

# Actuarial valuation as at 31 March 2022

Tyne and Wear Pension Fund – Annual Meeting

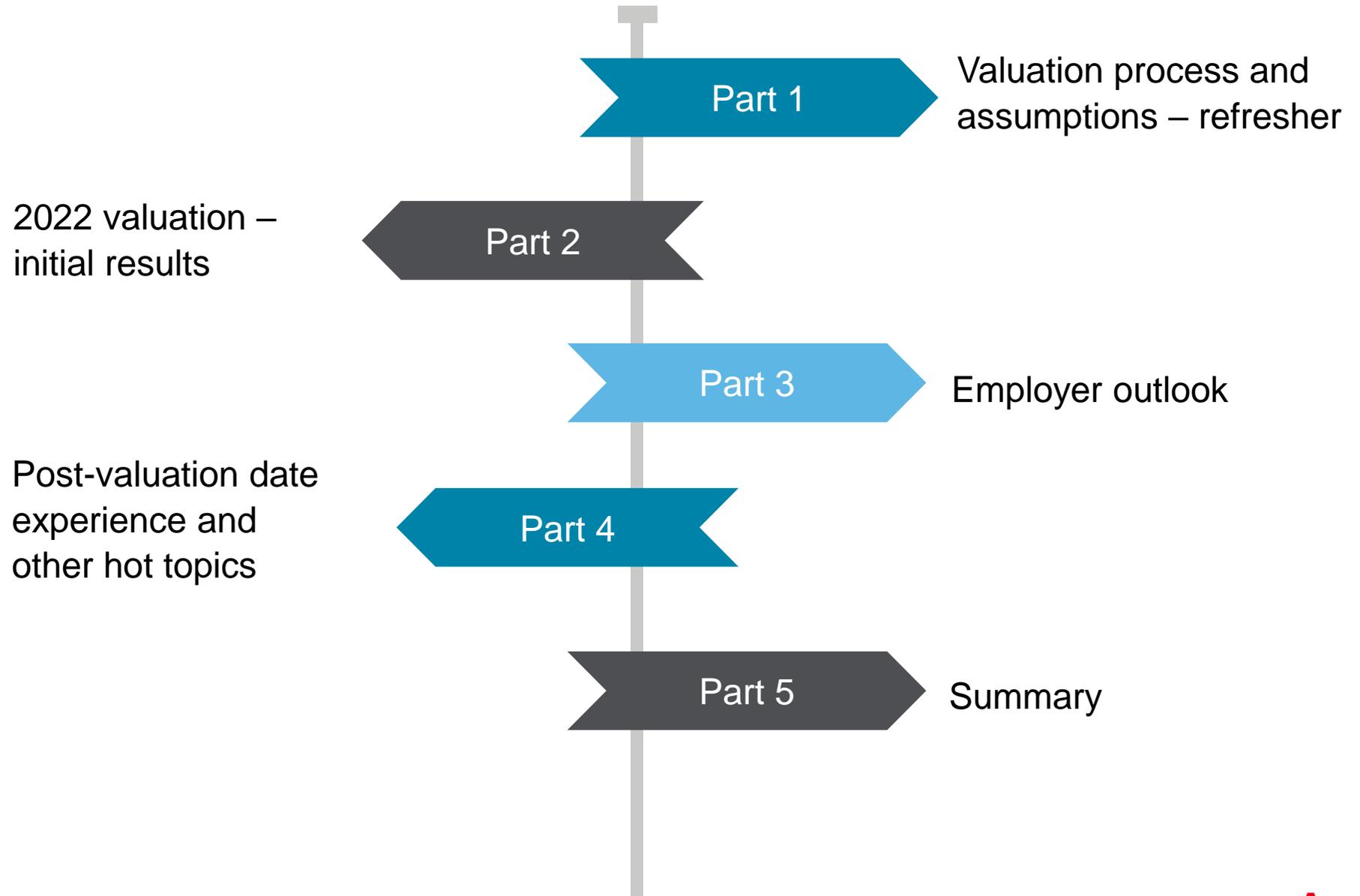


Prepared for: Tyne and Wear Pension Fund

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Date: 11 November 2022

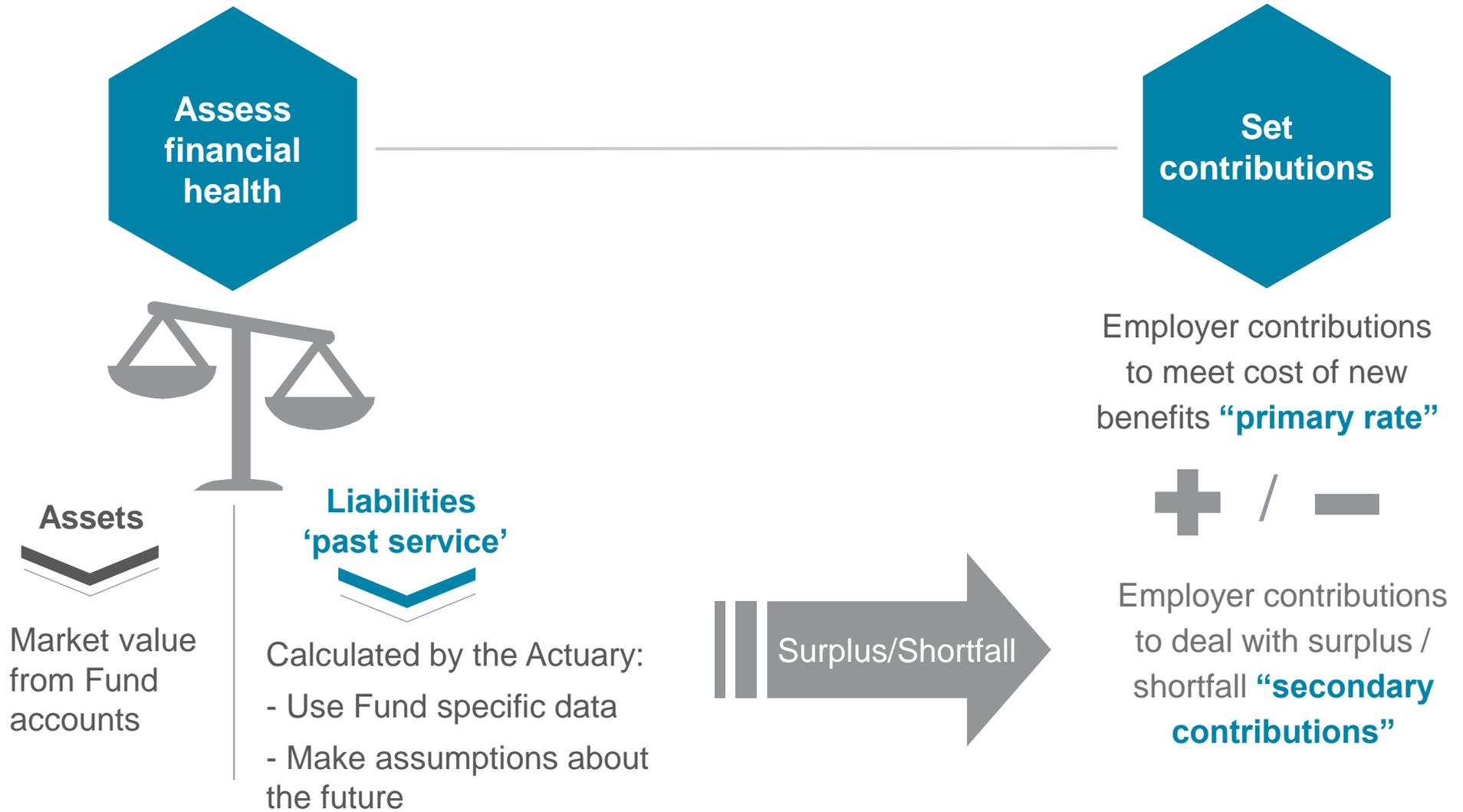
# Agenda



# Valuation process and assumptions



# What is an actuarial valuation?



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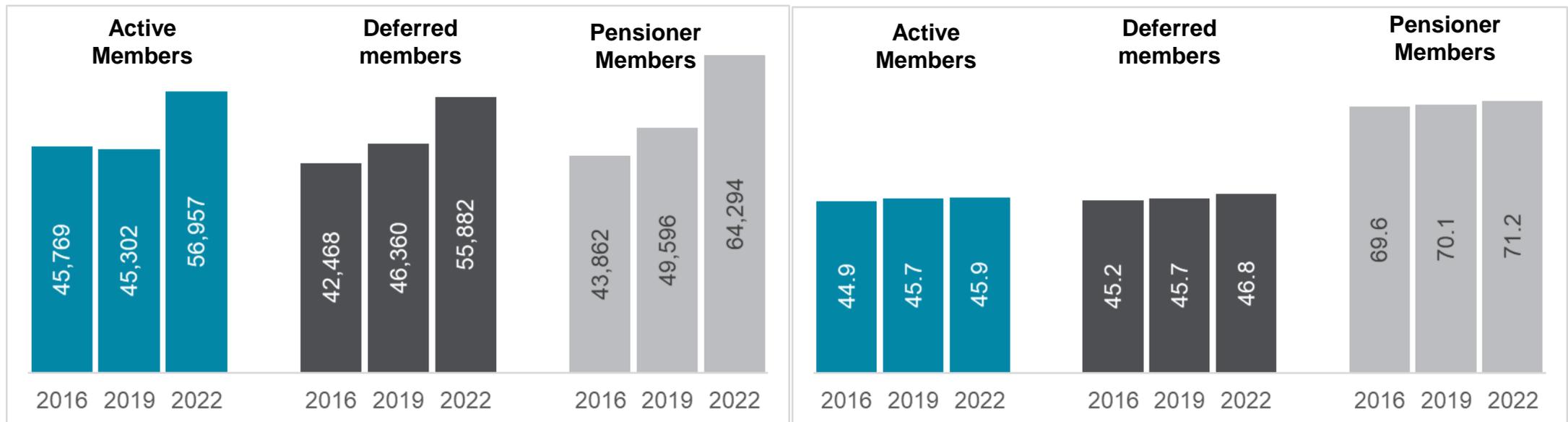
## Regulatory requirement

LGPS Regulations require a valuation and rates and adjustments certificate every three years, to be finalised within a year of the valuation date.

# Membership data

### Membership numbers

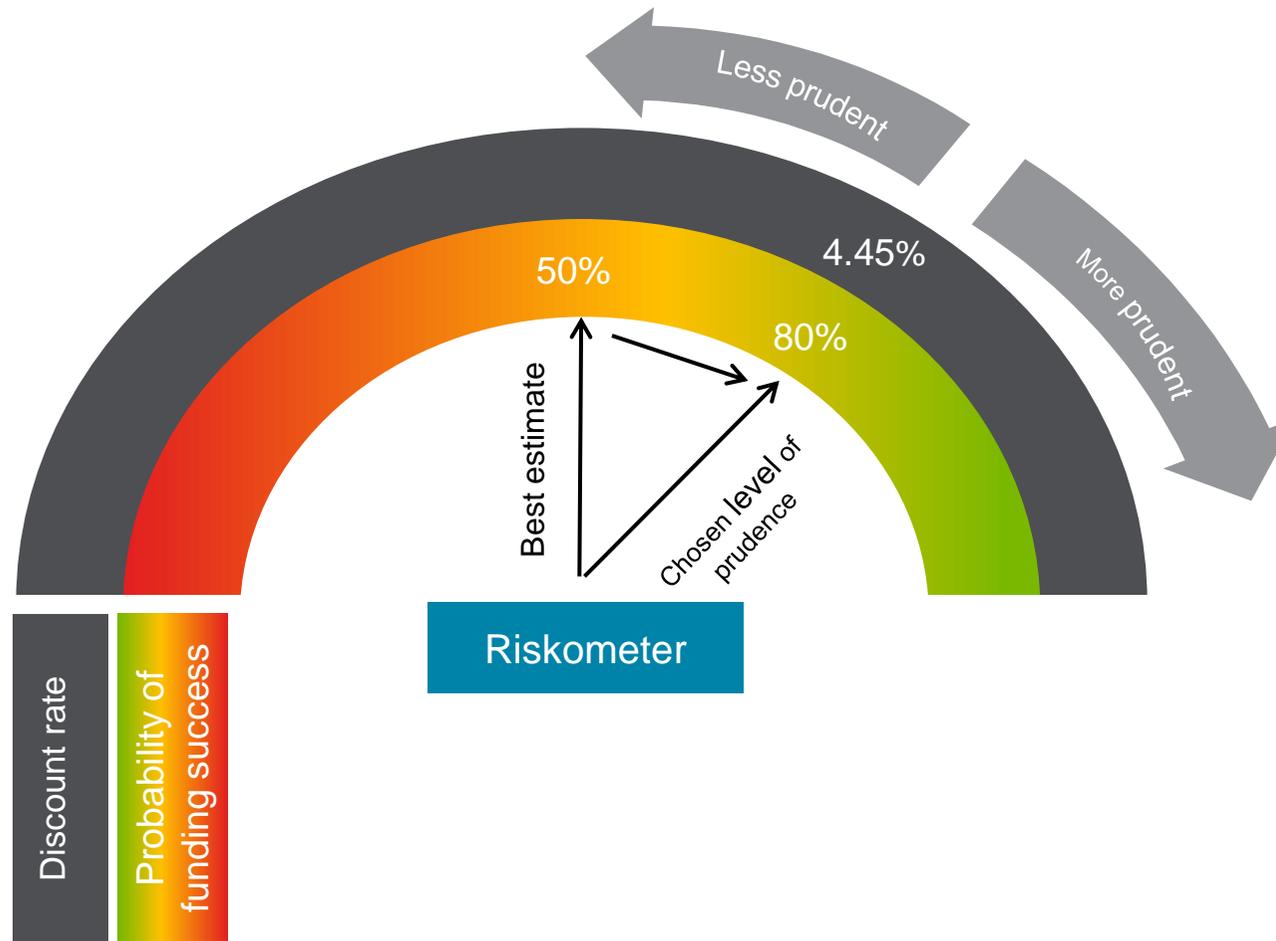
### Average ages



Increase in members at 2022 valuation due to merger with Northumberland County Council Pension Fund in 2020

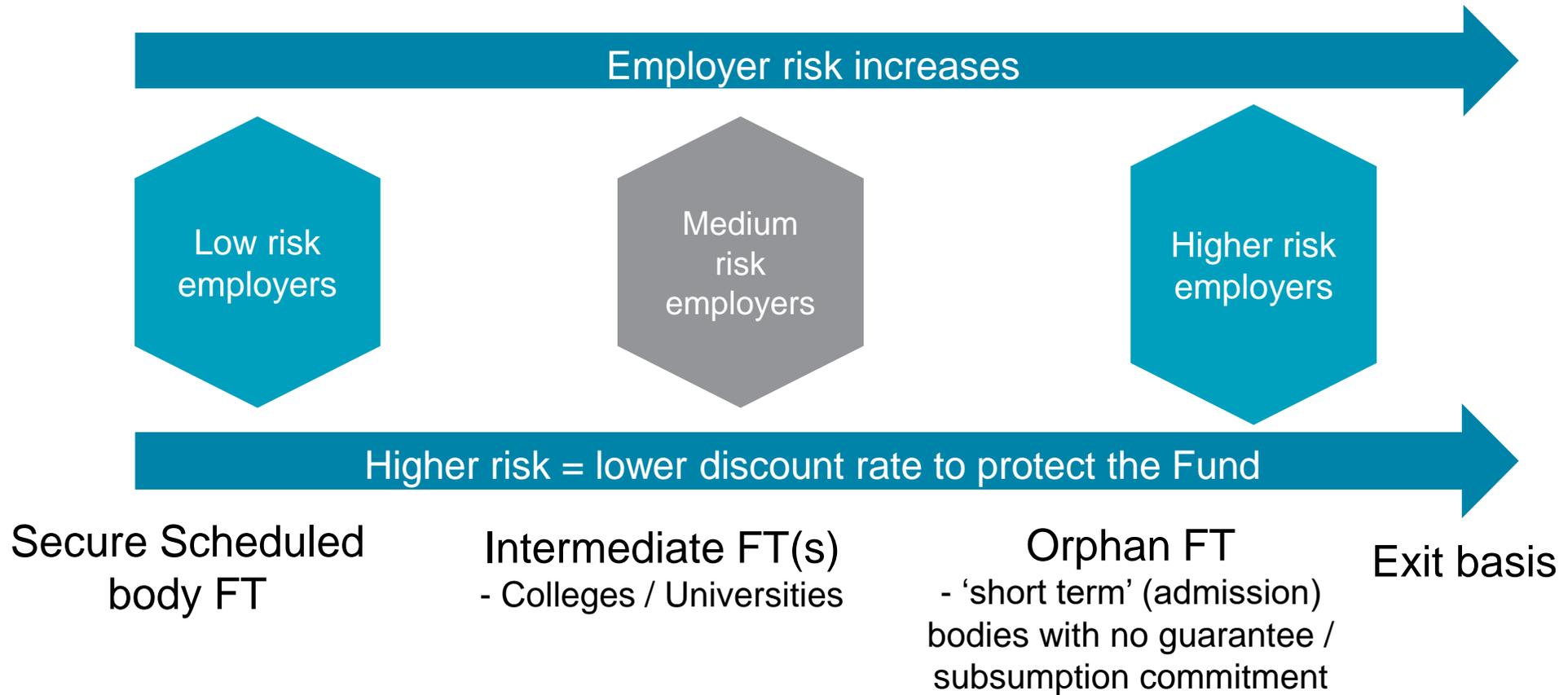
# Setting the discount rate – secure long term bodies

- Expected returns based on the Fund’s investment strategy
- Risk based – level of prudence – “probability of funding success”



Probability of Funding Success is unchanged at 80% for 2022 valuation

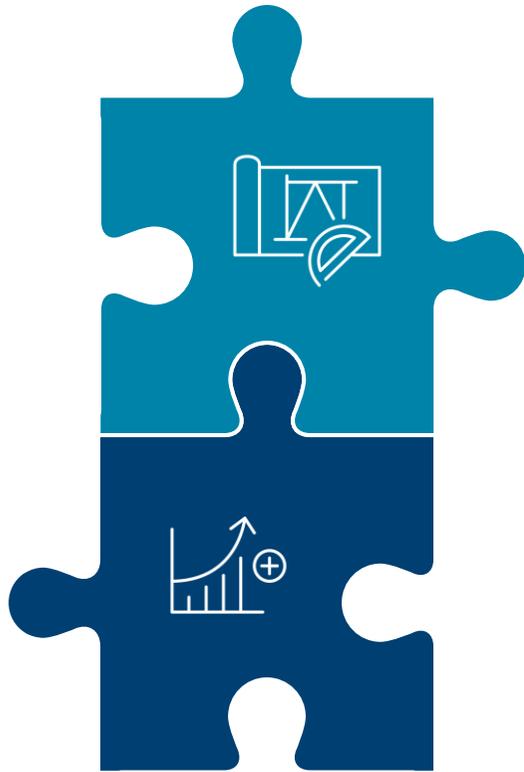
# Employer risk – additional funding targets (FTs)



Ensure that funding target reflects level of employer risk

# Mortality assumptions

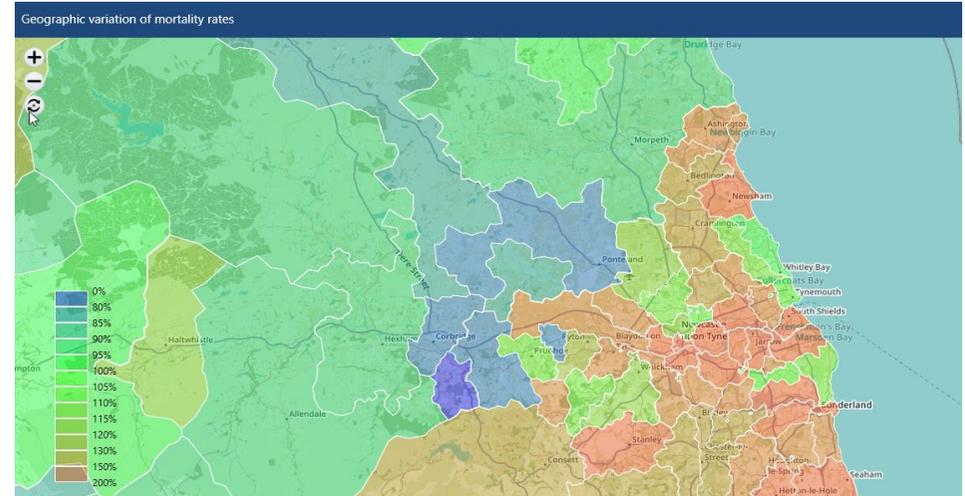
## Two parts to the mortality assumption



### Base table

Current rates of mortality

Combination of Tyne and Wear Pension Fund experience and postcode data



### Future improvements

How the current mortality will change in future years

Impact of pandemic



### Key takeaway

Overall impact on liabilities of mortality assumption changes is a liability reduction of approximately 2%

# Summary of key financial assumptions

| % p.a.                                      | 2019 assumptions     | 2022 assumptions     |
|---|----------------------|----------------------|
| Probability of Funding Success              | 80%                  | 80%                  |
| Discount rate - secure scheduled bodies     | 4.30%                | 4.45%                |
| Discount rate – intermediate funding target |                      |                      |
| - In service                                | 4.30%                | 4.45%                |
| - Left service (Tier 1 – High)              | 4.03%                | 3.94%                |
| - Left service (Tier 2 – Medium)            | 3.76%                | 3.69%                |
| - Left service (Tier 3 – Low)               | n/a                  | 3.43%                |
| Discount rate for orphan bodies             |                      |                      |
| - In service                                | 4.30%                | 4.45%                |
| - Left service                              | 1.60%                | 1.90%                |
| CPI pension increases                       | 2.10%                | 2.30% <sup>(1)</sup> |
| Pay growth                                  | 3.60% <sup>(2)</sup> | 3.80% <sup>(2)</sup> |

**(1) Plus an allowance for short term inflationary increases – 10% added onto liabilities**

(2) Plus an age-related promotional pay scale.



## 2022 valuation – results

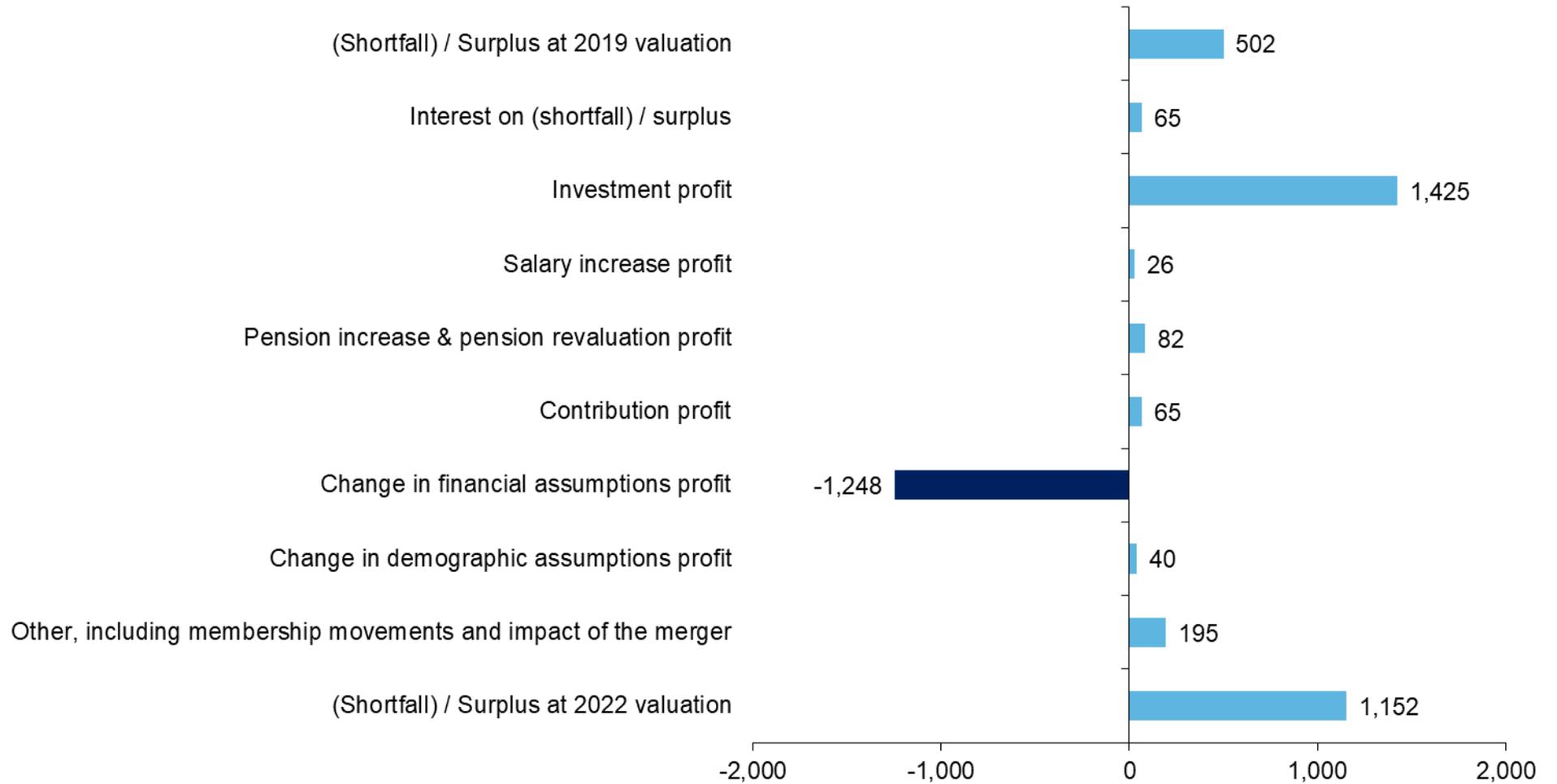
# Initial 2022 whole fund past service position

|                                     | 2019 valuation results<br>(TWPF) (£M) | 2022 valuation results<br>(£M) |
|-------------------------------------|---------------------------------------|--------------------------------|
| Probability of Funding Success      | 80%                                   | 80%                            |
| Value of past service benefits for: |                                       |                                |
| Actives                             | 2,969                                 | 4,078                          |
| Deferreds                           | 1,381                                 | 1,720                          |
| Pensioners                          | 3,936                                 | 5,797                          |
| Value of liabilities                | 8,286                                 | 11,595                         |
| Value of assets                     | 8,788                                 | 12,747                         |
| Past service surplus/(deficit)      | 502                                   | 1,152                          |
| Funding level                       | 106%                                  | 110%                           |



Improvement in funding level since the 2019 valuation

# Change in funding position (2019 to 2022)



# McCloud allowance within actuarial calculations

## 2019 valuation

1.2% allowance in secondary contributions

Average across the whole Fund



More  
information  
now  
available on  
the remedy



## 2022 valuation

Make approximate allowance at employer level allowing for individual employer profile

In line with guidance from DLUHC

Include allowance within past service liabilities

# 2022 whole fund employer contributions

| % of Pensionable Pay                               | 2019 valuation   | 2022 valuation   |
|--|--|--|
| Value of benefits accruing                         | 25.2%  | 24.7%  |
| Expenses   | 0.4%   | 0.4%   |
| Member contributions                               | (6.5%)   | (6.5%)   |
| <b>Employer future service cost (Primary rate)</b> | <b>19.1%</b>   | <b>18.6%</b>   |
| Allowance for McCloud                              | 1.2%   | Included within past service   |
| Recovery / (amortisation) period for whole Fund    | Recovery period = 17 years from<br>1 April 2020<br>(Amortisation) period = (20 years<br>from 1 April 2020) | Recovery period = 14 years from<br>1 April 2023<br>(Amortisation) period = (20 years<br>from 1 April 2023) |
| Secondary contribution rate <sup>(1)</sup>         | (0.6%)   | (0.0%)   |
| <b>Total contribution rate</b>                     | <b>19.7%</b>   | <b>18.6%</b>   |

## Notes:

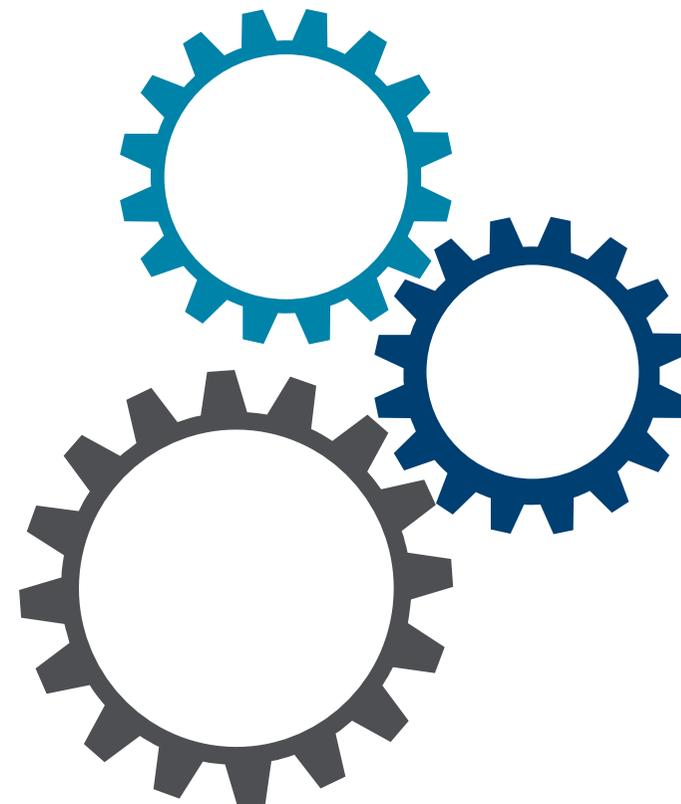
(1) This has been calculated at 2022 by removing any surplus in excess of 110% in line with the approach adopted for employers as set out in the FSS (the threshold had been 105% in 2019)

(2) The 2022 whole of Fund results may change as we work through the individual employer results if there are changes to the data or employer funding targets

# SAB statement on LGPS employer contributions

- Statement of 1 November 2022 anticipates many LGPS funds will be in surplus at 31 March 2022...
- Acknowledges discussions may turn to employer contribution reductions...
- But reminds funds of Ukraine / inflation / economic uncertainty

*“We would expect discount rates to be set at a prudent level, and one which recognises this uncertainty...the Board would ask that administering authorities and other fund employers have regard to the desirability for long term stability in pension contributions to smooth any surplus and deficits, and to allow for effective pension fund cash flow planning.”*



## Aon view

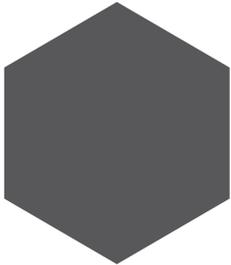


Approach to TWPF valuation has reflected this desire for stability: **increased prudence** via inflation allowance and increase to surplus buffer, **so contribution reductions have been limited**

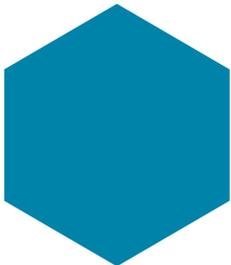


# Employer outlook

# Outlook for main councils and other employers on Scheduled and subsumption body funding target

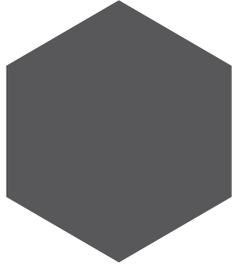


Councils have seen broadly similar changes to funding position and employer contribution rates as for whole of Fund

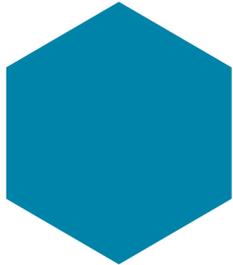


Same likely to be true for most other employers on Scheduled and subsumption body funding target, although impact will vary by employer

# Outlook for employers on Intermediate funding target



- Colleges / Universities generally seeing improvements in funding position since 2019 valuation
- Broad stability in contribution rate if on same funding target as 2019 (may be small increases or reductions)
- Generally seeing reductions in contribution rate if moving from Tier 2 (Medium) to Tier 1 (High)



- Results will vary by employer, depending on financial position, membership characteristics and funding target at both 2019 and 2022

# Employer exit basis



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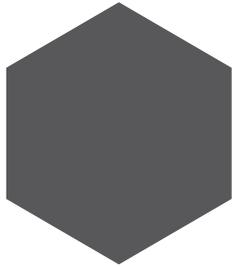
With effect from 1 October 2022, the Fund **retains the current low risk (gilts) approach for employer exit valuations** but implements an underpin based on a Probability of Funding Success approach with the following parameters:

- 95% Probability of Funding Success
- 15 year Trajectory Period
- 2% Solvency Target

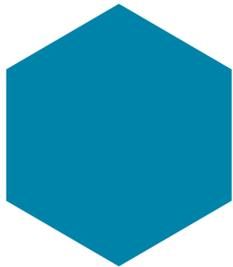
**Application of the underpin at 31 March 2022 flows through to the setting of contributions at the 2022 valuation for employers on the Ongoing Orphan target.**

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# Outlook for employers on Ongoing Orphan funding target



- Change in exit valuation approach has had positive impact on results
- Some employers may see improvements in funding position since 2019 valuation
- May typically see reasonable stability (small movement) in contribution rates



- Results will vary by employer, depending on financial position and membership characteristics
- Some employers may see contribution increases and some may see reductions

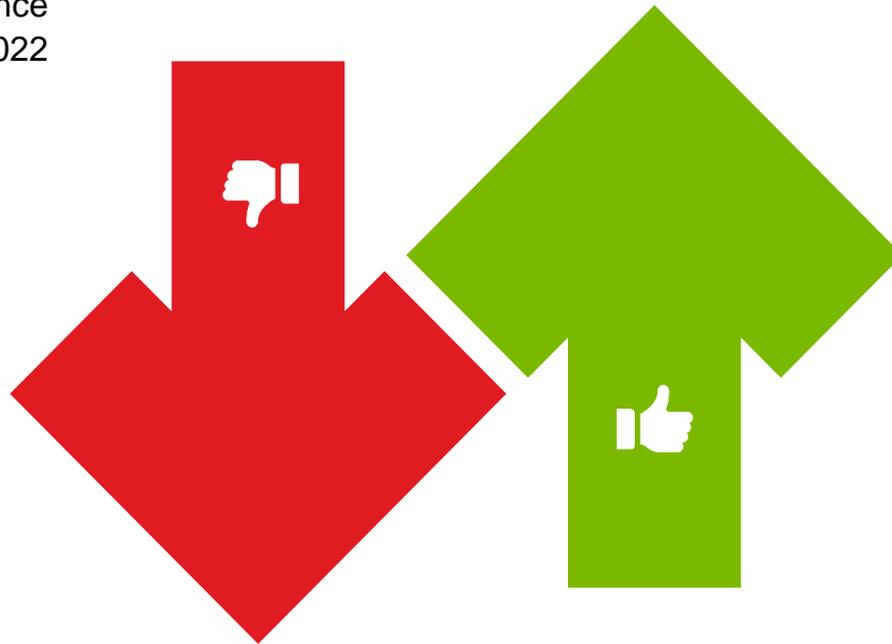
# Post-valuation date experience and other hot topics



# Market movements since 31 March 2022

## Assets

Investment return down since  
31 March 2022



## 2023 Pension increase

Sept CPI increase was 10.1%

## Liabilities

Scheduled body discount rate up  
(reduces the liabilities)

Real gilt yield up significantly



Not expecting to allow for post valuation experience directly in contribution calculations, but will continue to monitor

## 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 – 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

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

**2022: Public Service Pensions Act passed through Parliament; consultation response outstanding**

**Final Regulations not expected to be in force until 1 October 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)



## Data collection

Covering service breaks, part-time hours etc for period of underpin (1 April 2014 to 31 March 2022)

# Other current hot topics



## Cost control mechanism

- **4 yearly central LGPS valuations** by GAD can trigger employee contribution and/or benefit changes – 2016 review concluded in 2021 without changes
- HMT/SAB introducing changes for 2020 process: wider corridor (target cost plus or minus 3% of pay) to apply before change needed; to only cover CARE scheme benefits; economic check will seek to avoid perverse outcomes
- **Outcome very unlikely to affect 2022 local valuations**



## Review of Colleges

- Office for National Statistics reviewing status of the Further Education sector
- As part of review DfE are **considering** putting in place a capped guarantee
- Possible future impact on funding target adopted for Colleges but would depend on nature of any guarantee, and require consultation
- Any changes very unlikely to affect employer contributions certified at 2022 valuation but **might** do so thereafter



# Summary

# Summary of key funding strategy elements 2022

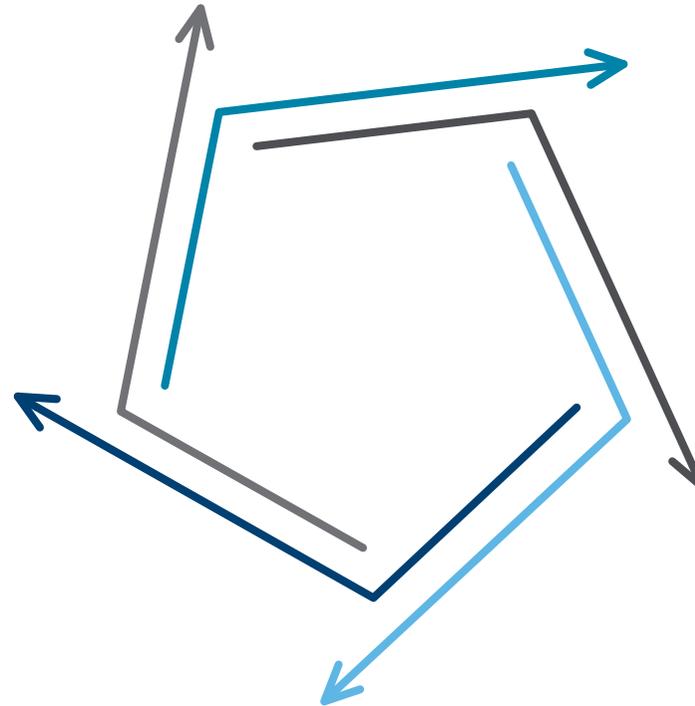
## 80% PoFS

Probability of funding success (prudence) for long term secure schedule bodies unchanged

## 10% inflation allowance

To cover high short term inflation (April 2023 and some allowance for April 2024 pension increases)

Bank of England suggests higher inflation may persist a bit longer



## Surplus buffer of 110%

Retain some surplus in case of continuing adverse experience given uncertainty of economic outlook

Increase from 105% in 2019

## Intermediate FT

Introduction of third intermediate funding target

Designed to capture Colleges / Universities with 'poorer' covenant strength

No employers in this category at 2022 valuation

## Ongoing orphan FT

Assumptions consistent with approach on exit (allowing for the introduction of Probability of Funding Success underpin)

# Timetable

## Annual Meeting

- Communication of initial whole Fund results

11 Nov  
22

## Employer results

- Communication of initial employer results over next couple of months

## Results for all employers

- End Dec / Early Jan

31 Dec  
22

## Sign valuation report and Rates and Adjustments Certificate

31 Mar  
23

# Questions



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