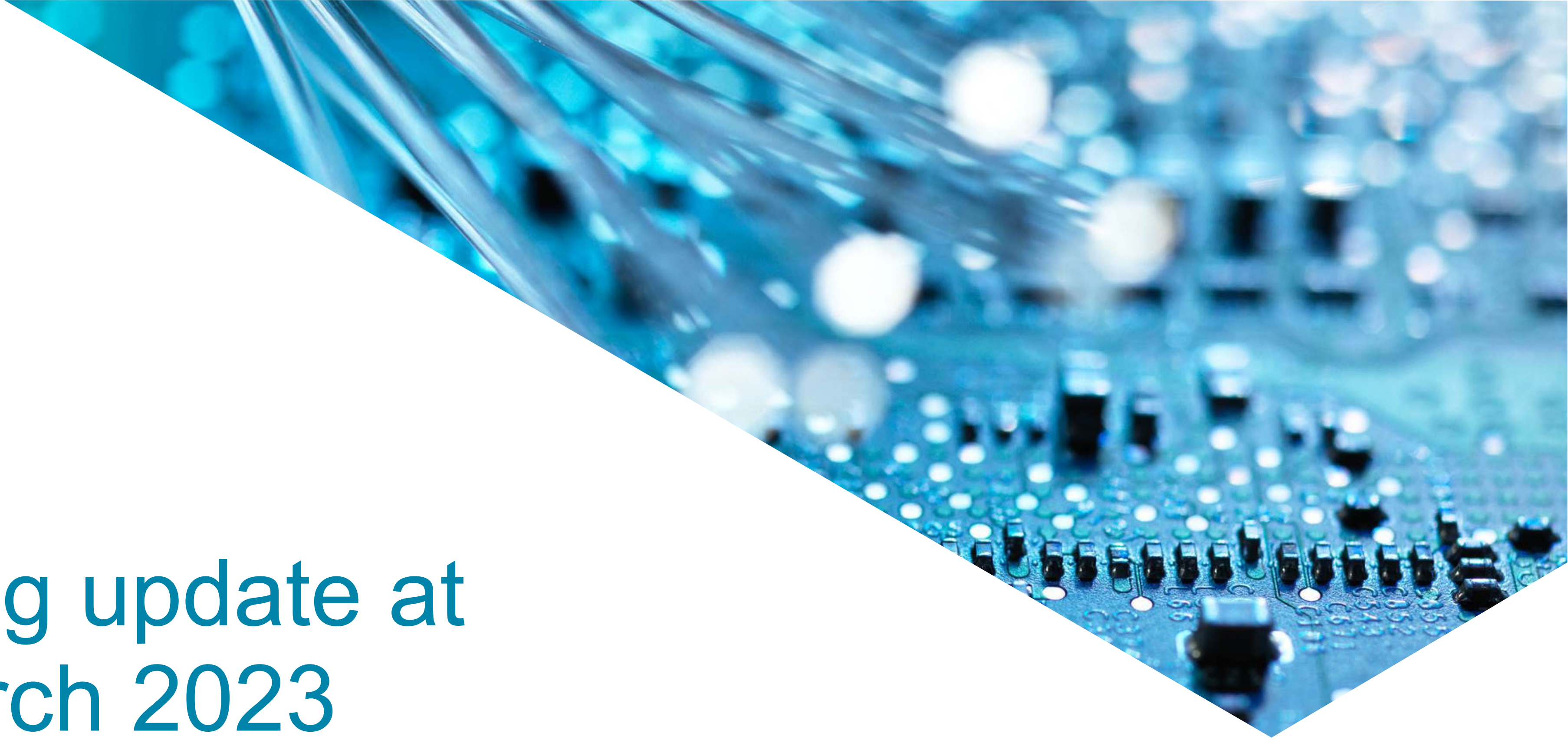


Funding update at 31 March 2023

London Borough of Enfield Pension Fund

Prepared for: London Borough of Enfield

Prepared by: Joel Duckham FIA

Date: 27 June 2023

Institute and Faculty of Actuaries
Quality Assurance Scheme

Funding position

Funding level

104.2%

31 Mar 2023

▲ **0.6%**
vs 31 Mar 2022

Surplus

£58.9M

31 Mar 2023

▲ **£6.3M**
vs 31 Mar 2022

Basis	Ongoing funding target
Effective date	31 March 2023

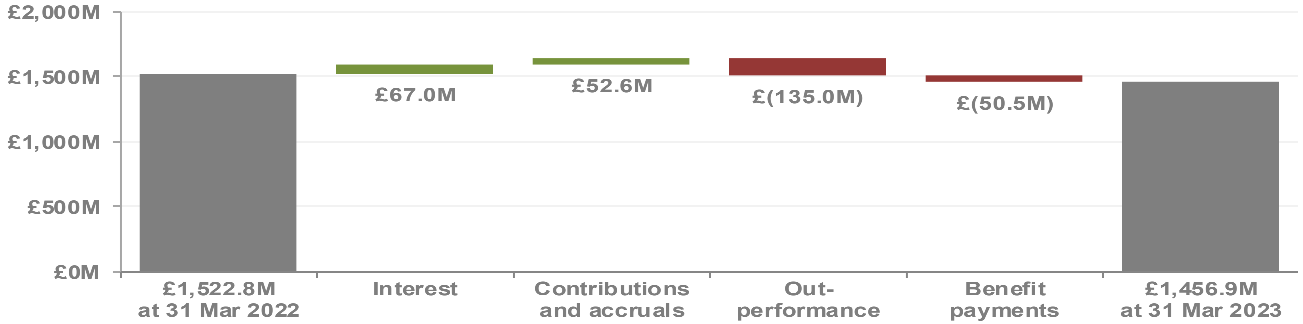
Comments

Since the Valuation the Fund's Ongoing funding level has improved and the surplus has increased by £6.3M.

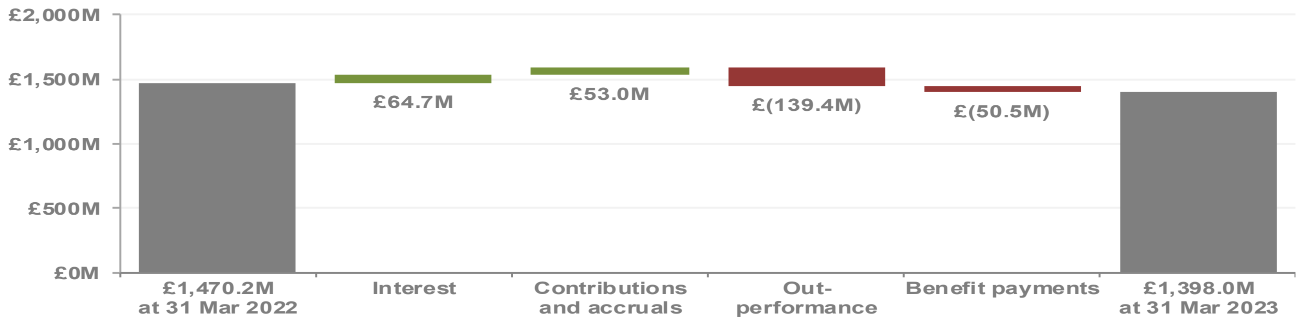
This is due to an increase in the assumed rate of future investment returns net of inflation, which has reduced the liabilities. This has been mostly offset by investment returns over the period being below the expected investment returns (discount rate) allowed for in the 2022 valuation.

At the 2022 valuation a 15% uplift was applied to the past service liabilities to make allowance for short-term inflation above the long-term assumption, and the risk of higher than expected inflation before the 2025 valuation. The April 2023 pension increase order was 10.1%. We have therefore utilised approximately half of the 15% uplift from the 2022 valuation to fund the inflation to-date over and above the long term assumption (under the simplifying assumption that salaries also broadly increase with inflation). We therefore have around 7%-8% margin within the liabilities at 31 March 2023 to fund future inflation above the long term assumption.

Change in asset value since 31 March 2022

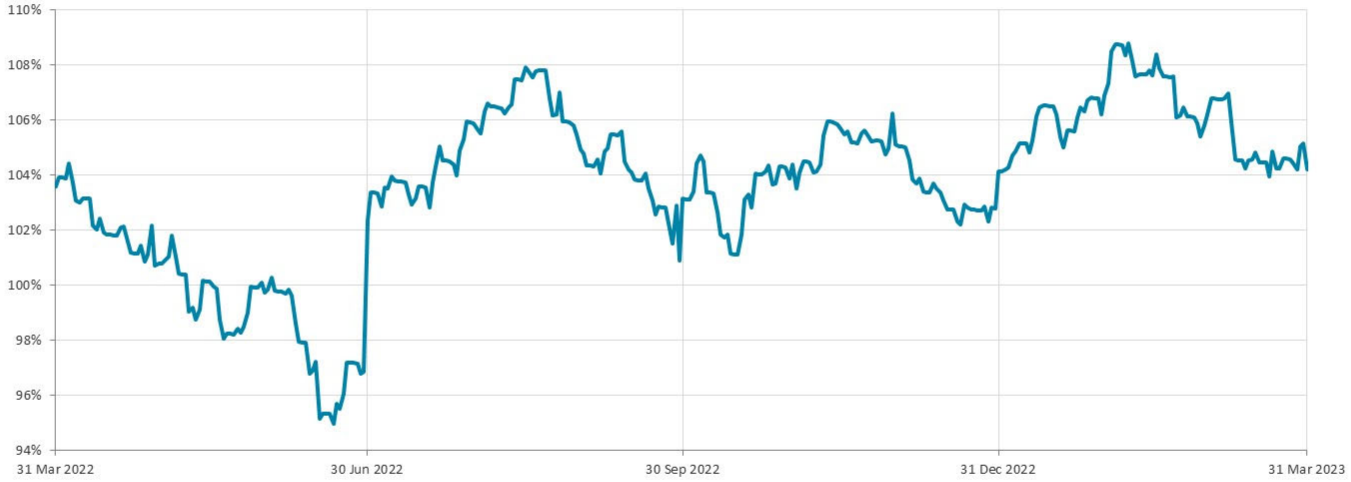


Change in liability value since 31 March 2022



Changes since the valuation

Change to funding level since 31 March 2022



Change to surplus/(deficit) since 31 March 2022

Basis	Ongoing funding target
Effective date	31 March 2023

Comments

The funding level has improved since the valuation and the surplus has increased. This is primarily due to the increase in the net discount rate which is partially offset by asset returns being lower than expected.

The jump in funding level (and surplus) at 30 June 2022 is due to our quarterly calibration of the financial assumptions. This followed a 3 month period of around -5% return on the Fund. At this date there was an increase in the real discount rate by 0.4% p.a. Generally we would expect the real discount rate to increase after a period of negative returns because asset valuations are reduced.

Cost of benefit accrual

Employer cost of accrual

15.5%	18.9 %
31 Mar 2023	31 Mar 2022

Total employer contribution rate

15.5%	18.9 %
31 Mar 2023	31 Mar 2022

Basis	Ongoing funding target
Effective date	31 March 2023

Comments

The benefit accrual costs and contribution rates shown are a percentage of pensionable pay and exclude member contributions.

The Fund’s benefit accrual cost on the ongoing funding target has decreased to 15.5% since the Valuation which is primarily due to an increase in the net discount rate.

The total employer contribution rate is equal to the Employer cost of accrual because the funding ratio is between 100% and 105% at both dates. In accordance with the Fund's funding strategy a surplus will not be used to reduce employer contribution rates below the primary rate unless the funding ratio is in excess of 105%.

Method

Liabilities

This funding update is consistent with the calculations for the formal actuarial valuation at 31 March 2022. The assumptions used have been modified only insofar as is necessary to maintain consistency with the approach set out in the latest Funding Strategy Statement, reflecting the change in the effective date and in relevant market conditions.

The funding update is projected from the results of the formal actuarial valuation at 31 March 2022 and is therefore approximate. Since the update is not based on up-to-date membership data, it becomes more approximate the longer the period of time that has elapsed since the last actuarial valuation.

The funding update takes account of the following over the period since the last formal actuarial valuation:

- Cashflows into and out of the Fund estimated based on the 2022 valuation results; and
- Actual price inflation and its impact on benefit increases.

Demographic experience since the last formal actuarial valuation has been assumed to be in line with the assumptions set out in the 2022 valuation report.

This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.

It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the investment strategy or economic outlook.

Assets

For the purpose of this funding update, we have used the asset value as at 31 March 2023 provided by Northern Trust.

Contributions

The whole of fund total employer contribution rates shown in this funding update allow for a recovery period ending 31 March 2042 when in surplus and 31 March 2039 when in deficit. The contributions payable by each employer/group of employers may differ because they allow for their individual circumstances.

Assumptions

	Discount rate	Pay growth	Pension increases *
31 March 2022	4.4%	3.8%	2.3%
31 March 2023	4.9%	3.7%	2.2%

** At the 2022 valuation we increased the liabilities by 15% to allow for the risk of future inflation being above the long term assumption. We have reduced this allowance at 31 March 2023 to offset the increase in liabilities due to known inflation experience of 10.1%. We will continue to reduce this allowance at future updates depending on known experience at those dates.*

TAS compliance

This document has been prepared in accordance with the framework below.

This document has been requested by the Administering Authority. It has been prepared under the terms of the Agreement between the London Borough of Enfield and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressee.

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

The compliance is on the basis that London Borough of Enfield is the addressee and the only user and that the document is for information only and is not to be used to make any decisions on the contributions payable or the investment strategy. If you intend to make any decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

This report should be read in conjunction with:

- The report on the most recent actuarial valuation of the Fund dated 31 March 2023.
- The latest Funding Strategy Statement

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

Glossary

General terms

Funding level / ratio

The ratio of the value of assets to the value of liabilities.

Surplus / Deficit

The value of assets less the value of liabilities.

- If the value of the liabilities is greater than the value of the assets, then the difference is called a deficit.
- If the value of the liabilities is less than the value of the assets, then the difference is called a surplus

Ongoing funding target

The aggregate funding target for the fund agreed as part of the actuarial valuation, updated in line with the change in the financial assumptions for the main scheduled bodies as set out on the previous page.

Total employer contribution rate

Total employer contributions at a fund level including:

- Cost of accrual in respect of future service (primary rate)
- An allowance for any surplus or deficit, calculated consistently to the valuation and assuming the same spreading end point as at the valuation

Plus the following items at the same level as at the 2022 valuation:

- An allowance for McCloud/cost management
- Allowance for administration expenses
- Deduction for member contributions.

Chart labels

Interest

The asset and liability values are assumed to increase at the discount rate used to value the liabilities.

Contributions & accrual

The expected increase in assets and liabilities due to contributions and new benefit accruals.

Outperformance

Actual returns achieved on assets over and above the assumed discount rate and the impact on liabilities of a change in market conditions.

Benefit payments

The expected decrease in assets and liabilities due to benefit payments (including transfers out) during the period.

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