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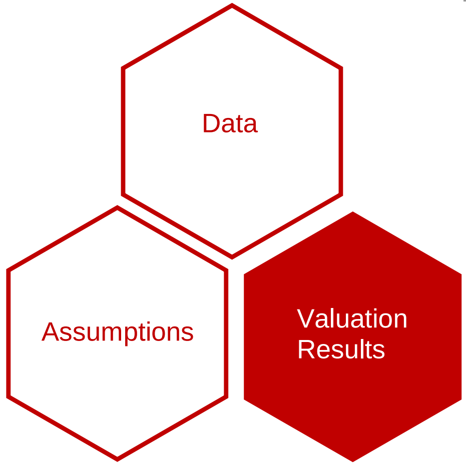


# Actuarial valuation at 31 March 2019 – initial results

## London Borough of Enfield Pension Fund

| | |
|---|---|
| Prepared for | London Borough of Enfield as Administering Authority to the London Borough of Enfield Pension Fund |
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| Date | 1 November 2019 |



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# Contents

# Introduction and purpose

*This paper was commissioned by the Administering Authority. Its purpose is to set out the initial results of the actuarial valuation of the London Borough of Enfield Pension Fund (the Fund) as at 31 March 2019. It also sets out the results of the previous valuation of the Fund at 31 March 2016.*

## Purpose

The paper covers initial calculations of:

- A target level of assets that we have discussed as being appropriate to meet the benefits that members have already earned (i.e. the past service liabilities), based on a proposed Probability of Funding Success
- The contributions required to bring the assets in line with the possible target and to pay for the benefits that members will earn in the Fund in the future.

This report also sets out the initial financial position of the Fund on a low risk (exit) basis.

The different bases are explained in more detail in Appendix C.

The individual result for the main Council group is set out on page 11.

This paper is intended to be a discussion document to assist the Administering Authority in determining what further advice or calculations are required to help it finalise its funding strategy and employer contributions as part of the 2019 valuation of the Fund.

## Results of the previous valuation

The results of the previous valuation as at 31 March 2016 were as follows:

- The Fund's assets were £916.3M and the value of the liabilities was £1,048.2M, which corresponds to a deficit of £131.9M, and a funding ratio of 87%.
- The assessed employer cost of future service benefits was 17.7% of pay across the Fund as a whole.
- Additional contributions of 5.1% of pay were required to return the Fund to fully funded over 19 years.

Total aggregate employer contributions were certified as follows:

| Year from 1 April | % of Pensionable Pay | Additional monetary contributions (£M) |
|---|---|---|
| 2017 | 22.9 | 0.0 |
| 2018 | 23.4 | 0.0 |
| 2019 | 23.7 | 0.0 |

In addition, average members' contributions were 6.6% of Pensionable Pay.

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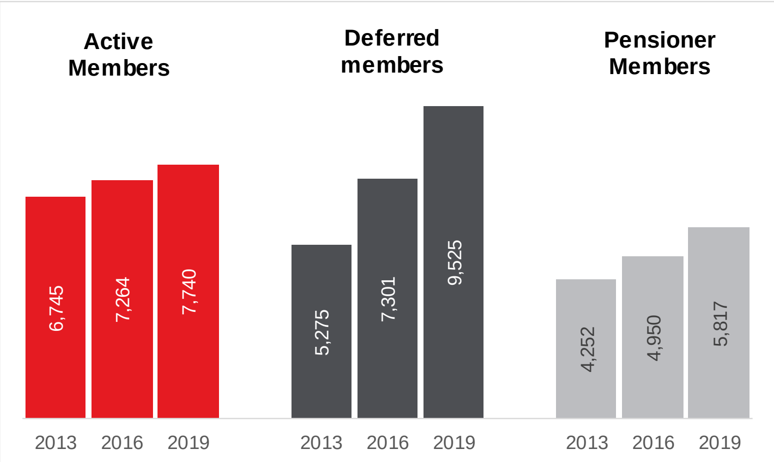
# Membership data

*The results in this report are based on membership data as at 31 March 2019 supplied to us by the Administering Authority using the universal data extract received on 12 July 2019[1].*

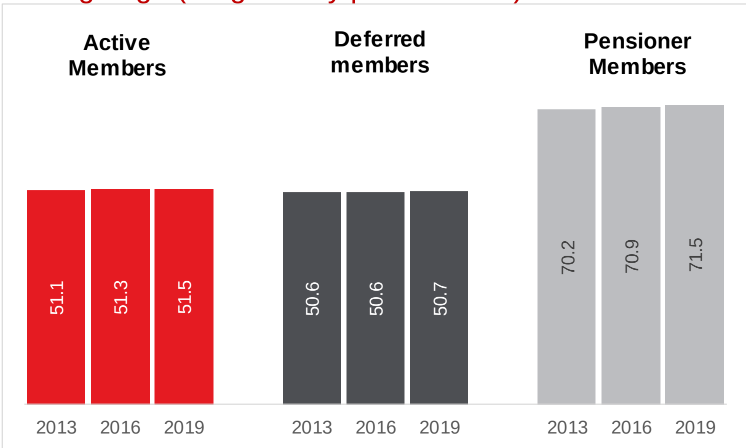
A summary of the membership data used in our calculations is included in Appendix A, alongside the membership data used for the previous valuation.

The charts below show how the membership profile of the Fund has changed over the past three valuations.

## Number of members




## Average age (weighted by pension size)




During the inter-valuation period, the total number of membership records has continued to increase. Within the number of 'deferred members' shown there are a significant number of 'frozen refunds' where members have not yet elected whether to take a refund of contributions or retain a deferred benefit. This represents 33% of the total deferred records. We have valued the refund where the record includes a frozen refund amount, otherwise we have valued the deferred pension on the record.

[1] We undertook validation tests on the data and raised queries where data was missing or results of our tests were outside tolerance levels. The Administering Authority did not supply any adjusted data in response to those queries. The data summarised in this paper allows for any adjustments or estimations we have made in order to produce the initial results, which includes estimating some data where this was missing. [The Report Framework lists the documents in which we have advised any data changes.] At the date of preparing this paper we have not reconciled the valuation results for each and every employer or group of employers. As part of that reconciliation we may raise additional data queries leading to updated data being supplied. The membership shown in the final valuation report may therefore differ from that shown in this paper.

# Membership data (continued)

## Changes affecting benefits/membership

Since the last valuation, the following developments have affected or may affect Fund benefits / membership:

- Extension of the interim arrangements whereby full pension increases on Guaranteed Minimum Pensions (GMPs) are to be met by the Fund for members reaching State Pension Age (SPA) between 1 April 2016 and 5 April 2021.
- The Government being denied leave to appeal the McCloud/Sargeant judgement which found that the transitional protections granted to members within 10 years of pension age in the Firefighters' and Judges' pension schemes when those schemes were reformed in 2015 was illegal age discrimination. Following the Ministerial Statement on 15 July, this is expected to lead to changes being required to all of the public service schemes.
- The introduction of an exit cap which may affect the extent to which employers can waive part or all of the early retirement reductions in certain circumstances.
- Changes in the SCAPE discount rate and longevity assumptions on which many of the Scheme-wide actuarial factors, including early and late retirement factors, are based.

## Uncertainties

There are a number of uncertainties regarding the benefits payable to LGPS members which may affect the valuation results. Where agreed with the Administering Authority we have made an approximate allowance for these uncertainties in the initial results, at a whole of Fund level only. These uncertainties relate to:

- GMP equalisation and indexation after 5 April 2021
- The cost management process
- The remedy which may be agreed in relation to the McCloud/Sargeant case

Further explanation of these uncertainties is set out in Appendix E.

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# Initial past service results

*The initial results calculated on the proposed basis are shown below alongside the results from the previous valuation at 31 March 2016. Details of the assets and assumptions are set out in Appendices B and C respectively.*

| | Previous valuation results | 2019 result (80% PoFS) | Exit basis |
|---|---|---|---|
| ***Probability of funding success (PoFS) (scheduled body funding target)*** | 69% | 80% | Not calculated |
| **Value of past service benefits for:** | | | |
| **Actives** | £373.9M | £360.3M | £654.4M |
| **Deferreds** | £212.1M | £245.4M | £490.3M |
| **Pensioners** | £462.2M | £540.5M | £759.5M |
| **Total value of past service liabilities** | £1,048.2M | £1,146.2M | £1,904.2M |
| **Value of assets** | £916.3M | £1,185.5M | £1,185.5M |
| **Past service suplus/(deficit) (pre McCloud)** | (£131.9M) | £39.3M | (£718.7M) |
| **Funding ratio (pre McCloud)** | 87% | 103% | 62% |
| ***Approximate possible cost of McCloud (see Appendix E for details)*** | *n/a* | *£10.6M* | *n/a* |

By comparing the initial results with the results on an exit basis (where actives are assumed to become deferred and liabilities are valued by setting the discount rate equal to gilt yields) the Administering Authority can quantify the extent to which its funding strategy is dependent on both continued investment in return-seeking assets (to deliver a return above gilt yields) and continued participation of employers (to make contributions in line with the funding plan).

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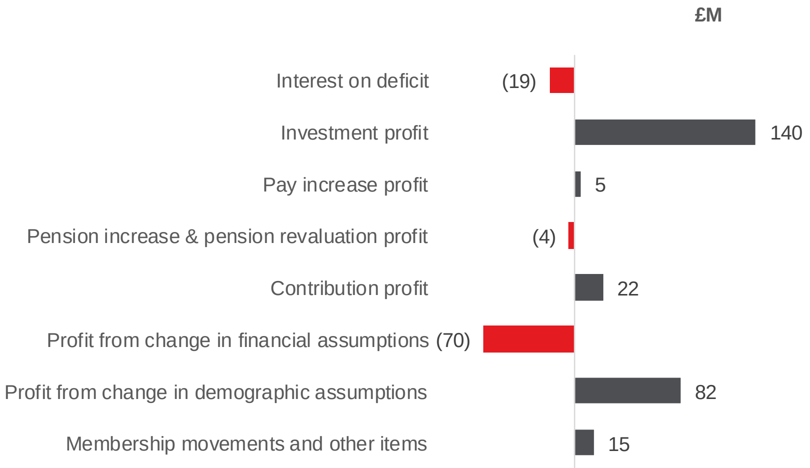
# Reasons for change in past service position

*The initial valuation results show that the deficit of £131.9M in the Fund at the previous valuation has become a surplus of £39.3M at this valuation (based on an 80% probability of funding success, and before allowance for possible liabilities arising from the McCloud judgement).*

The chart below shows the key elements of gain or loss leading to this change. Bars to the right of the centre line show sources of gain relative to the 2016 position, whilst those to the left show losses.




As the chart shows, the main factors which have led to an improvement in the funding position are:

- Investment returns above the discount rate adopted at the 2016 valuation
- Changes to the demographic assumptions (particularly longevity)
- Contributions paid by employers towards paying off the deficit disclosed at the 2016 valuation
- Lower than assumed pay growth on pre-2014 benefits, and other membership changes

These have been partially offset by the following main factor which on its own has worsened the funding position:

- The change in the financial assumptions (principally the fall in the discount rate relative to inflation)

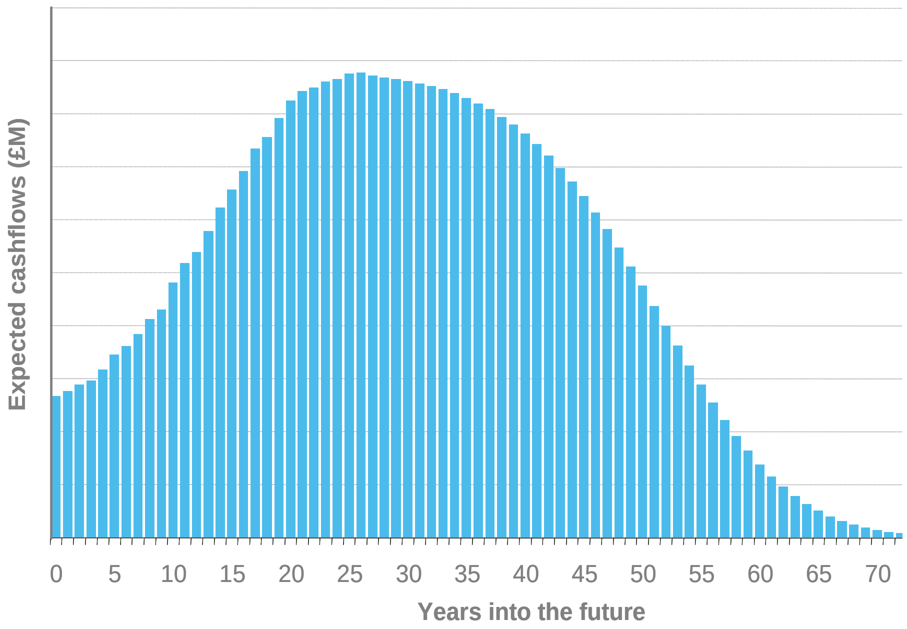
# What is the past service liability made up of?

*The benefit payments from a pension scheme are expected to be made for a very long period – the chart below shows the cashflow pattern for a sample LGPS fund.*

## Comments

The projected cashflows for the sample fund relate to past service benefits only and therefore make no allowance for new entrants nor for the future build-up of pension benefits for existing members at the valuation date.

As part of its cashflow management, the Administering Authority should ensure it has cash available to meet all benefit payments to avoid having to disinvest assets at depressed values. This should include projected contributions payable to the Fund as well as projected benefit payments. Further, as the Fund is an open scheme it may be helpful to consider the effect of new entrants and future build-up of benefits on the projected benefit payments and contributions. As funding levels improve and employer deficit contributions fall, consideration may be needed as to whether the Fund's asset strategy will need in future to deliver a greater proportion of returns as income rather than capital growth.



# Aggregate Primary Contribution Rate

*The cost of benefits that members will earn in the Fund are shown below, alongside the results from the previous valuation.*

| % of Pensionable Pay | Previous valuation results | 2019 result (80% PoFS) |
|---|---|---|
| **Value of benefits accruing** | 23.5% | 24.2% |
| **Death in service lump sum** | 0.3% | 0.2% |
| **Expenses** | 0.5% | 0.7% |
| ***Less* member contributions** | (6.6%) | (6.6%) |
| **Net Employer cost pre McCloud (Primary contribution rate)** | 17.7% | 18.5% |

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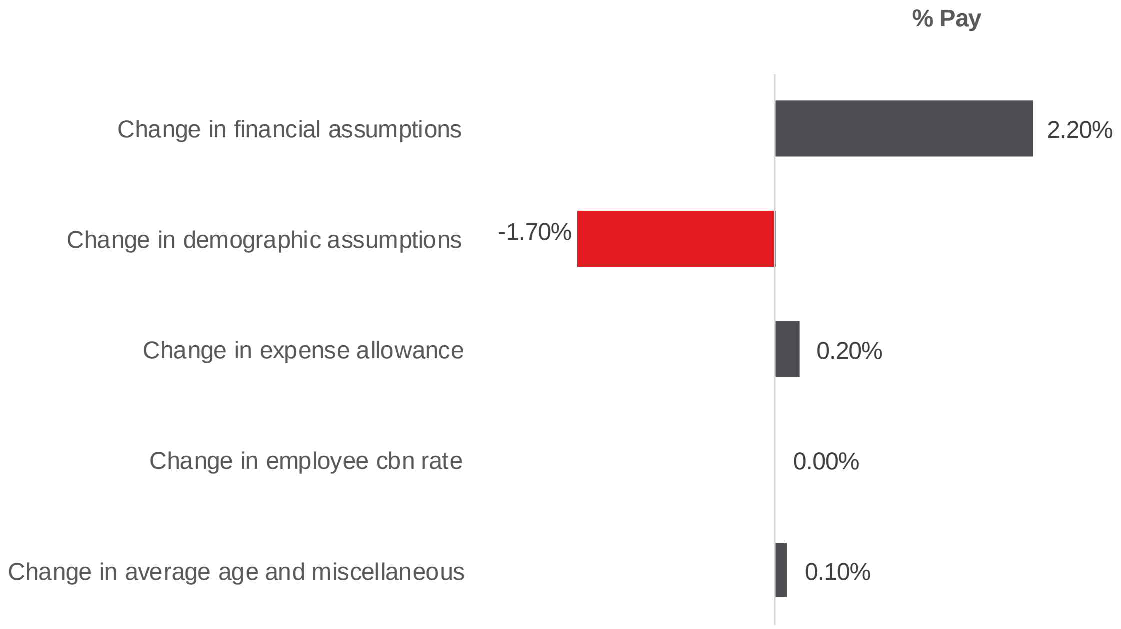
The cost of future benefits on the 2019 valuation result (based on the proposed probability of funding success) has decreased significantly (as a percentage of Pensionable Pay) since the previous valuation.  The main reasons for this are shown below.




As the chart shows, the main factor that has served to reduce the primary contribution rate is the change in the demographic assumptions (in particular the change in the base mortality assumptions and future longevity improvements).

This has however been more than offset by the impact of the change in financial assumptions (principally the decrease in the discount rate relative to inflation under the result based on a probability of funding success of 80%).

Adding in allowance for the possible cost of the McCloud judgement will lead to an increase in the cost.

# Employer Past Service ("Secondary") Contributions

*It is possible that employer contributions could be reduced below the Primary Contribution Rate due to the surplus in the Fund as at 31 March 2019.*

At the 2016 valuation the Fund's funding strategy was to (broadly) achieve a position of 100% funding over 19 years. In practice the deficit recovery contributions were set based on each employer's or group of employers' underlying position using a recovery period appropriate to the employer or group.

Based on the employer contributions certified, it was expected that the funding position would have increased to approximately 89% by 31 March 2019 if experience since the previous valuation had been in line with the assumptions. The initial result at 31 March 2019 is a funding ratio of 103% (based on a probability of funding success of 80%).

Our understanding is that one of the metrics used by the Government Actuary's Department in its analysis of local funding plans under Section 13 of the Public Service Pensions Act is a comparison of the new recovery plan with the previous plan agreed at the last valuation. GAD has indicated that where funds are in deficit it would generally expect to see a retention of the previously agreed end date (rather than an extension or rolling recovery period), particularly where overall employer contributions are not increasing.

Whilst certain individual employers' sub-funds remain in deficit, at an aggregate level the Fund is in surplus. In line with the Fund's Funding Strategy Statement (FSS), we recommend the Administering Authority adopts a buffer in funding level to smooth future contribution changes for employers. This could be to ensure that only surplus above a funding level of 105% (the figure quoted in the FSS) is used to reduce the future service rate. The effect of this is shown in the table below.

| | 2019 result (80% PoFS) |
|---|---|
| **Surplus Amortisation Period from 1 April 2020** | **% of pay** |
| **19 years (Surplus above 105% used to reduce funding level to 105%)** | 0.0% |

The contributions in the above table are the whole of Fund theoretical secondary contributions allowing for different funding targets for different categories of employer where these have already been agreed (as set out in Appendix D). In practice, employers' secondary contributions will be set based on each employer's or group of employers' underlying position using a recovery period appropriate to the employer or group. Stepping of employer contributions may also be agreed. As a result, the aggregate secondary contributions actually certified will be different to those shown above and could be a mixture of reductions to the % of pay contributions for some employers (where in surplus with a funding ratio above 105%) and additional contributions (e.g. monetary amounts and/or increases to the % of pay contributions) for others (where in deficit).

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# Aggregate Employer Contributions

*Based on the primary and secondary contributions set out in the previous sections, the aggregate required contributions across the Fund as a whole, are as set out below, alongside the results from the previous valuation.*

| Basis | Previous valuation | 2019 result (80% PoFS) |
|---|---|---|
| **Primary contribution rate (% of pay) pre McCloud / Cost Cap** | 17.7% | 18.5% |
| **Secondary (deficit) contributions used to restore 100% funding (19 years) - % of pay** | 5.1% | n/a |
| **Total contributions (equivalent % of pay) pre McCloud / Cost Cap** | 22.8% | n/a |
| ***Allowance for possible cost of McCloud / Cost Cap**** | n/a | n/a |
| **Total contributions allowing for approximate possible cost of McCloud/Cost Cap** | 22.8% | n/a |
| **Secondary contributions used to reduce the funding level to 105% (19 yrs) - % of pay** | n/a | 0.0% |
| **Total contributions (equivalent % of pay) pre McCloud / Cost Cap** | n/a | 18.5% |
| ***Allowance for possible cost of McCloud / Cost Cap**** | n/a | 1.5% |
| **Total contributions allowing for approximate possible cost of McCloud / Cost Cap** | n/a | 20.0% |

* Within this figure, allowance has been made for amortising the assumed McCloud past service liability over 19 years.

The contributions in the above table are the whole of Fund employer contributions calculated allowing for different funding targets for different categories of employer where these have already been agreed. In practice employers' primary and secondary contributions will be set based on each employer or group of employers' underlying position using a recovery period appropriate to the employer or group. Stepping of employer contributions may also be agreed. As a result, the aggregate secondary contributions actually certified will be different to those shown above. Appendix D provides further information on which funding targets have been used for which employers.

The Administering Authority will need to confirm what allowance should be made for the potential additional liabilities for the McCloud case in determining employer contributions to the Fund. Please see Appendix E for more details.

# Initial results for London Borough of Enfield

*The initial 2019 valuation results, calculated using the proposed 2019 basis, for the London Borough of Enfield are as follows. The surplus amortisation period used in this illustration is 19 years with the target of reducing the funding ratio (where applicable) to 105%; in this case the funding ratio is under 105% and so no reduction for surplus is applied.*

| Probability of Funding Success | Balance sheet at this valuation | | Current contributions | | Theoretical contributions 2020/2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Surplus / (deficit) £M | Funding level | Current contribution rate % pay | Additional amount 19/20 £000s | Recovery period (years) | Future Service Rate (% pay, before addition for McCloud) | Total Rate (% pay, before addition for McCloud) | Addition for McCloud % pay | Total rate (including McCloud) |
| 80% | 21.2 | 102.0% | 24.8% | 0.0 | 19 | 18.7% | 18.7% | 1.5% | 20.2% |

*Notes: The employer results above should not be shared with the London Borough of Enfield in its employer capacity. They are intended to provide an indication of the likely valuation results for the employer in question based on the data submitted by the Administering Authority (amended as agreed or advised) and assumptions set out in this paper, to assist the Administering Authority in finalising its funding strategy including the valuation assumptions. Even if there are no changes to the assumptions or data, the results for individual employers could still change:*

*- as we work through results for other employers, adjustments may be needed to the assets allocated to the above employers to ensure the sum of assets notionally allocated to employers equals the whole Fund assets*

*- we need to agree the allowance for McCloud/cost cap in employer contributions from 1 April 2020; and*

*- we need to agree how any surplus/deficit will be addressed, the deficit recovery period and any stepping of contribution changes which may apply.*

*If the Administering Authority wishes to provide the employer with an early indication of the potential results please let us know so we can provide results in an appropriate format and with the relevant context (we have developed individual employer results schedules together with a covering, explanatory note, for this purpose).*

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# Risks and uncertainties, and developments since the valuation date

## Risks

The Fund faces a number of key risks which could affect its funding position. These risks include:

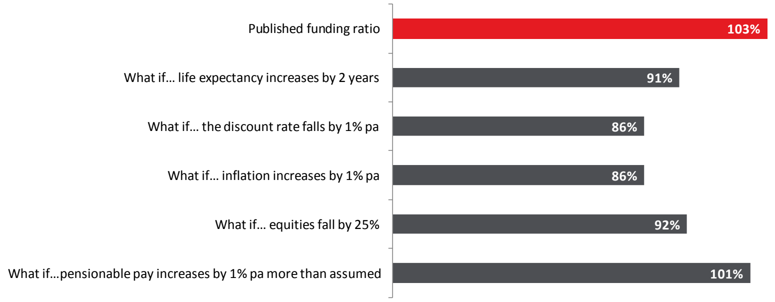
- Funding risk – the risk that the value placed on the liabilities is set too low and proves insufficient to meet the benefit payments as they fall due.
- Employer risk – the risk that an Employer is no longer able to meet its required contributions to the Fund*.
- Investment risks – the risk that investment returns are lower than allowed for in the valuation, and that investment returns and assets move out of line with the liabilities, so the funding position is not stable.
- Longevity risk – the risk that Fund members live for longer than assumed and that pensions would therefore need to be paid for longer resulting in a higher cost for the Fund.
- Inflation risk – the risk that inflation is higher than assumed, increasing the pensions that need to be paid.
- Options – the risk that members (or employers) exercise options resulting in unanticipated extra costs. For example, members could swap ("commute") less of their pension for cash than allowed for.

*The risk that an employer fails and is unable to meet its obligations to the Fund can be mitigated to some extent by adoption of different funding targets for different employers. Currently none of the Fund's liabilities relate to employers on a stronger funding target (higher liabilities) than adopted for the long-term, secure scheduled bodies. We can provide further details of how the funding position for individual employers compares to the exit position on request.

To quantify some of these risks, the chart below shows the approximate impact of the following one-off step changes on the Fund's funding position based on an 80% Probability of Funding Success (all other elements of the valuation basis being unchanged):

- Life expectancy at age 65 is two years longer than anticipated (with corresponding increases at other ages).
- A 1% pa fall in long term expected investment returns (the discount rate).
- A 1% pa increase in expected price inflation (measured by CPI).
- A 25% fall in the market value of equities (with no change in bond markets).

In practice, some of these changes may be partially offset by other changes in the values of the assets or the liabilities. For example, a reduction in the expected investment return or inflation might lead to a compensating change in asset values, or a change in asset values might lead to a compensating change in expected investment returns. These potential effects are not shown in the chart.



The scenarios considered are not 'worst case' scenarios, and could occur in combination (rather than in isolation).

The primary contribution rate is also sensitive to a number of the above factors: falls in expected investment returns, rising inflation expectations and increases in life expectancy.

## Uncertainties

## McCloud/Sargeant Case

When the public service pension schemes were reformed with effect from 1 April 2015 (1 April 2014 for the LGPS in England and Wales), transitional protections were agreed for members who were closest to retirement.

In June 2019 the Government was denied leave to appeal following its loss of a Court of Appeal case (the 'McCloud/Sargeant' judgement) which found that the protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory.

Whilst the case related to firefighters and judges, on 15 July 2019 the Government issued a written statement confirming that as transitional protections were offered in all public service schemes, including the LGPS, then this will need to be remedied across all such schemes. This will lead to higher liabilities in the Fund as younger members who were discriminated against need to be compensated. However, while we know a remedy will need to be determined, the nature and extent of the remedy required may not be known for some time.

The Scheme Advisory Board of the LGPS in England and Wales has issued guidance for administering authorities in relation to McCloud suggesting that they discuss and agree with their actuary whether any allowance should be made for possible additional liabilities (assuming, as has turned out to be the case, that there is no certainty on regulatory changes by 31 August 2019).

We have previously raised this with the Administering Authority and approximate allowance has been made for the potential impact of the McCloud judgement on the liabilities and primary contribution rates figures in this paper as set out in Appendix E.

## Cost management

The design of the new public service schemes with effect from 1 April 2015 (2014 for the LGPS in England and Wales) included a cost control mechanism which was intended to protect employers from rising pension costs due to demographic and other factors.  This mechanism included both a floor and a cap on employer contributions and requires that if the cost, assessed by GAD in line with assumptions set by HM Treasury, is more than 2% of pay above or below a defined target, member contributions and/or benefits must be amended to bring the cost for employers back to the target level.

The LGPS in England and Wales has a separate, additional cost management process which considers total costs and may recommend action if the cost has changed. Most assumptions are the same as those adopted for the HM Treasury process but there are some differences. We believe that an informal arrangement is in place such that any changes agreed as part of the SAB cost management process could be allowed for in determining whether any action is required in relation to the HMT process.

The calculations undertaken by GAD suggested that the cost cap floor had been breached and action was required to bring the cost back up to the target level.  Changes leading to an average increase in employer costs of 0.9% of pay had been agreed under the SAB process.  It was expected that changes would be implemented with effect from 1 April 2019 once the HMT process had been run to confirm if any additional changes were needed.

However, following the Court of Appeal judgement in the McCloud case in December 2018 the cost cap process was paused.  It is not yet clear what the effect on the liabilities will be, but we believe the outcome will be one or other of the following:

- The agreed remedy means the cost cap floor has no longer been breached (in which case the additional liabilities are simply those due under the McCloud remedy)
- Even after allowing for the agreed remedy the cost cap floor has still been breached (in which case the additional liabilities will be a combination of those due under the McCloud remedy and those that would be agreed under the re-started cost cap process)

It is not possible to predict what the remedy will be, noting that its effect on the liabilities will depend upon the nature of the remedy, to which members it applies and its duration.

The cost of the remedy is also particularly sensitive to the assumptions for real salary growth (including promotional salary increases), assumed rates of withdrawal and the ages of the affected members.

Further details of the calculations we have carried out in relation to the potential additional liabilities from the McCloud case are set out in Appendix E. The Administering Authority should be aware that in practice additional liabilities and hence cost will be very variable between employers and more accurate calculations may be required once the uncertainty is resolved.

## Investment market developments since the valuation date

The investment return on the Fund for the quarter to 30 June 2019 was 3.9%. In addition, index returns suggest that investment returns on the fund from 30 June to 30 September would have been positive. Investment returns have been higher than the discount rate and on its own this will have improved the funding ratio.

As at 30 June 2019 (the latest quarter for which our Capital Market Assumptions are available), the key financial assumptions (if derived in a consistent way) are unchanged from the position at 31 March 2019.

Overall, for the fund as a whole, as at 30 June 2019 we would expect the funding level to be higher than that at 31 March 2019, and contributions (if derived in a consistent way) to be similar to those set out in this report.

Gilt yields have fallen by more than the fall in the discount rate for scheduled bodies and the yield adopted for exit valuations has recently been around 0.8% p.a., materially lower than at the valuation date. Therefore liabilities for employers subject to the orphan funding target (and other targets where the discount rate is linked to gilt yields) are likely to have increased more than for the Fund as a whole. Where indicative exit positions are being provided as at 31 March 2019, employers should be advised of the likely increase in exit liabilities since the valuation date.

The 2019 valuation report will show assumptions and reported valuation results as at 31 March 2019. However, the Administering Authority should consider whether employer contributions should be reviewed if market conditions deteriorate, particularly if contributions are being reduced.

If actual experience before the next actuarial valuation is in line with the assumptions in this report, and contributions are paid as recommended in this report, we expect the Fund's funding ratio to remain similar as at 31 March 2022 (the expected date of the next valuation).

## Brexit

Following the EU Referendum in June 2016 the UK is currently scheduled to leave the EU on 31 January 2020. It is not yet clear what the terms of any withdrawal agreement will be, or even if there will be a withdrawal agreement.

It is possible that the investment outlook could be materially affected by the UK's withdrawal from the EU. We recommend that the Administering Authority considers in due course whether (and if so how) to build in any allowance for the effect of Brexit on future investment returns (and hence the discount rate) when determining employer contributions from 1 April 2020, particularly for the short-term or less secure employers.

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# Next steps

The next steps are to:

- Agree the final valuation basis to be adopted for the main scheduled bodies and, if different to that adopted for the results in this document, re-run the liability calculations accordingly
- Agree the maximum recovery period, including to which employers this will apply
- Agree the funding targets to adopt for non-scheduled body employers
- Agree what allowance should be made for McCloud and other uncertainties when setting employer contributions
- Make any amendments to the Funding Strategy Statement required and consult with affected parties
- Communicate the valuation results to employers
- Document the valuation process (including approving and publishing the Funding Strategy Statement, Rates and Adjustments Certificate and the formal actuarial valuation report)

## Timetable

Our understanding of the timing of the next steps is as follows:

- Discuss this paper and agree initial funding target – 21 November meeting of the Pensions Policy and Investment Committee
- Agree contributions for London Borough of Enfield (to be confirmed at 21 November meeting of the Pensions Policy and Investment Committee)
- Present initial results (on agreed funding target) to employers at Employers' Meeting on 2 December
- Consultation on Funding Strategy Statement (date TBC)
- Finalise all employer results – November 2019 to January 2020
- Sign off valuation report and Rates and Adjustments Certificate – by 31 March 2020

The statutory deadline for completion of all steps in the valuation process is 31 March 2020.

**Consider what you would like in relation to:**

- Further calculations or advice on the funding target and/or surplus/deficit amortisation periods and any stepping of changes, for the council and other employers
- Additional funding targets for different employers/groups of employers
- Further advice on what allowance to make in employer contributions certified for the possible cost of the McCloud judgement
- Further advice on updating the Funding Strategy Statement

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# Appendix A – Membership data

*The results in this report are based on membership data as at 31 March 2019 supplied to us by Andreas Andrea on 12 July 2019. A summary of the final data used is set out below.*

| Active members | | Number | Average age | Total pensionable pay (£000 pa) 2014 definition | Total pre 2014 pension (£000 pa) | Total pre 2014 accrued lump sum (£000) | Total post 2014 pension (£000pa) |
|---|---|---|---|---|---|---|---|
| **2016** | **Men** | 1,672 | 44.2 | 41,997 | 5,586 | 8,851 | 1,537 |
| | **Women** | 5,592 | 46.3 | 94,000 | 11,445 | 16,246 | 3,485 |
| | **Total** | **7,264** | **45.8** | **135,997** | **17,031** | **25,097** | **5,022** |
| **2019** | **Men** | 1,743 | 45.3 | 48,896 | 3,857 | 5,774 | 3,527 |
| | **Women** | 5,997 | 46.9 | 111,884 | 7,991 | 10,500 | 8,074 |
| | **Total** | **7,740** | **46.6** | **160,780** | **11,847** | **16,274** | **11,601** |

*Notes: The average ages are unweighted*

*Pensionable pay is over the year to the valuation date, and includes annualised pay for new entrants during the year. Actual part-time pay is included for part-timers*

*Post 2014 pension figures include the April 2019 revaluation*

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| Deferred members | | Number | Average age | Total pension (£000 pa) | Average pension (£ pa) | Total pre 2014 accrued lump sum (£000) |
|---|---|---|---|---|---|---|
| **2016** | **Men** | 1,998 | 46.4 | 4,524 | 2,264 | 9,938 |
| | **Women** | 5,303 | 46.2 | 8,016 | 1,512 | 16,196 |
| | **Total** | **7,301** | **46.3** | **12,540** | **1,718** | **26,134** |
| **2019** | **Men** | 2,511 | 45.4 | 5,591 | 2,227 | 9,057 |
| | **Women** | 7,014 | 46.3 | 10,293 | 1,467 | 14,557 |
| | **Total** | **9,525** | **46.1** | **15,884** | **1,668** | **23,614** |

*Notes: The deferred pension amounts shown above are at the valuation date and include the April 2019 revaluation.*

*Average ages are unweighted.*

*Included in the above are 3,127 (2016: 645) members who are yet to decide whether to take a refund of contributions.*

| Pensioners and dependants | | Number | Average age | Total pension (£000 pa) | Average pension (£ pa) |
|---|---|---|---|---|---|
| **2016** | **Men** | 1,530 | 72.1 | 14,138 | 9,241 |
| | **Women** | 2,724 | 71.0 | 12,941 | 4,751 |
| | **Dependants** | 696 | 73.5 | 2,011 | 2,889 |
| | **Total** | **4,950** | **71.7** | **29,090** | **5,877** |
| **2019** | **Men** | 1,681 | 72.4 | 16,472 | 9,799 |
| | **Women** | 3,384 | 71.1 | 17,189 | 5,079 |
| | **Dependants** | 752 | 71.9 | 2,277 | 3,028 |
| | **Total** | **5,817** | **71.5** | **35,938** | **6,178** |

*Notes: The pension amounts shown above include the increase awarded in April of the appropriate year.*

*Average ages are unweighted.*

*Included in the above are 52 (2016: 40) members in receipt of a children's' pension.*

We have conducted high level checks on the membership data provided and we are satisfied with its adequacy for the purpose of this actuarial valuation.

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# Appendix B – Assets

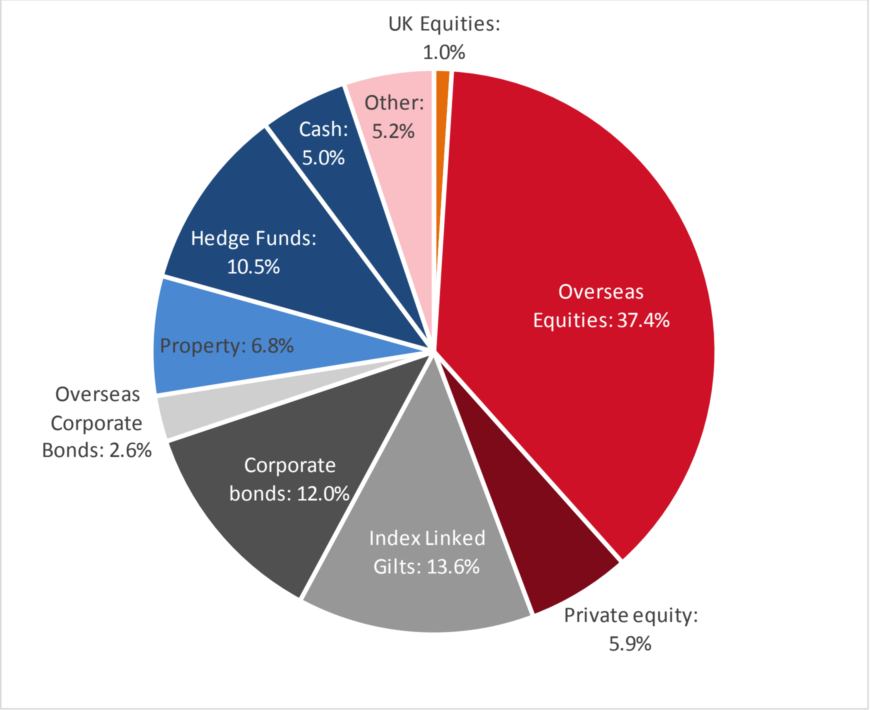
*The asset figure used in this report has been calculated using draft accounts for the year ended 31 March 2019 as supplied by Andreas Andrea within the Valuation Information Model sent on 11 September 2019.*

I have used an asset figure of £1,185.5M which is taken from the total net assets of the Fund from the draft accounts.

The final results of the valuation will be based on the audited accounts for the Fund. While we do not expect any material changes to the results when audited accounts are produced, the Administering Authority should bear in mind that such a possibility exists.

The chart on the right shows the approximate split of the Fund's assets between the different asset classes on the valuation date.

For the purpose of modelling the required probability of funding success and hence deriving the discount rate to be adopted for the secure scheduled bodies as at 31 March 2019 we have allowed for the target investment strategy as summarised in our paper titled "Actuarial valuation at 31 March 2019 – Assumptions Advice".



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# Appendix C – Summary of assumptions used

## Financial assumptions

| Assumption | Previous valuation results | 2019 result (80% PoFS) | Exit Basis |
|---|---|---|---|
| **Main scheduled body funding target:** | | | |
| **Probability of funding success** | 69% | 80% | Not Calculated |
| **Discount rate** | 4.50% | 4.20% | 1.30% |
| **Ongoing orphan funding target:** | | | |
| **In service discount rate** | 4.10% | 3.30% | 1.30% |
| **Left service discount rate** | 2.50% | 1.60% | 1.30% |
| **RPI inflation** | 3.10% | 3.20% | 3.20% |
| **CPI inflation (pension increases / CARE revaluation)** | 2.00% | 2.10% | 2.10% |
| **Post 88 GMP pension increases** | 1.80% | 1.90% | 1.90% |
| **Pay inflation** | 3.50% | 3.60% | n/a |

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## Demographic assumptions

| Assumption | Previous valuation results | Initial 2019 results | Alternative 2019 results | Exit Basis |
|---|---|---|---|---|
| **Pre-retirement mortality assumption – base table**<br>**Males**<br>**Females** | 90% of SAPS S2PMA Light<br>90% of SAPS S2PFA Light | 45% of S2PMA<br>20% of S2PFA | | |
| **Post-retirement mortality assumption – base table** | | | | |
| **Actives retiring in normal health:**<br>**Males**<br>**Females** | 95% of S2PMA Light<br>80% of S2PFA Light | 110% of S2PMA<br>110% of S2PFA | | |
| **Actives retiring in ill health:**<br>**Males**<br>Females | 80% of S2IMA<br>100% of S2IFA | 110% of S2PMA<br>110% of S2PFA | | |
| **Contingents of current actives:**<br>**Males**<br>Females | 95% of S2PMA Light<br>80% of S2PFA Light | 110% of S2PMA<br>105% of S2PFA | | |
| **Deferreds retiring in normal health:**<br>**Males**<br>Females | 95% of S2PMA Light<br>80% of S2PFA Light | 105% of S2PMA<br>105% of S2PFA | | |
| **Deferreds retiring in ill health:**<br>**Males**<br>Females | 80% of S2IMA<br>100% of S2IFA | 105% of S2PMA<br>105% of S2PFA | | |
| **Contingents of current deferreds:**<br>**Males**<br>**Females** | 95% of S2PMA Light<br>80% of S2PFA Light | 105% of S2PMA<br>100% of S2PFA | | |
| **Pensioners retiring in normal health and current dependants:**<br>**Males**<br>**Females** | 95% of S2PMA Light<br>80% of S2PFA Light | 95% of S2PMA<br>95% of S2PFA | | |

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<table>
<tr><th>Assumption</th><th>Previous valuation results</th><th>Initial 2019 results</th><th>Alternative 2019 results</th><th>Exit Basis</th></tr>
<tr><td>Ill health pensioners:<br>Males<br>Females</td><td>80% of S2IMA<br>100% of S2IFA</td><td colspan="3">95% of S2PMA<br>95% of S2PFA</td></tr>
<tr><td>Contingents of current pensioners:<br>Males<br>Females</td><td>95% of S2PMA Light<br>80% of S2PFA Light</td><td colspan="3">100% of S2PMA<br>95% of S2PFA</td></tr>
<tr><td>Mortality assumption – future improvements</td><td>CMI 2014 core projections with long-term improvement rate of 1.5% p.a.</td><td colspan="3">CMI 2018 core projections with long-term improvement rate of 1.50% p.a.<br>$s_k$ of 7.5 and parameter A of 0.0.</td></tr>
<tr><td>Withdrawals</td><td>Allowance for withdrawals from service. On withdrawal, members are assumed to leave with a deferred pension in the Fund.</td><td colspan="2">Allowance for withdrawals from service (see sample rates below). On withdrawal, members are assumed to leave with a deferred pension in the Fund.</td><td>n/a</td></tr>
<tr><td>Promotional salary increases</td><td>Allowance for age-related promotional increases</td><td colspan="2">Allowance for age-related promotional increases (see sample rates below).</td><td>n/a</td></tr>
<tr><td>Ill-health early retirements</td><td>Allowance for retirements due to ill-health.<br><br>Proportions into the different benefit tiers are:<br>Tier 1 - 85%<br>Tier 2 - 10%<br>Tier 3 - 5%</td><td colspan="3">Allowance for retirements due to ill-health (see sample rates below).<br><br>Proportions into the different benefit tiers are:<br>Tier 1 - 85%<br>Tier 2 - 10%<br>Tier 3 - 5%</td></tr>
<tr><td>Commutation</td><td>Each member is assumed to surrender pension on retirement, such that the total cash received is 70% of the permitted maximum.</td><td colspan="3">Each member is assumed to surrender pension on retirement, such that the total cash received is 70% of the permitted maximum.</td></tr>
</table>

| Assumption | Previous valuation results | Initial 2019 results | Alternative 2019 results | Exit Basis |
|---|---|---|---|---|
| **Family details** | Each man is assumed to be three years older than his wife/partner.<br><br>80% of non-pensioners are assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death. 80% of pensioners are assumed to be married or have a partner at age 65.<br><br>No allowance for children's pensions. | Each man is assumed to be three years older than his wife/partner.<br><br>80% of non-pensioners are assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death. 80% of pensioners are assumed to be married or have a partner at age 65.<br><br>No allowance for children's pensions. | | |
| **Take up of 50:50 scheme** | All members are assumed to remain in the scheme they are in at the date of the valuation. | All members are assumed to remain in the scheme they are in at the date of the valuation. | | n/a |
| **Retirement age**<br>Group 1 and Group 2 members (fully and taper protected members)<br>Group 3 members (Ro85 age = 60)<br>Group 3 members (Ro85 age > 60)<br>Group 4 members (Joiners pre 1 April 2014)<br>Group 4 members (Joiners post 31 March 2014) | Rule of 85 age (Ro85 age)<br><br>65<br>65<br>65<br>State pension age | 63<br><br>63<br>65<br>65<br>State pension age | | |
| | Any part of a member's pension payable from a later age than the assumed retirement age will be reduced. | | | |
| **Discretionary benefits** | No allowance | No allowance | | No allowance |

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The table below illustrates the proposed allowance for withdrawals from service, ill-health retirement and promotional pay increases at sample ages.

| Current age | Percentage promotional pay increase over year | Percentage leaving the Fund each year as a result of withdrawal from service | Percentage leaving the Fund each year as a result of Ill-health retirement |
|---|---|---|---|
| 20 | 5.97% | 8.30% | 0.00% |
| 25 | 4.60% | 7.40% | 0.00% |
| 30 | 2.44% | 6.40% | 0.01% |
| 35 | 1.45% | 5.50% | 0.02% |
| 40 | 1.35% | 4.60% | 0.03% |
| 45 | 1.27% | 3.70% | 0.06% |
| 50 | 0.00% | 2.80% | 0.16% |
| 55 | 0.00% | 1.80% | 0.32% |
| 60 | 0.00% | 0.90% | 0.63% |
| 65 | 0.00% | 0.00% | 0.93% |

# Appendix D – Funding targets adopted

*Funding targets used for each employer/group in our calculations.*

| Employer | Employer code(s) | Funding target |
|---|---|---|
| Adnan Jaffrey Trust | 54 | Scheduled Body/Subsumption |
| Ark John Keats Academy | 38 | Scheduled Body/Subsumption |
| Attigo Academy Trust | 62 | Scheduled Body/Subsumption |
| Aylward Academy | 27 | Scheduled Body/Subsumption |
| Birkin Services | 30 | Scheduled Body/Subsumption |
| Capel Manor College | 9 | Scheduled Body/Subsumption |
| Cedars Learning Trust | 58 | Scheduled Body/Subsumption |
| Cuckoo Hall Academies Trust | 24, 33, 35, 36, 37 | Scheduled Body/Subsumption |
| Edmonton County Academy | 47 | Scheduled Body/Subsumption |
| Elior UK | 44 | Scheduled Body/Subsumption |
| Enfield Grammar Academy | 7 | Scheduled Body/Subsumption |
| Enfield Learning Trust | 48 | Scheduled Body/Subsumption |
| Fusion Lifestyle | 26 | Scheduled Body/Subsumption |
| Independence and Wellbeing | 49 | Scheduled Body/Subsumption |
| Ivy Learning Trust | 55 | Scheduled Body/Subsumption |
| Jewish Community Academy Trust | 64 | Scheduled Body/Subsumption |
| Kingsmead School | 29 | Scheduled Body/Subsumption |

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| Employer | Employer code(s) | Funding target |
|---|---|---|
| **London Borough of Enfield** | 1, 2, 3, 4, 5, 6, 10, 11, 12, 13, 14, 15, 16, 18, 19, 22, 25, 31, 40, 41, 42, 43, 50, 51, 52, 53, 56, 57, 59, 60, 61, 63 | Scheduled Body/Subsumption |
| **Meridian Angel Primary School** | 39 | Scheduled Body/Subsumption |
| **Nightingale Academy** | 28 | Scheduled Body/Subsumption |
| **Norse Commercial Services** | 23 | Scheduled Body/Subsumption |
| **Oasis Community Learning** | 17, 21 | Scheduled Body/Subsumption |
| **Orphaned Employers** | 20 | Scheduled Body/Subsumption |
| **Outward Housing** | 34 | Scheduled Body/Subsumption |
| **Reed Momenta** | 45 | Scheduled Body/Subsumption |
| **Sodexo** | 32 | Scheduled Body/Subsumption |
| **Southgate College** | 8 | Scheduled Body/Subsumption |
| **Southgate School Academy** | 46 | Scheduled Body/Subsumption |

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# Appendix E – Allowance for uncertainties: McCloud/Cost Cap/GMP indexation

*Background and calculations in respect of the allowance for McCloud/Cost Cap/GMP indexation and equalisation.*

## Background on McCloud

Following a review of public service pension schemes in 2011 by Lord Hutton (the Hutton Report) UK public service pension schemes were reformed with effect from 1 April 2015 (1 April 2014 for the LGPS in England and Wales), with the objective of reducing the overall cost to the taxpayer and putting schemes on a more sustainable footing.

The public service pension schemes were reformed through a process of consultation and negotiation with relevant stakeholders, with different outcomes emerging in each scheme. The reforms included later retirement ages (State Pension Age in most cases); benefits based on career average earnings (so no longer being linked to 'final pay' at retirement), and tiered member contribution rates. The reforms included transitional protections for those members who were closest to retirement. Whilst not part of the Hutton recommendations (whose report warned of age discrimination issues with protections based on age), transitional protections for members closest to retirement became government policy following consultation with the trade unions.

Protections applied to all active members of schemes who were within 10 years of their Normal Pension Age on 1 April 2012. Generally, this was implemented by allowing those members to retain membership of the 'pre-reformed' schemes, whilst all other members were moved into the new arrangements (for a number of the schemes this was subject to a “tapering” approach for members who were close to the 10-year cut-off).

In relation to the LGPS in England and Wales all members joined the new 2014 Scheme for membership after 1 April 2014, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits earned after 1 April 2014 would be at least as valuable in terms of amount and when they could be drawn, as if they had remained in the 2008 Scheme.

In December 2018 the Government lost a Court of Appeal case (the 'McCloud/Sargeant' judgement) which found that the transitional protection arrangements, put in place when the firefighters' and judges' pension schemes were reformed, amounted to illegal age discrimination. This case joined together two similar cases; one in the case of 'McCloud vs the Lord Chancellor and the Ministry of Justice' where the Employment Tribunal had previously ruled against the Government on grounds of age discrimination in the Judges' Pension Schemes, and another in the case of 'Sergeant vs London Fire & Emergency Planning Authority' where the Employment Tribunal had previously ruled that the transitional protections in the Firefighters' Pension Schemes were lawful - a decision which was later overturned by the Employment Appeal Tribunal.

The Government applied to the Supreme Court for permission to appeal the Court of Appeal judgement, however this application was denied on 27 June 2019. The next stage is for the case to be referred to the Employment Tribunal to agree the remedy, following appropriate consultation. Current expectations are this will not be known until mid-2020.

While the judgement was not in relation to the LGPS, the Government announced in a Written Ministerial Statement on 15 July 2019 "… *as 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes*". The remedy is likely to differ by scheme depending on the transitional protections adopted.

The Scheme Advisory Board of the LGPS in England and Wales has issued guidance for administering authorities in relation to McCloud suggesting that they discuss and agree with their actuary whether any allowance should be made for possible additional liabilities.

## Cost management and McCloud

The design of the new public service schemes with effect from 1 April 2015 (2014 for the LGPS in England and Wales) included a cost control mechanism which was intended to protect employers from rising pension costs due to demographic and other factors. This mechanism included both a floor and a cap on employer contributions and requires that if the cost, assessed by GAD in line with assumptions set by HM Treasury, is more than 2% of pay above or below a defined target, member contributions and/or benefits must be amended to bring the cost for employers back to the target level.

The LGPS in England and Wales has a separate, additional cost management process which considers total costs and may recommend action if the cost has changed. Most assumptions are the same as those adopted for the HM Treasury process but there are some differences. We believe that an informal arrangement is in place such that any changes agreed as part of the SAB cost management process could be allowed for in determining whether any action is required in relation to the HMT process.

However, following the Court of Appeal judgement in the McCloud case in December 2018 the cost cap process was paused. It is not yet clear what the effect on the liabilities will be, but we believe the outcome will be one or other of the following:

- The agreed remedy means the cost cap floor has no longer been breached (in which case the additional liabilities are simply those due under the McCloud remedy)
- Even after allowing for the agreed remedy the cost cap floor has still been breached (in which case the additional liabilities will be a combination of those due under the McCloud remedy and those that would be agreed under the re-started cost cap process)

Any remedy, and hence change to the benefits of the LGPS, is uncertain, and may take years to be determined. However, any change is likely to increase the benefits payable from the scheme, and therefore the cost of the scheme.

## Allowance for McCloud/Cost cap

Consideration therefore needs to be given as to what allowance should be made for increases in benefits, and how to calculate the potential (uncertain) impact.

Our view is that some allowance needs to be made for the potential increase in benefits, and that as a minimum this should be an increase of 0.9% of pay in the employer contribution rate (the average increase to employer costs that had been expected to apply under the cost management process if no McCloud remedy had been required).

We have based our proposed allowance on the cost of extending the underpin to all pre 2014 members. This does not go as far as GAD's "worst case scenario" calculations for the purposes of accounting which included post 2014 joiners.

However, it is also arguably cautious, as the actual remedy may be restricted to fewer members than we have allowed for (e.g. only those who joined pre 2012 but of any age, although there is an argument that 2012 was an arbitrary date and is part of the age discrimination), or the remedy may be time limited, or indeed the remedy may not take the form of extending the underpin but may be some other form of compensation for those members deemed to be affected. The cost is particularly sensitive to the real salary increase assumption (and to a lesser extent the withdrawal assumption) which has previously been advised on for funding purposes and not for the purpose of estimating the possible cost of the McCloud judgement.

We have calculated the approximate cost at a whole of fund level,  and based on the scheduled body funding assumptions, of extending the final salary underpin to all members who were active members as at 1 April 2014, assuming that the underpin continues to apply only to members' benefits on retirement (i.e. not on withdrawal from service before retirement, and not to the benefits of spouses or dependants).

In an email of 4 September 2019, the Administering Authority provisionally agreed to have regard to the full amount of the calculated cost as described above. We have allowed for this agreed amount in this paper in respect of possible costs in respect of McCloud.

For individual employer calculations, we have allowed for the same adjustment to employer contributions as calculated for the Fund as a whole.

## GMP indexation and equalisation

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension between 6 April 1978 and 5 April 1997. The rate at which GMP was accrued, and the date it is payable, is different for men and women, meaning there is an inequality for male and female members who have GMP. This was a consequence of the State Pension itself being unequal at the time.

Prior to 6 April 2016 the LGPS was not required to pay any pension increases on GMPs accrued before April 1988 and was only required to pay limited increases on GMPs accrued after 1988 (CPI inflation capped at 3% p.a.). In return, the Additional Pension (AP) element of the State Pension included top-up payments to pensioners to give inflation protection on the GMP element where this was not provided by the LGPS.

However, reforms were made to the State Pension system in April 2016 which scrapped AP and therefore removed the facility for central government to fully index the combined pension through AP.

In March 2016 the government introduced an ‘interim solution’ for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 December 2018 to ensure members continued to receive full inflationary increases on their combined public service scheme and State pensions. This was allowed for in the 2016 valuation of the Fund.

In January 2018 the interim solution was extended to individuals reaching SPA on or before 5 April 2021. Further, the Government has indicated that it is committed to continuing to compensate all members of public service pension schemes reaching SPA after 5 April 2021.

The Government's view is that this solution (including its ongoing commitment to compensate members reaching SPA after 5 April 2021) will meet equalisation requirements.

On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. The ruling confirmed that trustees have a duty “to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs". HM Treasury have, however, gone on record since the Lloyds judgement to say, “Public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement.”

## Allowance for GMP indexation

From approximate calculations carried out at the previous valuation, at a whole of fund level the impact of providing full pension increases on GMPs due to the extension of the interim solution and for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of around 0.3%.

The results in this report allow for the extension of the interim solution to those reaching State Pension Age by 5 April 2021 as already required under legislation. However, they do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021.

# Report framework

*This report has been prepared in accordance with the framework below.*

## TAS compliant

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').

The compliance is on the basis that the Administering Authority of the London Borough of Enfield Pension Fund is the addressee and the only user and that the report is only to be used for the purpose of considering the actuarial method and assumptions for the valuation and possible employer contribution requirements arising from the valuation. If you intend to make any other decisions after reviewing this report, please let us know and we will consider what further information we need to provide to help you make those decisions.

The report has been prepared under the terms of the Client Services Agreement between the Administering Authority and Aon Hewitt Limited on the understanding that it is solely for the benefit of the addressee.

This report should be read in conjunction with:

- The document titled "Actuarial valuation at 31 March 2019 – Terms of Reference", dated 21 February 2019 (the Valuation Terms of Reference).
- Valuation Guidance document
- Longevity analysis using Demographic Horizons™ dated 7 March 2019
- Experience analysis and advice on demographic assumptions dated 8 March 2019
- CMAs at 31 March 2019
- The document titled "Actuarial valuation at 31 March 2019 – Assumptions Advice" dated 3 June 2019 (the Assumptions Advice)
- [Documentation of agreed data changes]

If you require further copies of any of these documents, please let us know.