

# Pension Fund Valuation and General Update

Paul Cooper, Head of Pensions

Audit Committee, February 2024



# Overview



£3.5bn assets



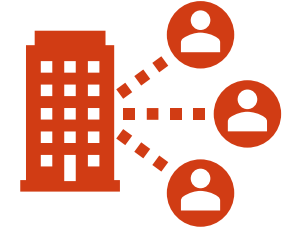
100+ Employers



60,000+ Members



£3.5bn of assets  
invested in a  
diversified portfolio



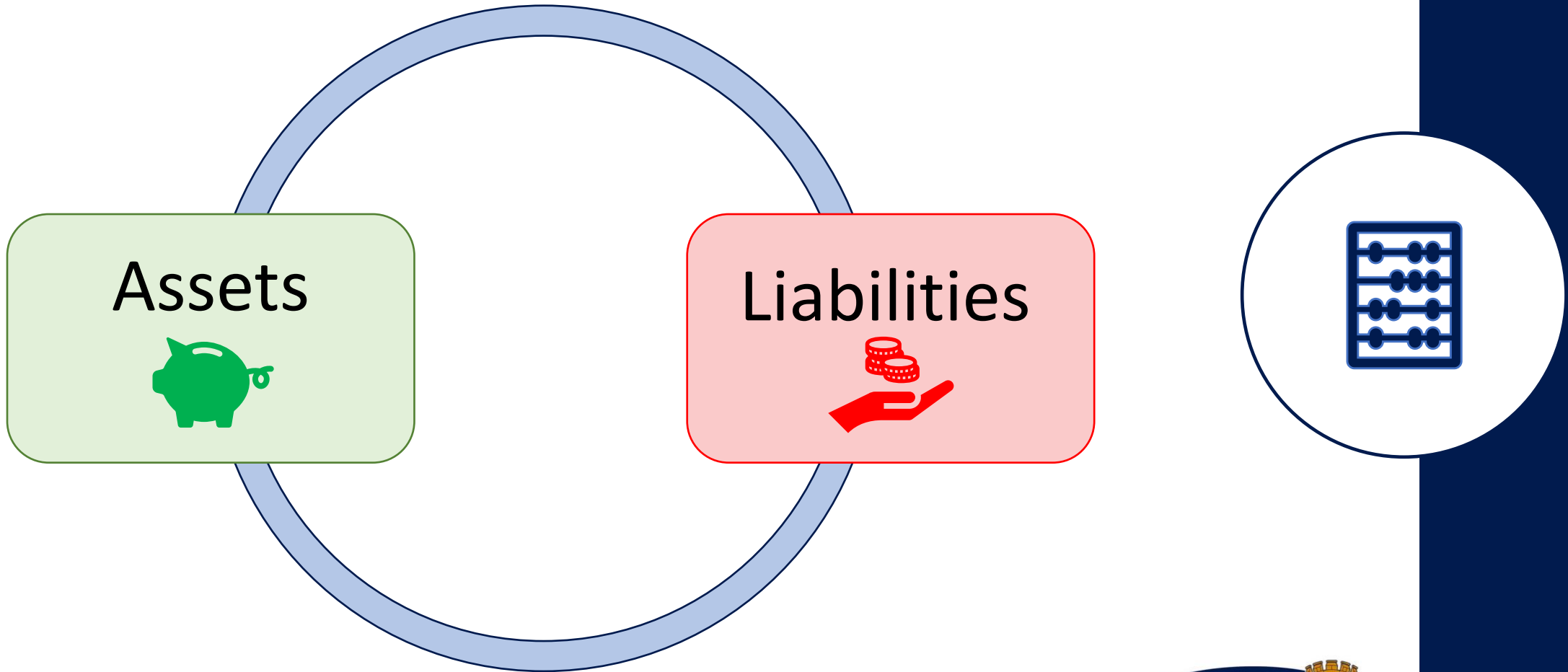
100+ current, former  
and prospective  
Employers



22,000+ Active  
Members  
17,000+ Deferred  
Members  
21,000+ Pensioners

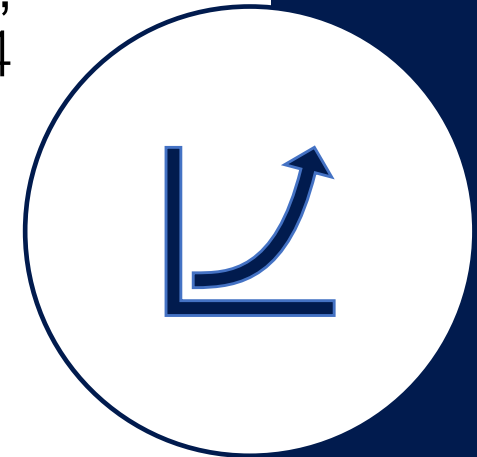
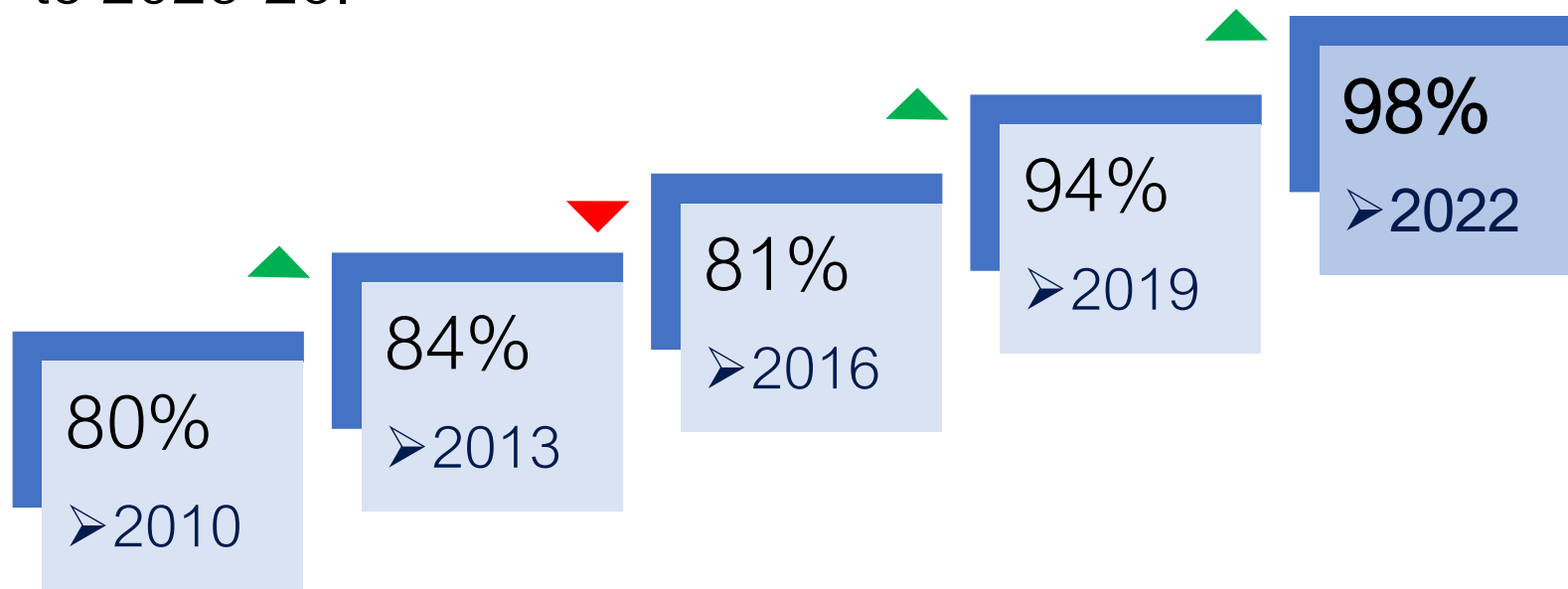


# Valuation



# Valuation – Funding Level

Requirement to set funding level, assessing liabilities against assets every three years. Employer contributions set with reference to funding level, for the three-year period following, ie. the 2022 valuation determined contributions for 2023-24 to 2025-26.





## Key Considerations

# Discount Rate

## Key Financial Assumptions

Probability of funding success: 76%

### Discount Rates

Scheduled Bodies 4.40%

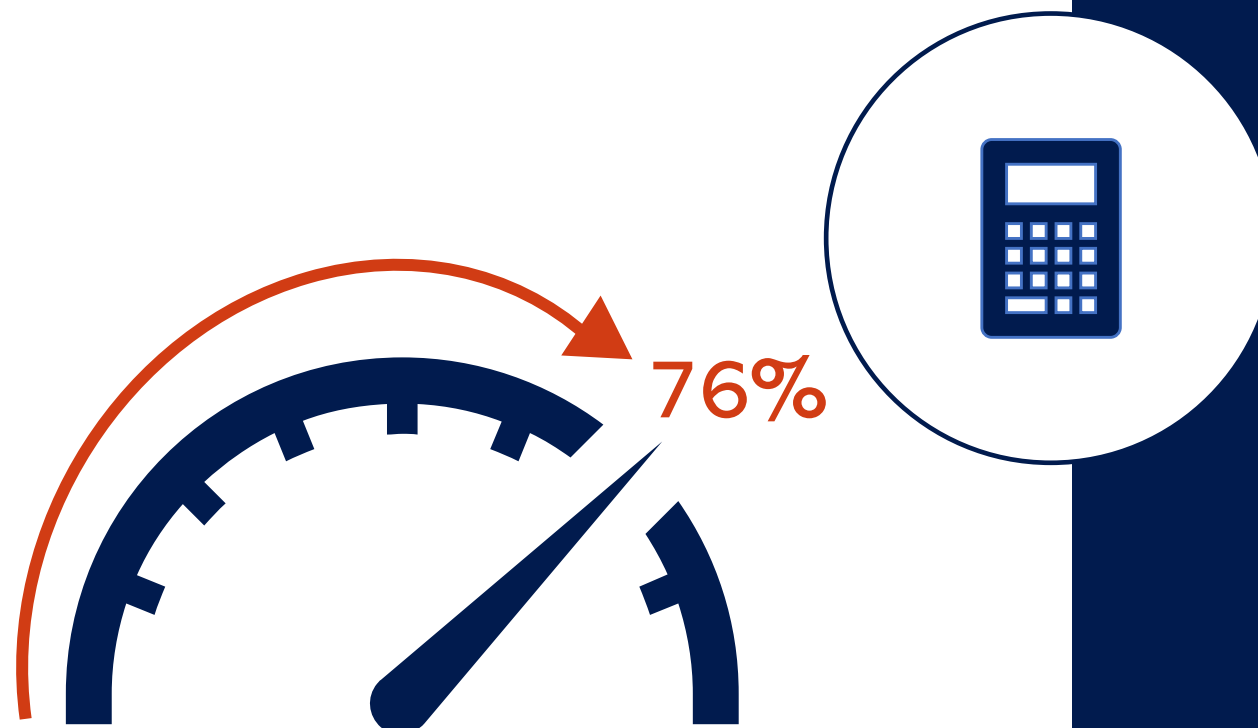
Orphan Body Left Service 1.30%

Intermediate Left Service 3.95%

CPI Inflation 2.30%\*

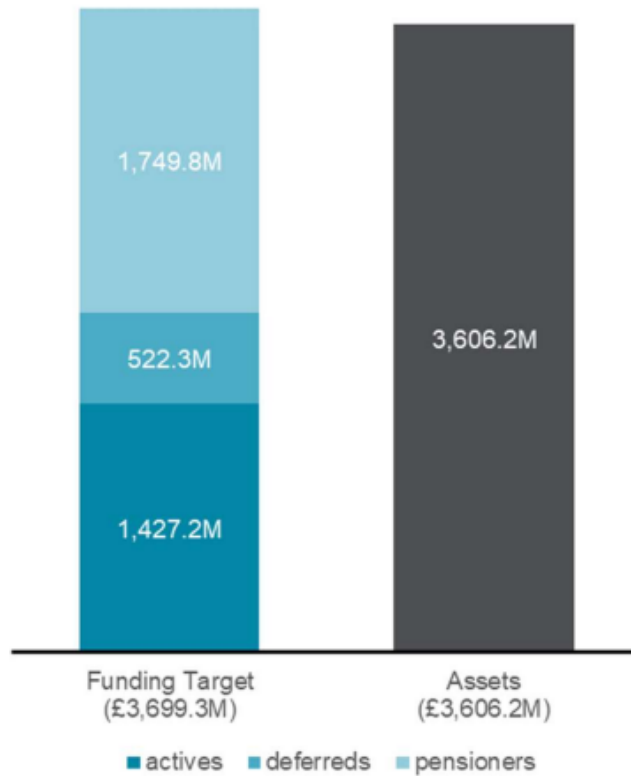
Pay Growth 3.30%

\*plus additional weighting for short-term inflationary pressure



## Overall Position

There was a deficit of £93.1M relative to the liabilities. The funding level was 98%.



# 2022

# Valuation Output



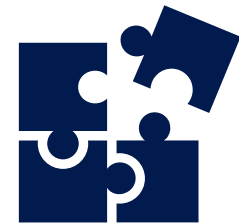
18.9%  
Primary

▲ 1% vs  
March 2019



1.3%  
Secondary

▼ 2.6% vs  
March 2019



20.2%  
Total

▼ 1.6% vs  
March 2019

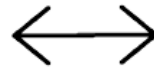
## Current outlook for post 2026 employer contributions



### Funding Target

Secure scheduled body

### Outlook for total rate



### Comment

Reducing Primary Rate  
Increasing Secondary Rate

### Funding Target

Intermediate and orphan

### Outlook for total rate



### Comment

Larger decreases in Primary Rate due to increases in gilt yields  
Improvement in funding position

### Next valuation not until 31 March 2025

- Funding position will evolve up to next valuation
- Impact of continued high inflation
- No intention to review rates until 2025 valuation (which will set rates from 1 April 2026)
- Variability in movement at employer level (particularly orphan employers)

# Outlook

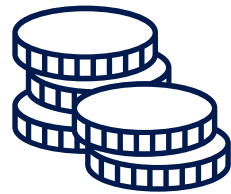
Source: Aon

The AON logo, consisting of the letters 'AON' in a bold, red, sans-serif font.



# Balancing Cost and Risk

Higher Contributions



Lower Contributions



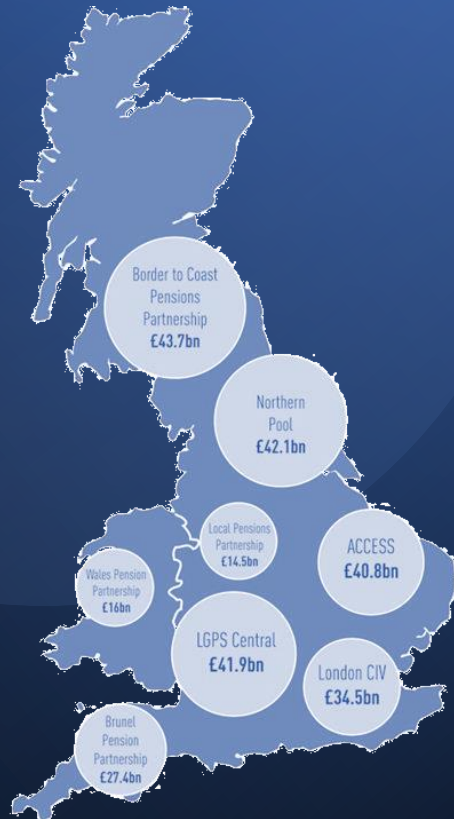
Higher returns & Higher risk



Lower returns & lower risk



# Border to Coast Pensions Partnership



## PENSIONS PARTNERSHIP

 <b>CUMBRIA COUNTY COUNCIL</b>	 <b>DURHAM COUNTY COUNCIL</b>	 <b>EAST RIDING PENSION FUND</b>	 <b>BEDFORDSHIRE PENSION FUND</b>
 <b>LINCOLNSHIRE COUNTY COUNCIL</b>	 <b>NORTH YORKSHIRE COUNTY COUNCIL</b>	 <b>SOUTH YORKSHIRE PENSION AUTHORITY</b>	 <b>SURREY PENSION FUND</b>
 <b>TEESSIDE PENSION FUND</b>	 <b>TYNE AND WEAR PENSION FUND</b>	 <b>WARWICKSHIRE PENSION FUND</b>	 <b>BORDER TO COAST JOINT COMMITTEE</b>

# Oversight & Governance



Setting & Publishing Strategy



Quarterly Review of Performance



Training



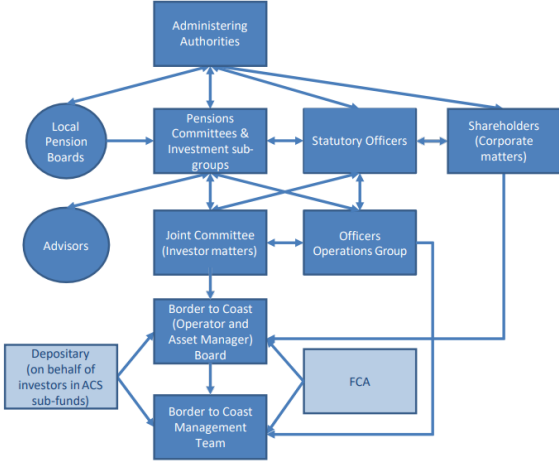
Committee agrees approach to Funding Strategy and Investment Strategy including asset allocation. Strategy statements published. Valuation reviewed by GAD.



Quarterly review of performance with support from external advisors. Local Pension Board supports Committee in maintaining compliance with legal requirements. Regular review of Risk and audit assurance.



Bespoke training for Committee Members on asset classes, investment products and the fund's liabilities. Approach published in Governance Compliance Statement.



Pool Oversight

# Fund's External Advisors

## Border to Coast

Pooling Partner



## Mercer

Investment Consultant



## Aon

Fund Actuary



## Anthony Fletcher

Independent Advisor





## Foresight Regional Investment

# Investing Locally:



## Durham Enables Regional Fund Launch

To support SMEs in the North-East and Yorkshire, generating commercial returns while also delivering local Impact.

A long-term commitment to the region, from one of the UK's leading Private Equity Firms.

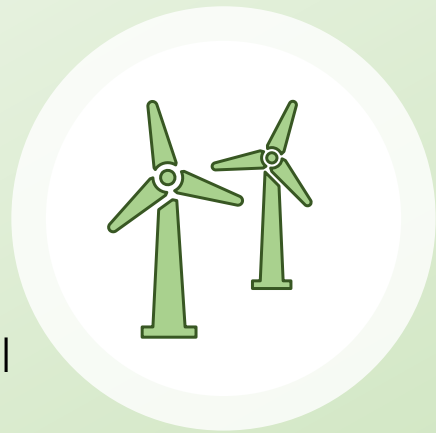
**£18m cornerstone investment by Durham Pension Fund**, allowed the Fund to launch. Subsequent commitments have seen the Fund grow to £90m, directed to investment in companies with headquarters or significant operations in the region.

# Supporting Climate Opportunities

The Pension Fund Committee has already committed **£70m** to support the launch of a Climate Opportunities Fund through Border to Coast and will consider a further commitment in March.

Climate Opportunities Fund:

- Target 8% investment return
- Global exposure with European (inc. UK) and North American focus
- Invests into opportunities focused on reducing carbon emissions and supporting the transition to a low carbon economy



## Border to Coast launches climate opportunities fund

Latest initiative will take total investment commitments to £10bn

Martin Richmond  
07 April 2022 - 2 min read

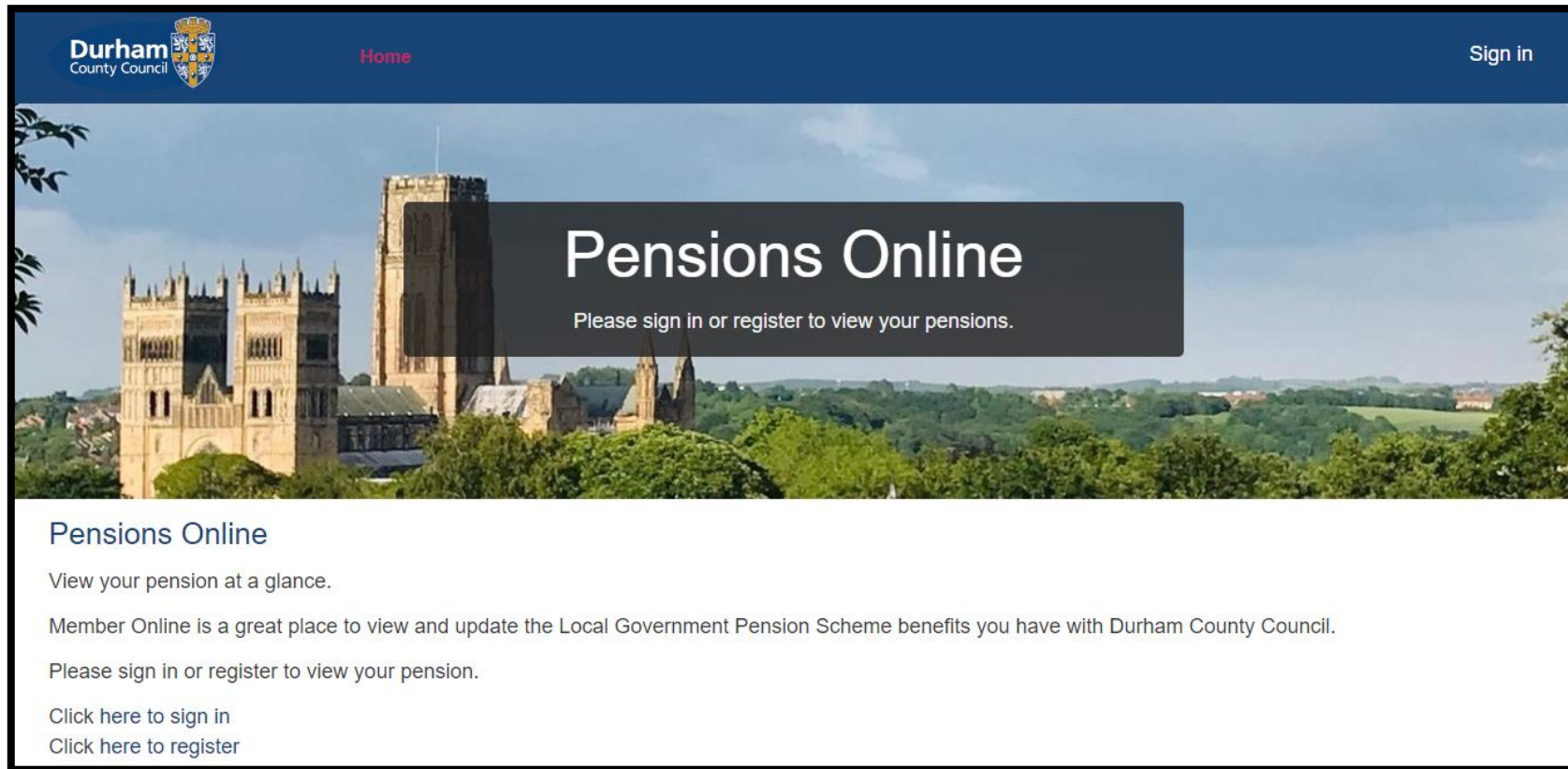
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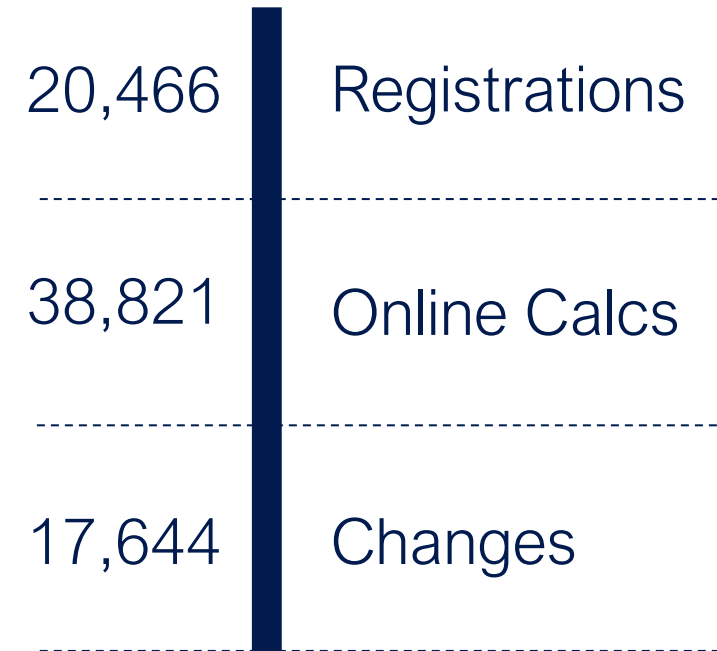
Image: A £1.35bn climate opportunities investment will be made over the next three years



# Scheme Member Online Services



The screenshot shows the Durham County Council website header with the logo and 'Home' link. The main content area features a large image of Durham Cathedral with a dark overlay containing the text 'Pensions Online' and 'Please sign in or register to view your pensions.' Below this, there is a section titled 'Pensions Online' with a sub-heading 'View your pension at a glance.' and a paragraph: 'Member Online is a great place to view and update the Local Government Pension Scheme benefits you have with Durham County Council. Please sign in or register to view your pension.' At the bottom of this section are two links: 'Click here to sign in' and 'Click here to register'.



Source: KPI report to Local Pension Board, December 2023

# McCloud Judgement

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- 2014 LGPS reforms (move to CARE scheme) afforded protections to older members that were discriminatory
- Members within 10 years of State Pension Age as at April 2012 provided 'Underpin' protection
- A comparison of CARE & Final Salary benefits undertaken and higher of two amounts paid – the 'Underpin'
- To remove discrimination, Underpin protection expected to be extended to younger members who were in the scheme before April 2012
- Scheme members do **not** need to take any action
- Most members unlikely to see an increase in benefits, however, likely beneficiaries those have materially increased Final Salary

lgps

Local Government  
Pension Scheme





# Looking Ahead

