Tyne and Wear Pension Fund

Annual Meeting

Prepared for:	South Tyneside Council
Prepared by:	Jonathan Teasdale FIA and Scott Campbell FIA
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Introductions

Jonathan Teasdale FIA

Partner

Scott Campbell FIA

Senior Consultant

Agenda

1 Recap of 2019 valuation results

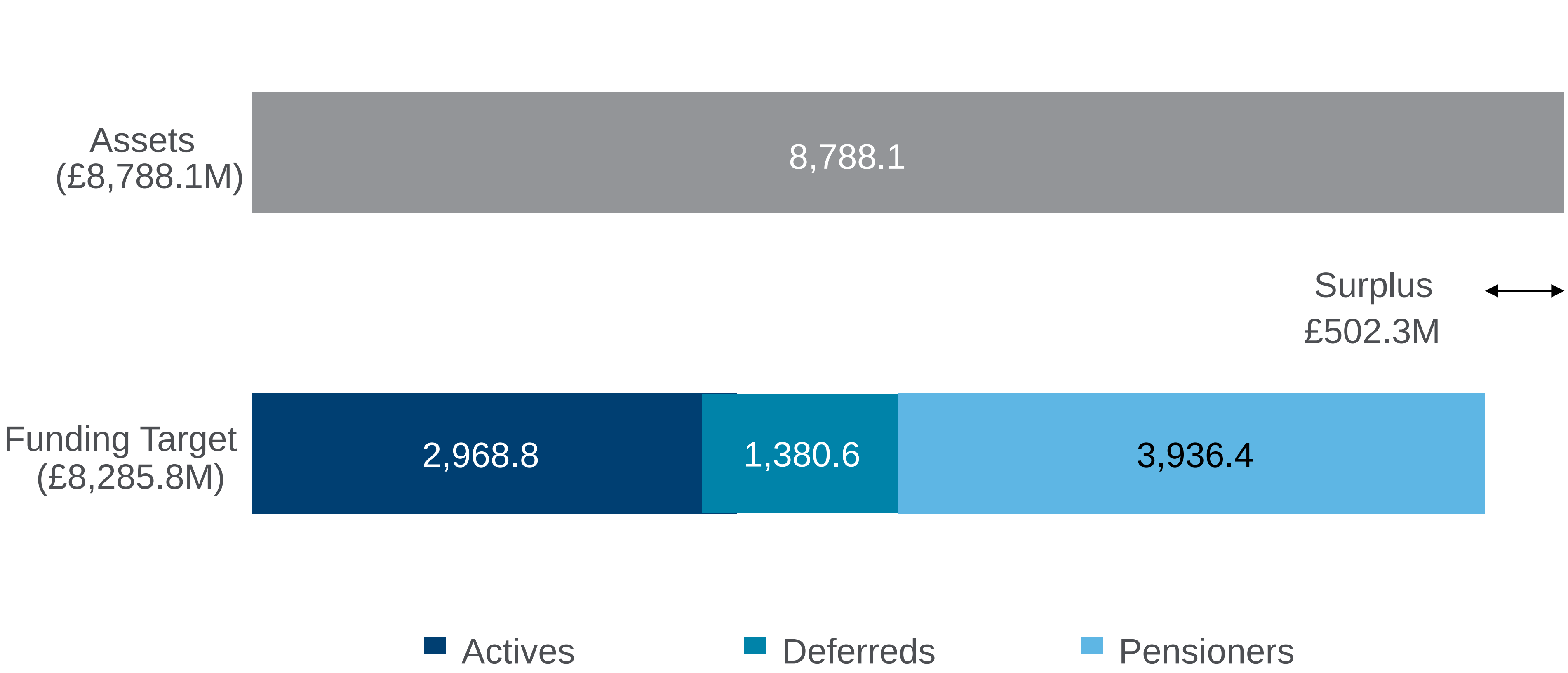
2 Update of funding position and contribution outlook

- Secure scheduled bodies
- Other employers

3 Other considerations

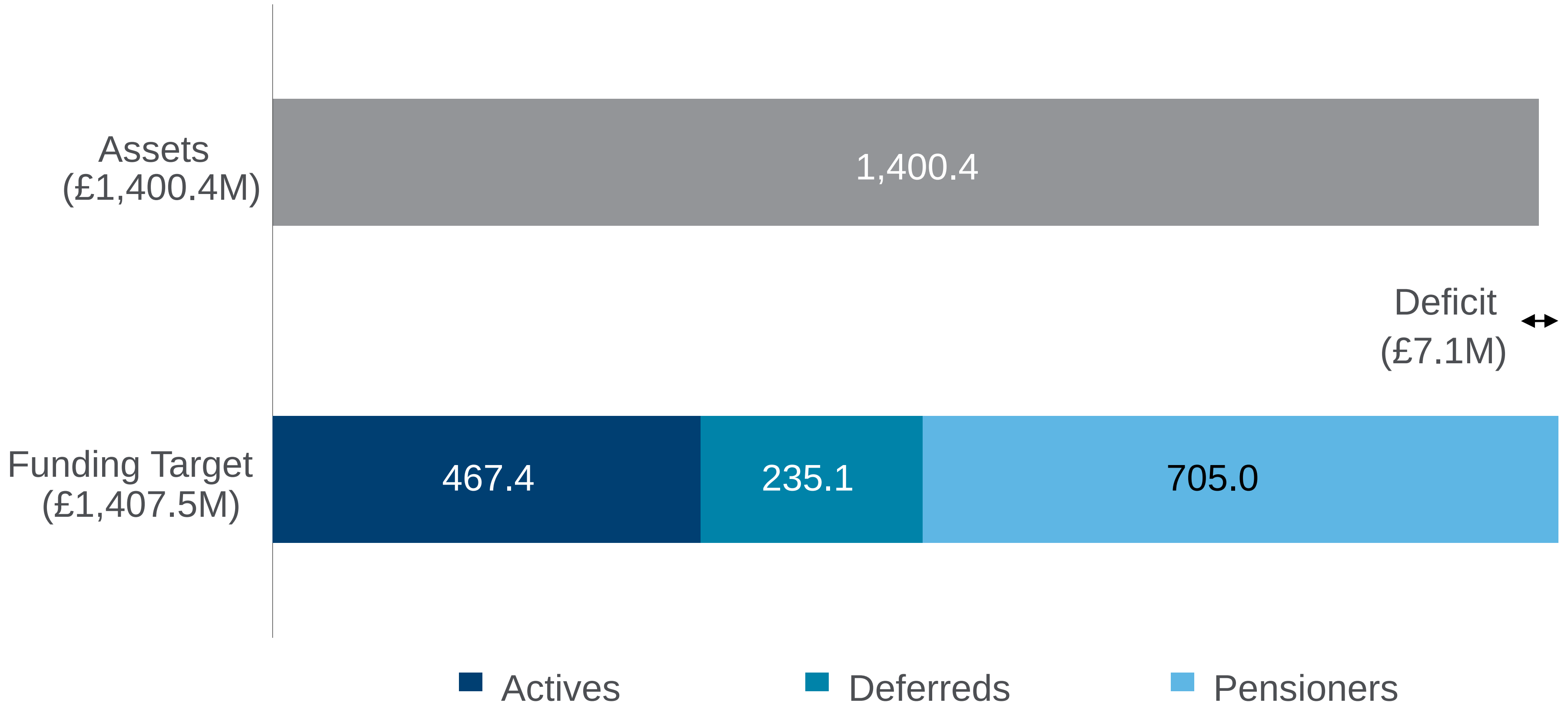
Recap of 2019 valuation results

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 %)

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

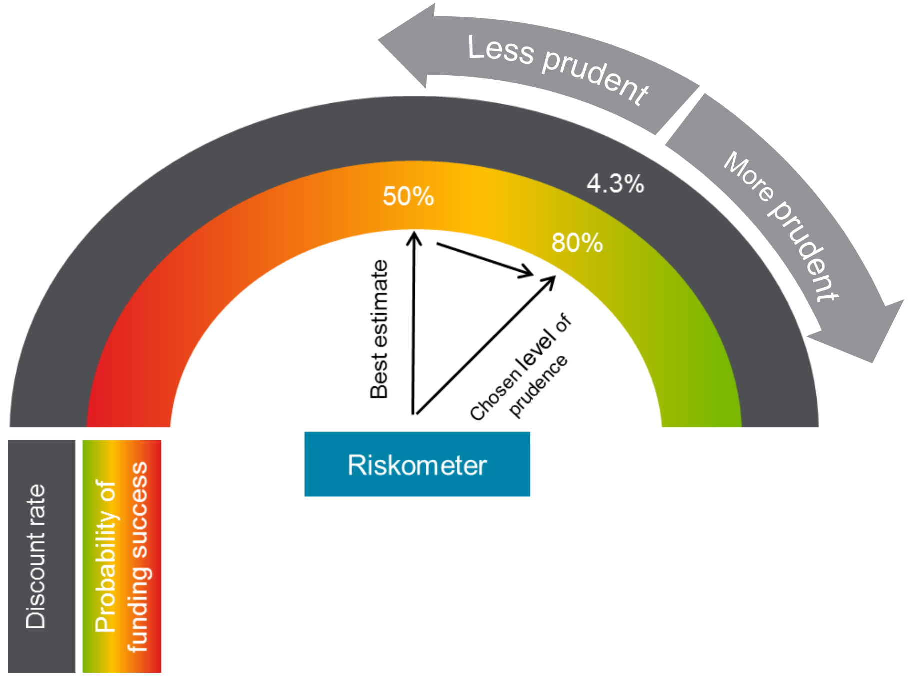
		TWPF 2019 Assumptions (% p.a.)	NCCPF 2019 Assumptions (% p.a.)
	Probability of funding success	80%	80%
Discount rate	Secure scheduled body funding target (1)	4.30%	4.10%
Pension increases	CPI inflation	2.10%	2.10%
Pay growth (2)		3.60%	3.60%

(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

Discount rate

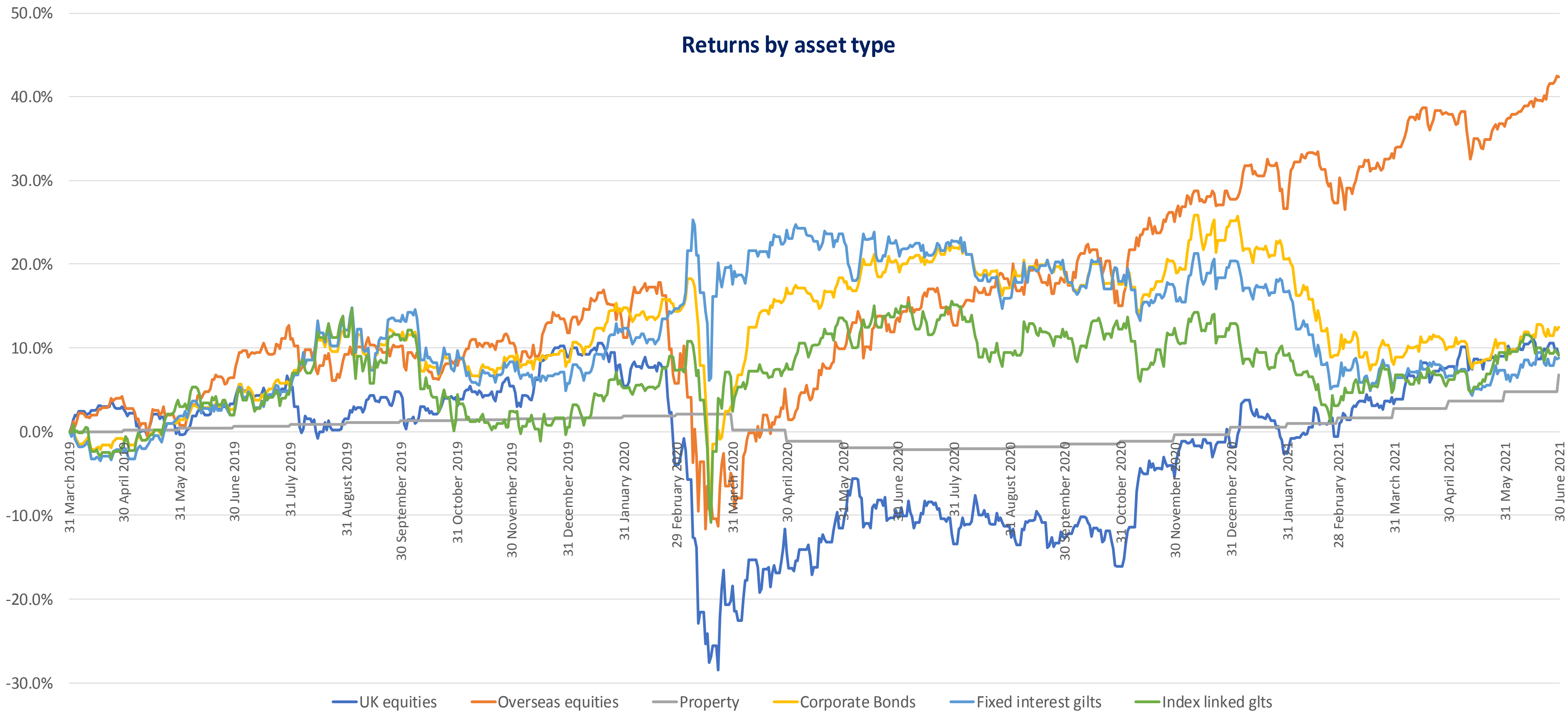
- Expected returns based on Fund's investment strategy
- Modelling to determine level of risk / prudence - "**probability of funding success**"



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).

Fund return from 31 March 2019 to 30 June 2021 approx. 25%
(TWPF up to 30 June 2020 and return on merged Fund since 30 June 2020)

Summary of key assumptions

		2019 assumption (TWPF) (% p.a.)	30 June 2021 assumption (% p.a.)
	Probability of funding success	80%	80%
Discount rate	Secure scheduled body funding target	4.30%	4.15%
Pension increases	CPI Inflation	2.10%	2.20%
Pay growth		3.60%	3.70%

* plus an age-related promotional pay scale

Slight reduction in long term expected return on Fund's assets since 31 March 2019

Funding update – overall Fund

Funding level

114%

+8% vs 31 March 2019

Surplus

£1,522M

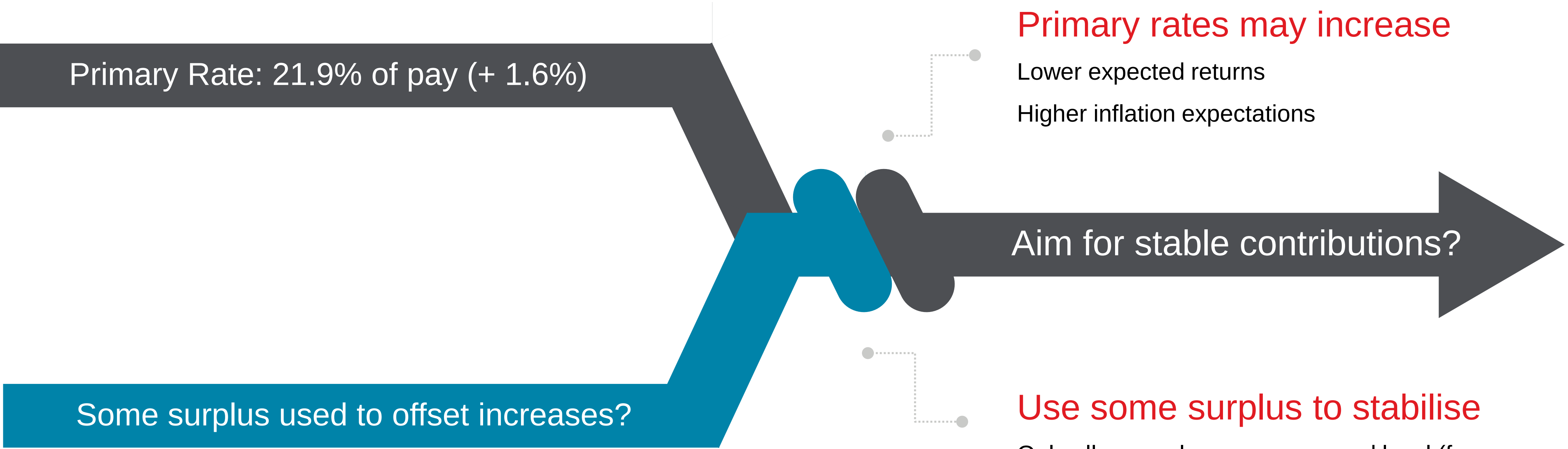
+£1,020M Vs 31 March 2019

Comments

Factors improving the position:
- Asset returns higher than assumed
- Actual pension increases lower than assumed

Factors worsening the position (in isolation)
- Lower expected future returns (discount rate)
- Higher expected future CPI inflation

Outlook for contributions (secure scheduled bodies)



Primary rates may increase

Lower expected returns

Higher inflation expectations

Use some surplus to stabilise

Only allow surplus over an agreed level (for example 105% or 110%) to subsidise cost of accrual

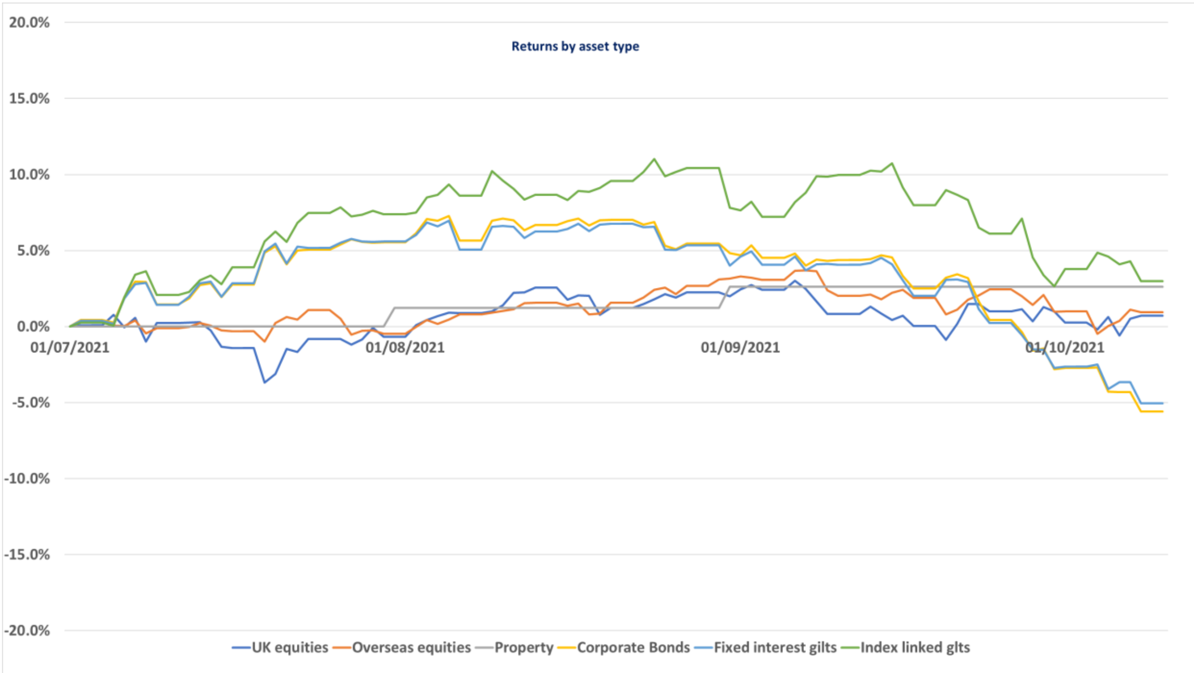
Valuation date is still some months away

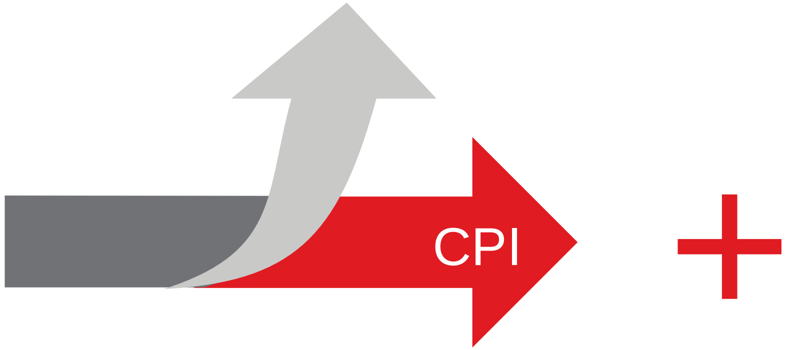
Employer variation

Outcome depends on employer’s own funding position, membership profile and experience

Possible headwinds

Asset returns since August have trended down





Pension increases in April 2022 likely to be more than 2.2% (September 2021 annual CPI increase was 3.1%)

Economic outlook is uncertain

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).

Discount rates – other employers

Covenant

Exit valuations (no guarantor)

‘Short term’ (admission) bodies with no guarantor

‘Long term’ (scheduled) bodies (non tax raising)

	Exit valuations (no guarantor)	‘Short term’ (admission) bodies with no guarantor	‘Long term’ (scheduled) bodies (non tax raising)
	Gilts	Ongoing orphan	Intermediate
2019 valuation	1.30%	4.30% (in service) 1.60% (left service)	4.30% (in service) 3.76% - 4.03% (left-service)

Net discount rate on low risk (exit) basis has fallen by 1% since 31 March 2019

Potential increases in contributions at 2022 valuation

Review of approach for exit valuations

Ahead of the 2022 valuation, the Administering Authority will be reviewing the approach to carrying out exit valuations

Key objective is to consider whether the current approach remains appropriate in current financial climate (in particular given the continued low level of government bond (gilt) yields), and to consider any alternative approaches

Could have an impact on other areas of funding strategy, for example the ongoing orphan funding target and intermediate funding targets

Employers would be consulted on any proposed change

Outlook for contributions (summary)

- Outlook for contributions from 2023 is reasonable/reassuring at the moment for employers on the scheduled body and subsumption funding target
- Employers on the ongoing orphan funding target (and also possibly those on an intermediate funding target) are not subject to such a positive trend at present. The exact impact will vary depending on the employer’s characteristics and membership profile, and contribution increases are possible

Employers are advised not to budget for contribution reductions at this stage

Other considerations

Potential impact of COVID-19 on funding position

1

National impact

Estimated c100,000 'excess' deaths in England and Wales from the start of the pandemic to 27 August 2021

3

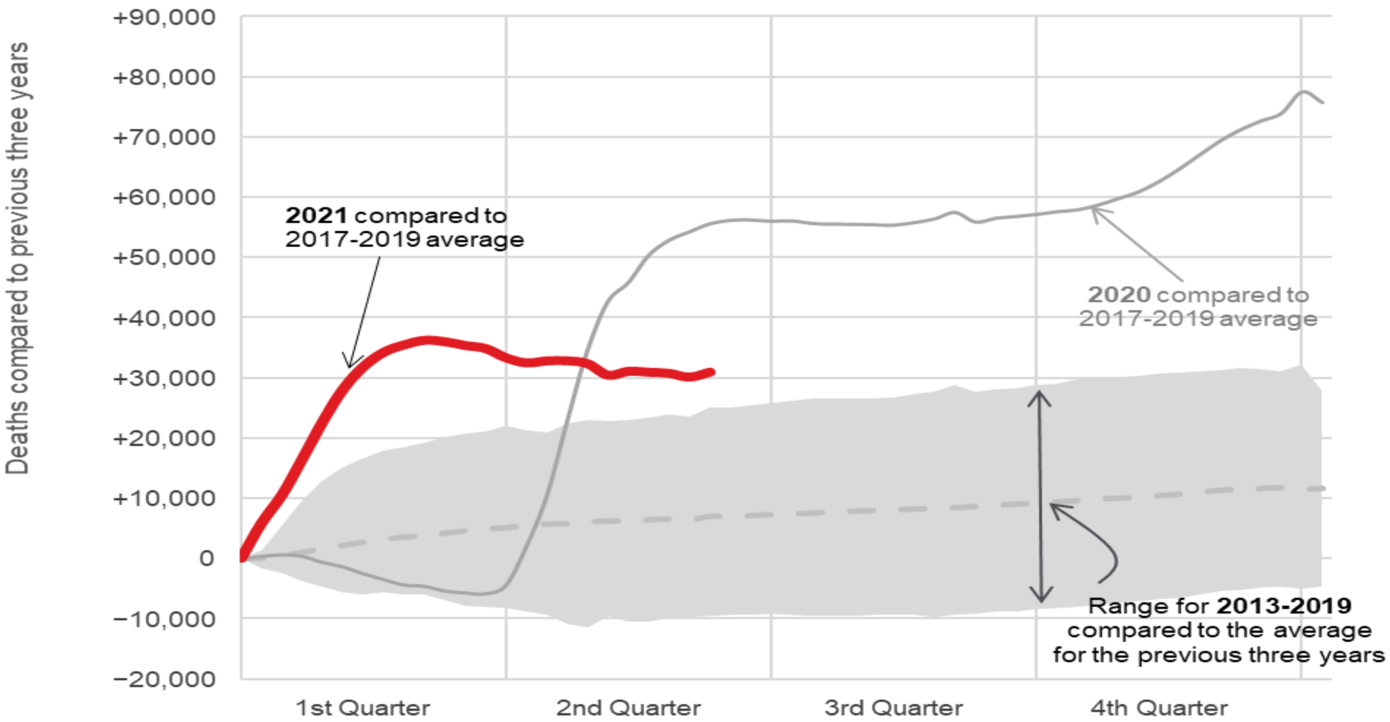
Fund experience

Only around 15% more deaths than the last 10 years average over 12 month period to 28 February 2021

2

Recent experience

Recently slightly fewer deaths than 'expected'



Small Impact

Impact of experience on funding position likely to be small: less than 0.2% reduction in liabilities

Question

How will COVID-19 affect life expectancy in the future?

McCloud/Sargeant

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

2021: Public Service Pensions Bill going through Parliament

Final Regulations not expected to be in force until 1 April 2023

McCloud proposals

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

Extends underpin to early leavers/survivors

Members joining LGPS after 31 March 2012 do not qualify

Underpin checked twice (including late/early retirement factors)

Employers critical to data collection

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

Potential funding implications of legislation changes

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
- Ideally we would allow for McCloud at 2022 valuation at employer level but this will depend on quality of data provided

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

Section 13 of the Public Service Pensions Act

Primary purpose

Provide a mechanism that allows Central Government to gain comfort that no LGPS fund is setting inappropriate funding plans which increase the likelihood of there being insufficient monies to pay members’ benefits when they fall due

Output

GAD produce a report summarising their checks and findings

Results from the 2019 Section 13 report due Autumn 2021

Other current hot topics

Cost cap
2016 unpaused
Mechanism under review

Employer flexibilities
Fund's policy set out in FSS

Exit cap
Expected to be reintroduced

Valuation cycle consultation
Awaiting a response following consultation

Q&A

Any questions?

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