

Cashflow Projections

London Borough of Enfield Pension Fund



Prepared for: London Borough of Enfield

Prepared by: Aon

Date: 15 March 2023

Recap - why analyse the Fund's cashflow?

Supporting the Fund's cashflow management strategy

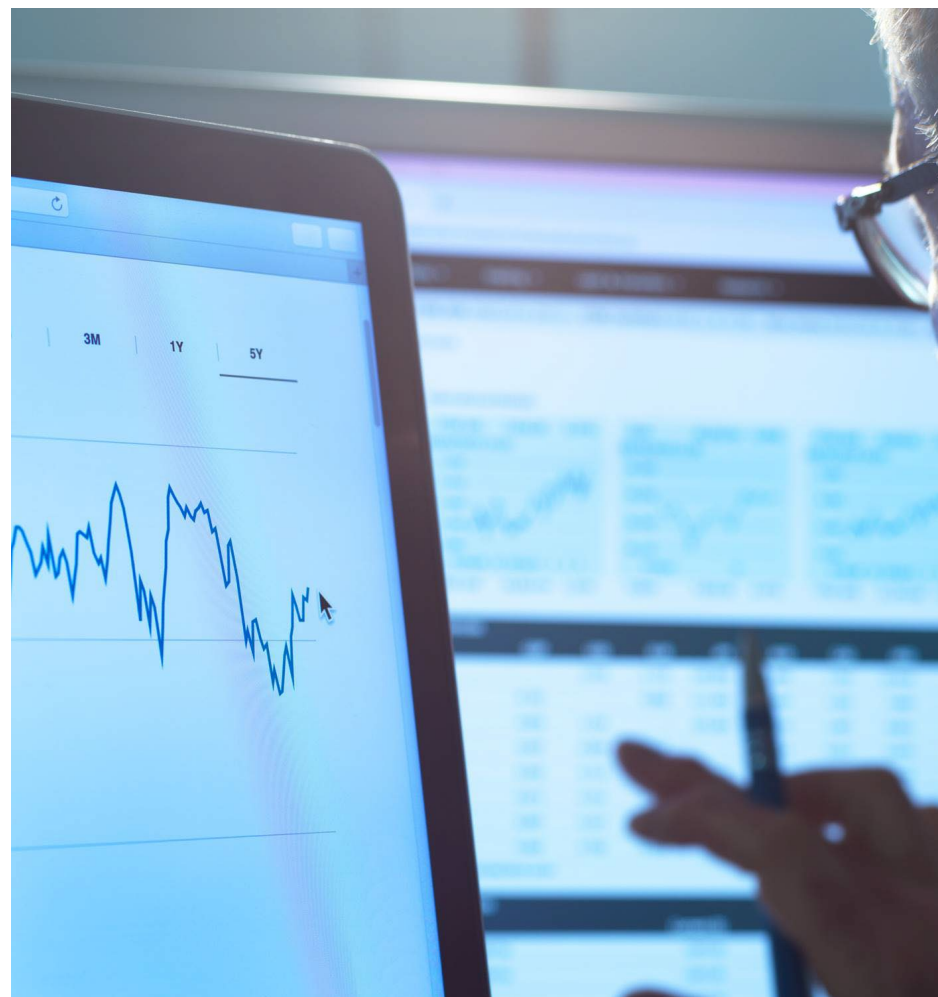
- More pensioners means more benefit payments.
- More deferred pensioners and fewer actives mean less in contributions.
- Continued positive valuation results mean lower employer contributions from 1 April 2023.
- Employers may reduce staff in response to budget constraints and members reducing contributions due to the ongoing economic situation, reducing contributions and potentially increasing benefit payments.
- The Fund is considering investment in illiquid assets to enhance returns/diversification but these come with lower investment income.



It is now more important to understand cashflow requirements to ensure benefit payments are met.

Cashflow projections and scenario testing

- The Fund is currently receiving more contributions than it is paying out in benefits. The data provided for the 2022 valuation showed the net addition from dealings with members (contributions received less benefits paid) to be £6.9M (2019/20), £5.5M (2020/21) and £3.2M (2021/22).
- We have modelled a base case (in line with the 2022 valuation assumptions and assuming new joiners will replace leavers) and 4 'adverse' scenarios which will cause the net cashflow to reduce. We have not considered positive scenarios.
- On all scenarios modelled in this report the net cashflow is expected to reduce over the 10-year projection period and is negative by the end of the projection period.
- Under the base case, net cashflow becomes negative in 2028/29 and is around £-10M in 2032/33.
- Under the worse case scenario presented (scenario 4) we have assumed 80% of leavers are replaced with new joiners, there is a 2% of pay reduction in employer contributions in 2026, and a pension increase in 2024 of 7.3% p.a. This scenario shows net cashflow turning negative in 2024/25 and is around -£27M in 2032/33.



What we've modelled

The purpose of this document is to set out the projected contributions to, and benefit payments from the Fund should the assumptions underlying the 2022 actuarial valuation of the Fund be borne out in practice. We have also modelled 4 scenarios as follows:

Base case: full replacement

A projection of the expected future benefit payments and contribution income assuming the assumptions underlying the 2022 actuarial valuation are borne out in practice, and assuming all leavers are replaced by a new member such that the total salary roll for the Fund increases in line with the 2022 valuation salary increase assumption.

No allowance has been made for:

- investment income or
- administration expenses (currently £1M-£2M p.a.)

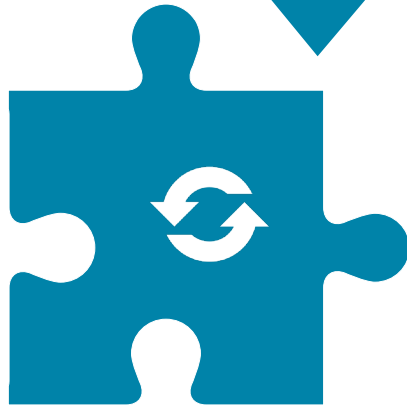
Scenarios modelled

All scenarios use the same assumptions as the base case with the exception of the assumptions specified in each case:

| Scenario | Description |
|----------|--|
| 1 | 80% of leavers are replaced by a new joiner |
| 2 | 2% of Pay reduction to employer contributions from April 2026 (following the 2025 valuation) |
| 3 | Pension increase in 2024 is 5% higher than the long term best estimate (at 7.3% instead of 2.3%) |
| 4 | All of scenarios 1, 2 and 3, i.e. 80% replacement ratio, 2% reduction in employer contributions in 2026, and 7.3% pension increase in 2024 |

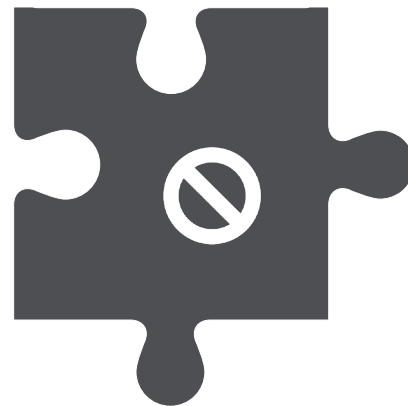
Key assumptions

The data and assumptions underlying our projections are based on the 2022 valuation of the Fund and are summarised in the initial results report on that valuation, dated 23 September 2022



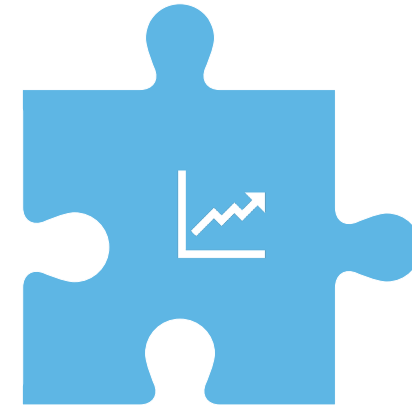
Assumptions made

- the life expectancy of pensioner members
- the age at which members will elect to draw their pension
- the rate at which pay and pensions will increase
- the rate at which members retiring will exchange pension for cash



No allowance for

- transfers into or out of the Fund, individually or in bulk
- redundancy / efficiency early retirements
- membership changes since 31 March 2022
- administration expenses
- Investment returns

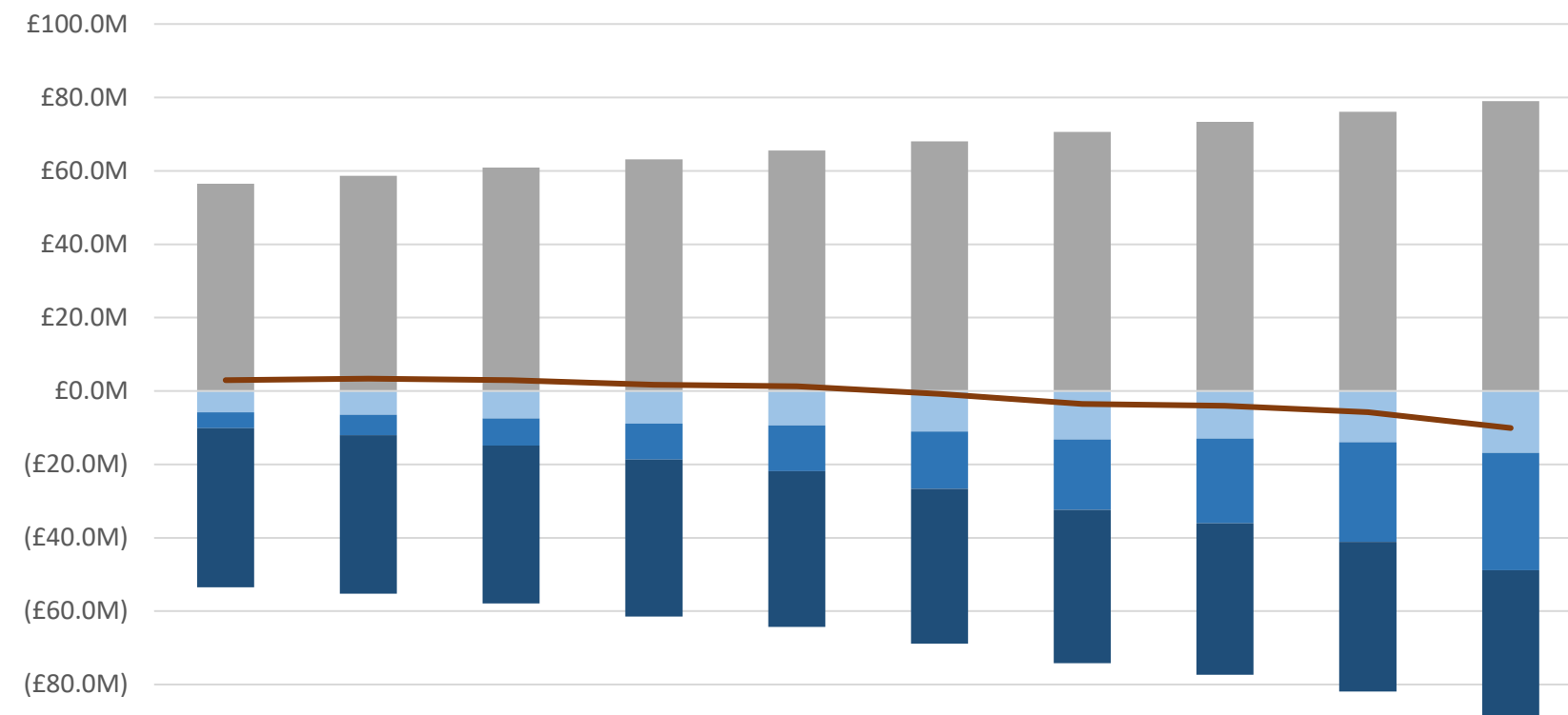


Inflation at 1 April 2023

- We have made an allowance for the pension increase order of 10.1% which will be applied after 1 April 2023
- We have also increased active member pensionable payroll and salary linked benefits by 7% in 2023 in line with the average NJC settlement. Please let us know if you would like to adjust this increase.

Results – full replacement

100% of leavers are replaced by a new joiner

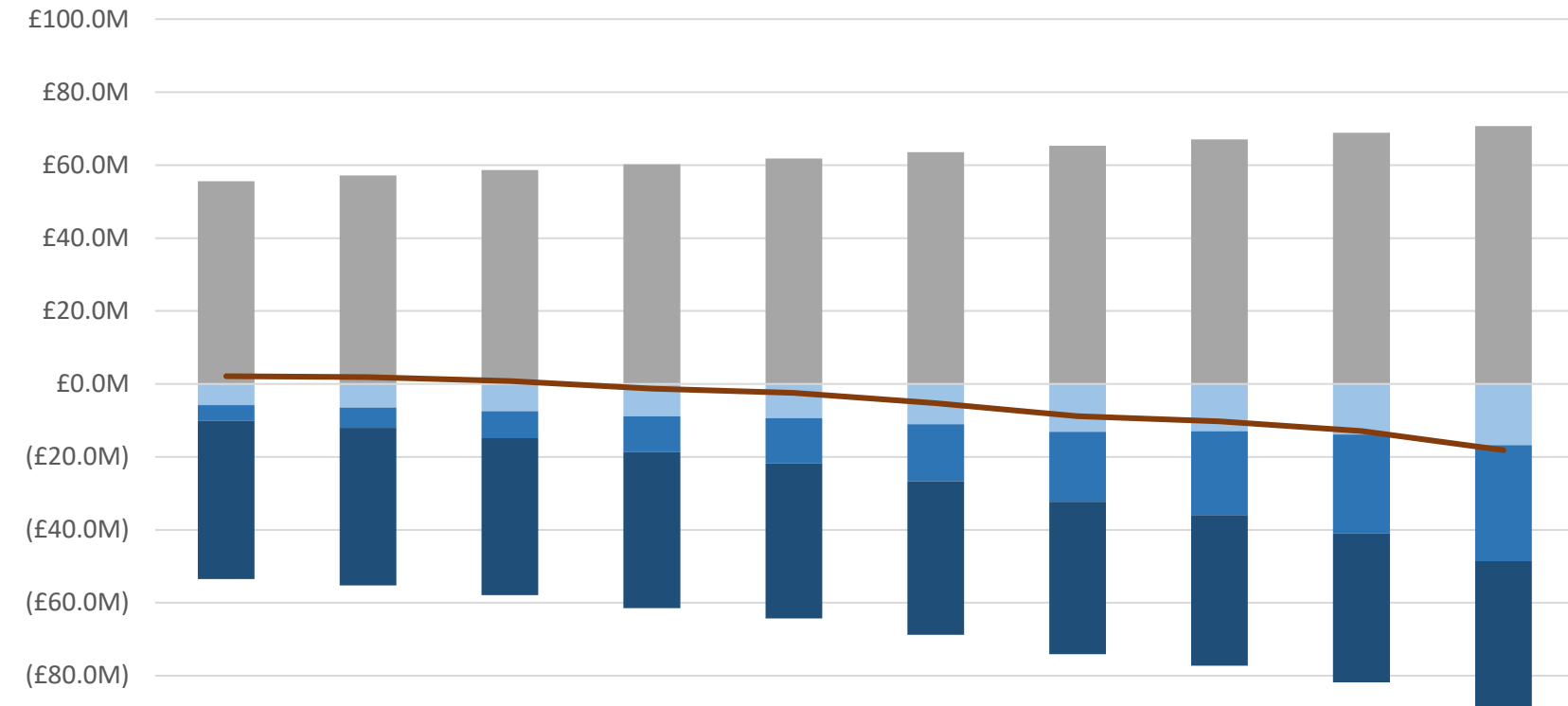


| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Existing pensions | (£43.4M) | (£43.2M) | (£43.0M) | (£42.8M) | (£42.5M) | (£42.2M) | (£41.8M) | (£41.3M) | (£40.8M) | (£40.3M) |
| New pensions | (£4.3M) | (£5.6M) | (£7.4M) | (£9.8M) | (£12.4M) | (£15.6M) | (£19.2M) | (£23.1M) | (£27.1M) | (£32.0M) |
| New lump sums | (£5.8M) | (£6.4M) | (£7.5M) | (£8.9M) | (£9.4M) | (£11.1M) | (£13.2M) | (£13.0M) | (£14.0M) | (£16.9M) |
| Contributions | £56.5M | £58.6M | £60.9M | £63.2M | £65.6M | £68.1M | £70.7M | £73.4M | £76.1M | £79.0M |
| Net cash flow | £3.0M | £3.4M | £3.0M | £1.7M | £1.3M | (£0.7M) | (£3.5M) | (£4.0M) | (£5.8M) | (£10.1M) |

This is the base case

Scenario 1 – 80% replacement

80% of leavers are replaced by a new joiner

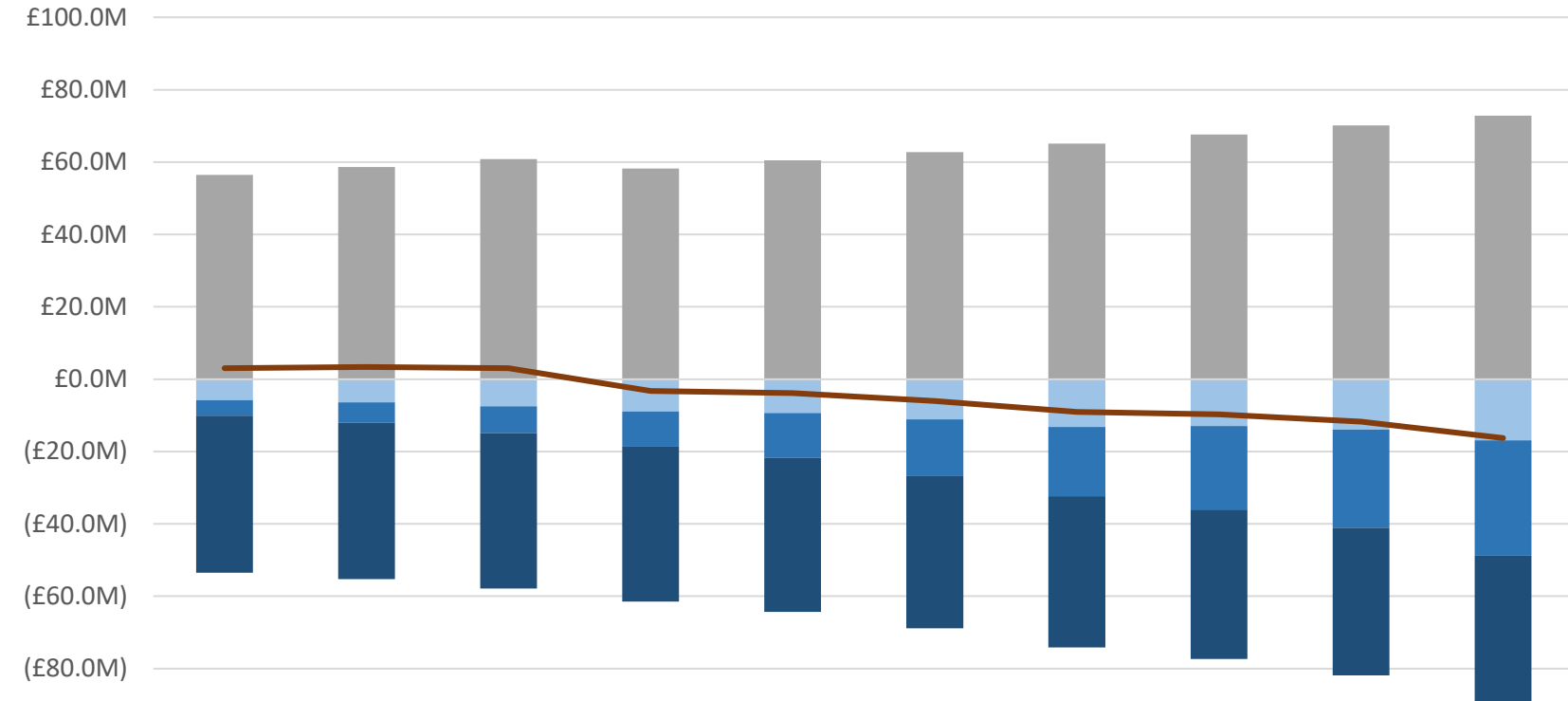


| (£100.0M) | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Existing pensions | (£43.4M) | (£43.2M) | (£43.0M) | (£42.8M) | (£42.5M) | (£42.2M) | (£41.8M) | (£41.3M) | (£40.8M) | (£40.3M) |
| New pensions | (£4.3M) | (£5.6M) | (£7.4M) | (£9.8M) | (£12.4M) | (£15.6M) | (£19.2M) | (£23.0M) | (£27.0M) | (£31.9M) |
| New lump sums | (£5.8M) | (£6.4M) | (£7.5M) | (£8.9M) | (£9.4M) | (£11.1M) | (£13.1M) | (£12.9M) | (£13.9M) | (£16.7M) |
| Contributions | £55.6M | £57.1M | £58.7M | £60.2M | £61.9M | £63.5M | £65.3M | £67.0M | £68.9M | £70.7M |
| Net cash flow | £2.1M | £1.9M | £0.8M | (£1.2M) | (£2.4M) | (£5.3M) | (£8.8M) | (£10.2M) | (£12.9M) | (£18.1M) |

All other assumptions are unchanged from the base case

Scenario 2 – reduction in employer contributions

2% of Pay reduction to employer contributions following the 2025 valuation

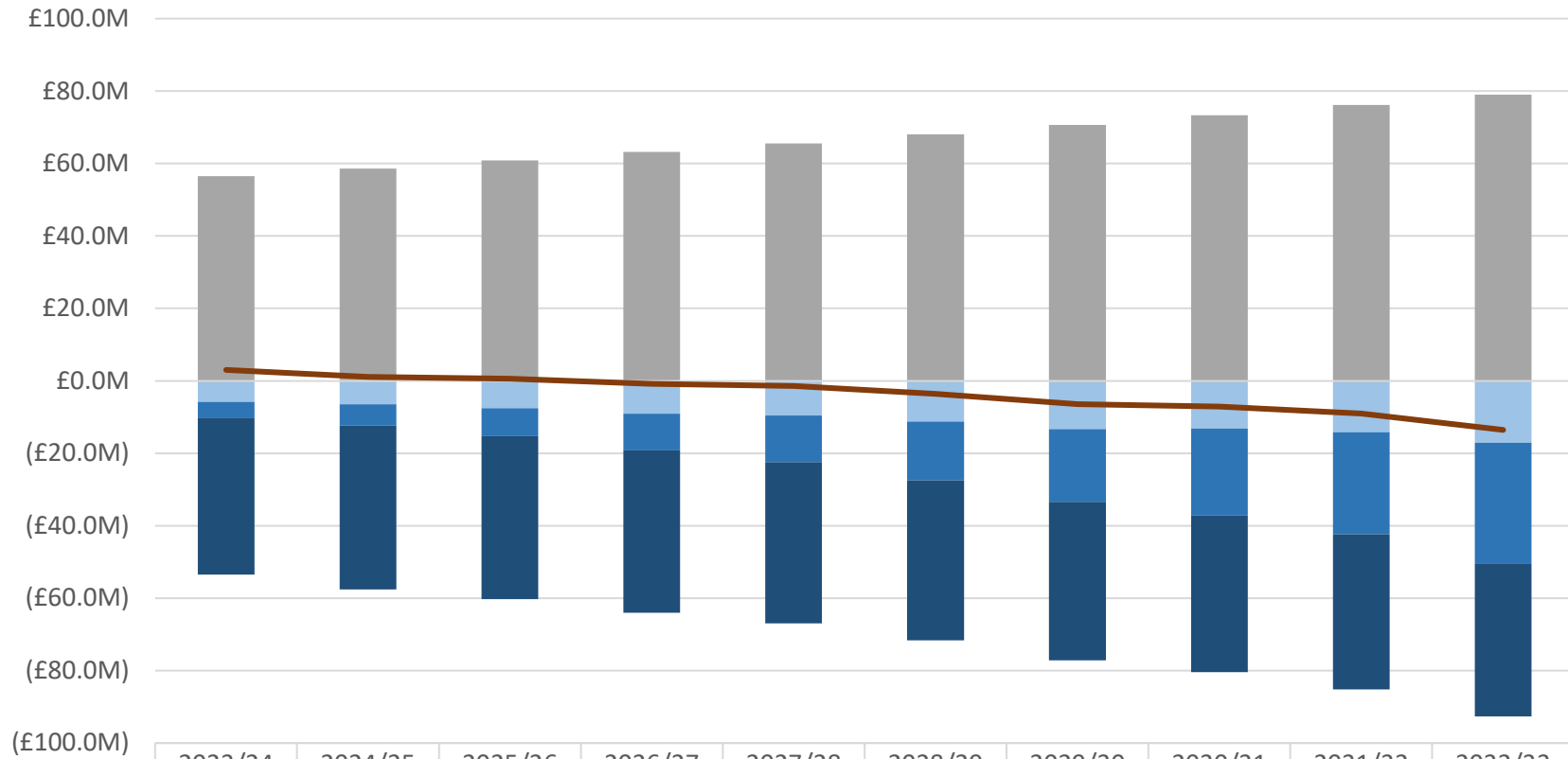


| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Existing pensions | (£43.4M) | (£43.2M) | (£43.0M) | (£42.8M) | (£42.5M) | (£42.2M) | (£41.8M) | (£41.3M) | (£40.8M) | (£40.3M) |
| New pensions | (£4.3M) | (£5.6M) | (£7.4M) | (£9.8M) | (£12.4M) | (£15.6M) | (£19.2M) | (£23.1M) | (£27.1M) | (£32.0M) |
| New lump sums | (£5.8M) | (£6.4M) | (£7.5M) | (£8.9M) | (£9.4M) | (£11.1M) | (£13.2M) | (£13.0M) | (£14.0M) | (£16.9M) |
| Contributions | £56.5M | £58.6M | £60.9M | £58.2M | £60.5M | £62.8M | £65.1M | £67.6M | £70.2M | £72.9M |
| Net cash flow | £3.0M | £3.4M | £3.0M | (£3.2M) | (£3.8M) | (£6.1M) | (£9.0M) | (£9.7M) | (£11.7M) | (£16.3M) |

All other assumptions are unchanged from the base case

Scenario 3 – high 2024 pension increase

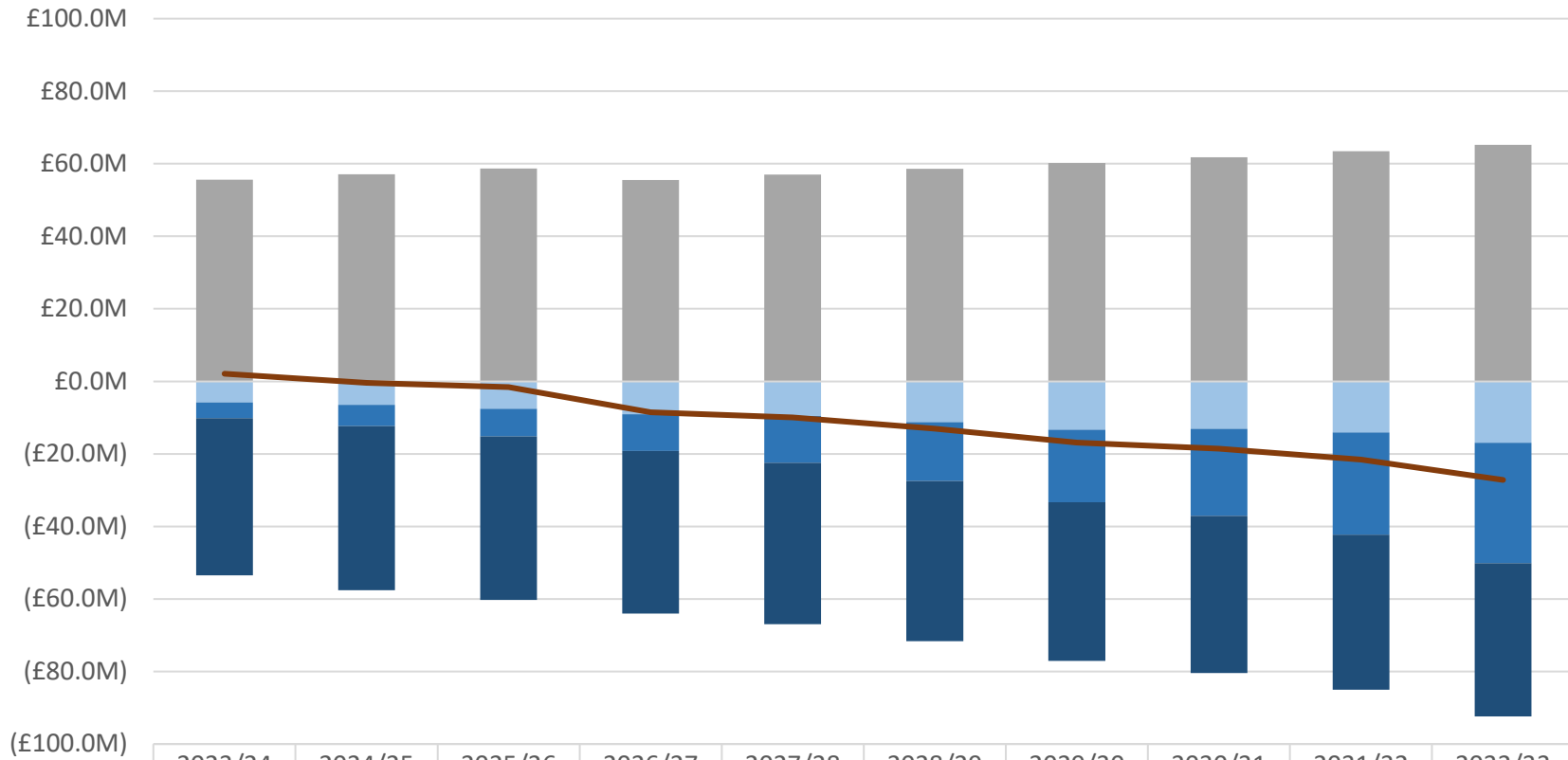
Pension increase in 2024 is 5% higher than the long term best estimate (at 7.3%)



All other assumptions are unchanged from the base case

Scenario 4 – combination of scenarios 1, 2 and 3

80% replacement ratio, 2% reduction in employer contributions in 2026, and 7.3% pension increase in 2024



| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Existing pensions | (£43.4M) | (£45.2M) | (£45.0M) | (£44.8M) | (£44.5M) | (£44.2M) | (£43.8M) | (£43.3M) | (£42.8M) | (£42.2M) |
| New pensions | (£4.3M) | (£5.8M) | (£7.6M) | (£10.2M) | (£12.9M) | (£16.2M) | (£20.0M) | (£24.0M) | (£28.2M) | (£33.2M) |
| New lump sums | (£5.8M) | (£6.5M) | (£7.6M) | (£9.0M) | (£9.6M) | (£11.3M) | (£13.4M) | (£13.1M) | (£14.1M) | (£16.9M) |
| Contributions | £55.6M | £57.1M | £58.7M | £55.5M | £57.0M | £58.6M | £60.2M | £61.8M | £63.5M | £65.2M |
| Net cash flow | £2.1M | (£0.4M) | (£1.6M) | (£8.5M) | (£10.0M) | (£13.1M) | (£16.9M) | (£18.6M) | (£21.5M) | (£27.1M) |

All other assumptions are unchanged from the base case

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Report Framework

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This presentation should be read in conjunction with our report on the initial results of the actuarial valuation as at 31 March 2022 dated 23 September 2022.

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