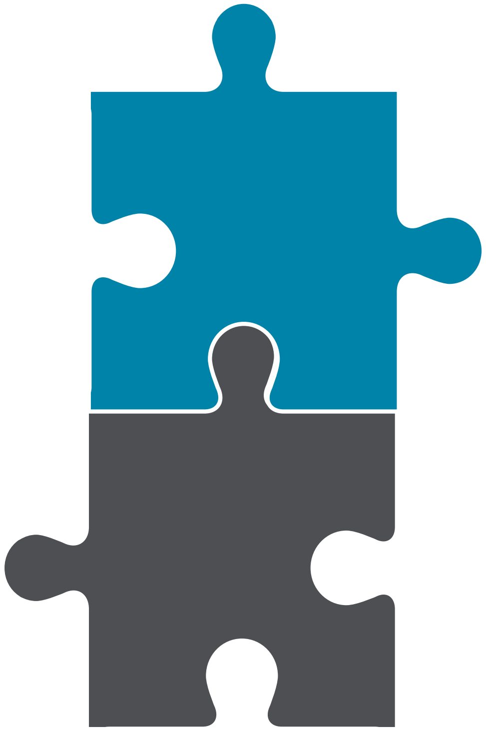
Funding Position – change since 2019 valuation



- Position incorporates merger with NCCPF
- Ongoing funding level has reduced since 2019 valuation position
- Low risk funding level has worsened by a greater extent, reflecting lower gilt yields

Scheduled body discount rate at 30 September 2020: 4.05%;
CPI assumption at 30 September 2020: 2.1%

Outlook for contributions (current position)



Funding Target	Outlook for total rate	Comment
Secure scheduled body	↑	Increasing Primary Rate Increasing Secondary Rate
Intermediate and Orphan	↑	Potentially larger increases in both Primary Rate and Secondary Rate

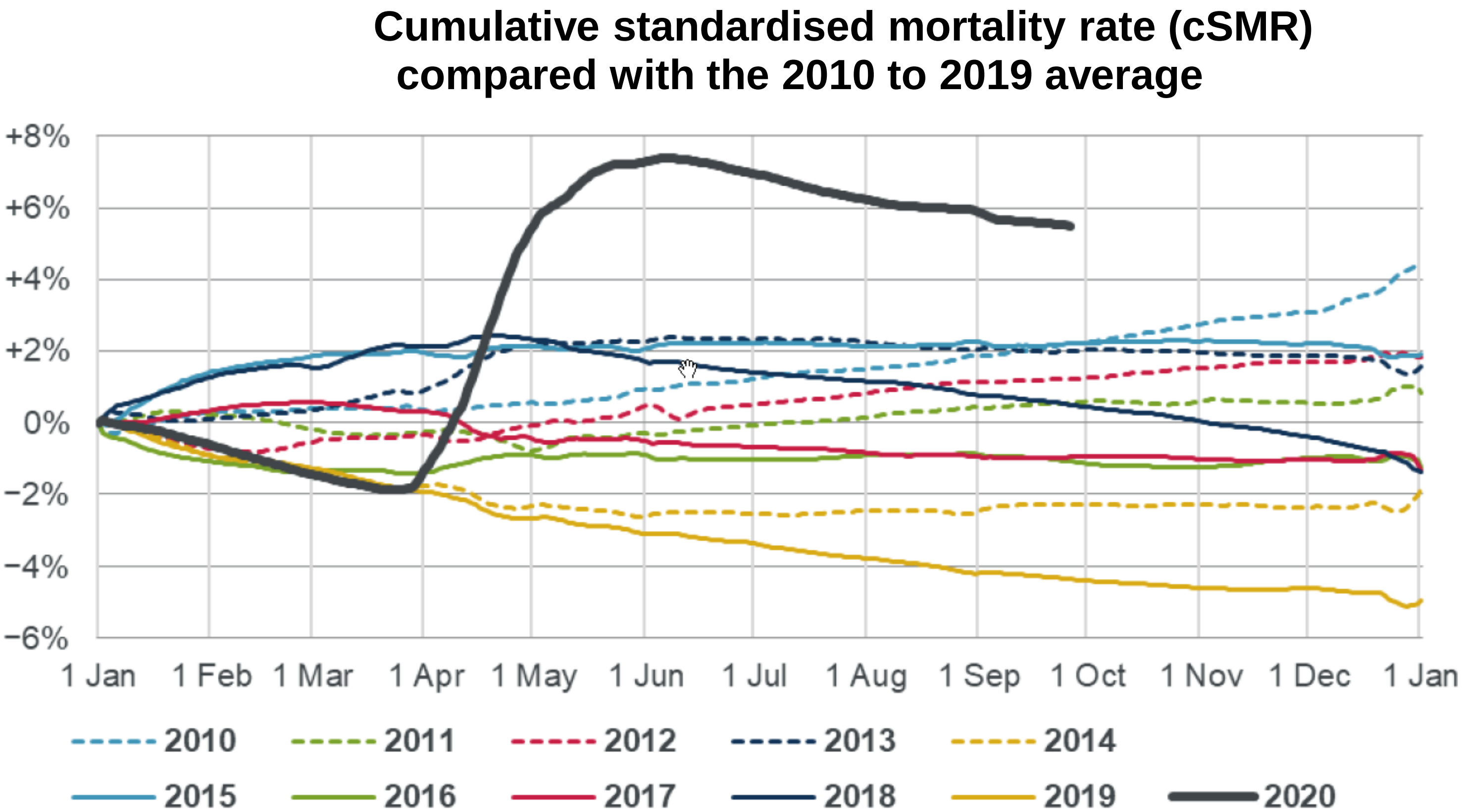
No certainty that current position will prevail as at 31 March 2022

- Funding position will evolve up to next valuation
- No intention to review rates for secure scheduled bodies until 2022 valuation (which will set rates from 1 April 2023)
- New employer flexibilities legislation provides the Administering Authority with powers in certain circumstances to review rates inter-valuation (more on that later)
- Variability in movement at employer level (particularly Intermediate and Orphan employers)

Other developments

- Covid 19 and mortality
- Update on other cost pressures (McCloud, Goodwin and GMP Indexation)
- McCloud – in more detail
- Employer flexibilities legislation
- Exit cap

Emerging England & Wales mortality experience (total population)



Calculations by CMI

- c60,000 excess deaths in E&W (to Sept 2020)
- But mortality rates were falling before the pandemic (and since wave 1)
- Impact of excess deaths on pension schemes small due to old ages
- Uncertain how winter 2020 will pan out (wave 2)
- Relevant impacts for longer-term longevity are:
  - knock on impact of recession, and
  - changing attitudes to health and welfare spending

Fund mortality experience will be reviewed pre 2022

Update on other costs

McCloud

- 2019 valuation: allowance of 1.2% of Pay (TWPF) or 0.9% of Pay (ex-NCCPF) in contribution rates
- Change in remedy since 2019 valuation (c15%-20% lower McCloud cost on average)
- Overall allowance made at 2019 valuation still appears reasonable - but costs will vary significantly at employer level

Goodwin

- Payment of widowers pensions on pre 1988 service for widowers since April 2005
- Expect modest increase (+0.2% to +0.3%) in liabilities at whole of Fund level (not allowed for in 2019 valuation)

GMP Equalisation

- GMP Indexation – extension of interim solution to those with State Pension Age after April 2021
- Expect modest increase (+0.1% to +0.2%) in liabilities at whole of Fund level (not allowed for in 2019 valuation)

Impacts will vary at employer level, so will be more significant for some

McCloud/Sargeant

Oct
8

MHCLG consultation closed

Amendments to the Statutory Underpin

McCloud judgement – how did we get here?

2014/15 LGPS changes

Changed from Final Salary to CARE accrual

NPA increased from 65 to SPA

Protections for those within 10 years of NPA on 1 April 2012

Final salary underpin for protected members who met criteria

Legal challenge – unlawful age discrimination

2018: McCloud case (Judges) and Sargeant case (Firefighters) – protection of older members judged to be unlawful age discrimination

2019: Government stated it would remove discrimination across all public service schemes

2020: Consultation on proposed amendments to underpin launched 16 July 2020, ended 8 October

McCloud proposals

Removes requirement for member to have been within 10 years of NPA to qualify for underpin

Changes to underpin

Members joining LGPS after 31 March 2012 do not qualify

Cost estimated to be £2.5 billion over coming decades

McCloud/Sargeant Transitional protections

Who is in-scope of the underpin?

Underpin period

Amended regulations to be retrospective

Two-stage underpin check

Requirement for immediate entitlement to benefit removed

Aggregations

Early/late retirement factors

Death benefits

McCloud implementation - timeline

Consultation – 16 July to 8 October 2020
Public consultation on remedy for LGPS including draft regulations

Preparation and communication
Data collection, system and administration change planning, ongoing communication, preparation for benefit rectification

Implementation
Underpin period ceases 31/3/2022. Revised underpin takes effect, retrospectively to 1 April 2014. Benefits to be rectified

2020

2021

2022

Ongoing administration
Implement revised ongoing administrative processes for qualifying members

Regulations
Timescale unknown. Primary legislation required for unfunded schemes and delay may impact LGPS

Employers critical to data collection

Data needed on service breaks, part-time hours etc back to 1 April 2014

Cost management processes

2016 cost management process

- Following 2016 cost management process SAB agreed package of benefit changes costing on average 0.9% of pay
- This process was "paused" due to McCloud
- HM Treasury have now announced that the cost cap process is to be "unpaused" – the 2016 cost management process is to be completed during 2021 and the McCloud remedy will be allowed for in this process
- SAB cost cap process also being considered
- Could lead to benefit improvements and/or member contribution reductions (possibly backdated)

2020 cost management process

- 2020 data collection underway shortly
- Not yet clear how uncertainties relating to the 2016 cost management process will be reflected in the 2020 cost management process

Employer flexibilities

Sept
23

Effective date of the new regulations

LGPS (Amendment) (No.2) Regulations 2020

Amending contributions between valuations

64A. -(1) An administering authority may obtain a revision of the rates and adjustments certificate where-

(b)(i) it appears likely[1] that the amount of the liabilities arising has changed significantly since the last valuation;

(b)(ii) it appears likely[1] that there has been a significant change in the ability of the Scheme employer(s) to meet their obligations to the Scheme; or

(b)(iii) a Scheme employer(s) have requested a review of employer contributions

1 to the administering authority

Deferred Debt Agreements and Spreading Exit Payments

64(7B). An administering authority may enter into a deferred debt agreement (DDA) with a Scheme employer, where..(a) the last active member has left the Scheme

7C

Exiting employer becomes a deferred employer and must pay secondary contributions.

7D

DDA must remain in force for a specified period (variable by agreement)

7E

A DDA terminates on earliest of (a) new active members, (b) period specified elapses, (c) take-over/insolvency etc of deferred employer, (d) employer's ability to meet contributions has weakened materially, (e) actuary assesses that sufficient secondary contributions have been paid to cover the exit payment due on the calculation date

64B. (1) administering authority may obtain a revision of the rates and adjustments certificate to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the administering authority considers reasonable

In practice

The FSS must set out the administering authority's policy on using these flexibilities

MHCLG statutory guidance

SAB guidance

The administering authority must consult the scheme employer(s) and have regard to the views of the Actuary

Administering authority needs to take a balanced approach – protecting all employers in the Fund

Administering authority will need to be satisfied that exercising any of the new flexibilities would be in the Fund's interest

Valuation cycle consultation

Consultation

- LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk consultation issued in May 2019
- Government responses in relation to reform of exit credits and review of employer contributions and flexibility on exit payments published
- No Government response yet in relation to proposal to change from 3 yearly local actuarial valuation cycle to 4 yearly cycle (to align to other public service schemes and also the cost management valuation cycle)

Next steps

- Remaining elements of consultation possibly expected in 2020 (more likely 2021)
- 2022 LGPS valuations will go ahead in any case

Exit payments

Restriction of Public Sector Exit Payments Regulations 2020

Implements £95K cap on exit payments

Nov 4

Dec 18

LGPS (Restriction of Exit Payments) (Early Termination of Employment) (Discretionary Compensation and Exit Payments) (England and Wales) Regulations 2020

Currently out for consultation, will implement £95K cap and wider reform of exit payments

Overview

- **HMT Regulations** restrict total value of cost of exit to £95K *including* pension strain costs for those aged 55 and over
- **MHCLG consultation** proposes that
  - strain cost cannot exceed cap and is further reduced by statutory redundancy payment and discretionary compensation
  - member can make up reduction in strain cost, or
  - immediate pension actuarially reduced in line with revised strain cost, or
  - capped statutory redundancy and compensation plus deferred pension
  - if **any** strain cost paid, no compensation payment (unless latter higher than strain cost when difference may be paid as cash)

- **Employer lump sum compensation***
  - Maximum 3 weeks' pay per year of service [currently no limit]
  - Maximum 66 weeks' pay [currently 104 weeks' pay]
  - Maximum salary of £80k for calculation (increased annually, e.g. by CPI) [currently no limit]

£95K Cap ("capped employers")

Compensation Regulations ("reform employers")

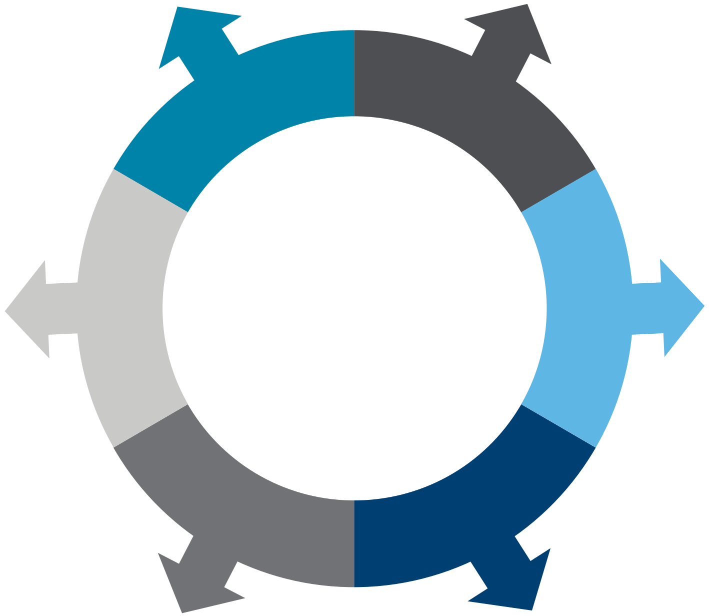
*Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006

Complications

HMT Regulations in force but not LGPS Regulations

"Implied repeal" may mean can't pay unreduced pension if cap applies

SAB advice – offer reduced or deferred pension and delay payment of cash alternative



Waiver of exit cap and redundancies already agreed - HMT Directions / guidance

Funding issue if unreduced pension granted but strain costs can't be paid

National GAD factors not yet in force – local factors used post-4 November

Further information

http://www.lgpsboard.org/index.php/structure-reform/public-sector-exit-payments

Q&A

Any questions?

Disclaimer

Disclaimers associated with index data used on slide 10:

FTSE data sourced by London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). © LSE Group 2020. FTSE Russell is a trading name of certain of the LSE Group companies. “FTSE®” is a trade mark(s) of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company’s express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

Neither IHS Markit, its Affiliates nor any third party data provider makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. Neither IHS Markit, its Affiliates nor any data provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the IHS Markit data, regardless of cause, or for any damages (whether direct or indirect) resulting there from. Opinions, estimates and projections in this report do not reflect the opinions of IHS Markit Indices and its Affiliates. IHS Markit has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Without limiting the foregoing, IHS Markit, its Affiliates, or any third party data provider shall have no liability whatsoever to you, whether in contract (including under an indemnity), in tort (including negligence), under a warranty, under statute or otherwise, in respect of any loss or damage suffered by you as a result of or in connection with any opinions, recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by you or any third party, whether or not based on the content, information or materials contained herein.

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the prior written consent of Aon Solutions UK Limited. This presentation may be shared with employers in the Tyne and Wear Pension Fund subject to the conditions listed below. However, this document does not constitute advice to any employers in the Fund, nor does Aon accept any duty of care to any party other than South Tyneside Council as our client in relation to this document.

The conditions are as follows:

- Employers acknowledge and agree that Aon Solutions UK Limited is not providing advice to them and that Aon Solutions UK Ltd does not have any responsibility towards any employers relying on this material.
- Employers agree that they will not distribute or otherwise communicate any part of the information to any other party without prior written consent of Aon Solutions UK Ltd

In addition, nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Individuals are recommended to seek independent financial advice in respect of their own personal circumstance.

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.