

Report Title:	Pension Fund Cash-Flow
Contains Confidential or Exempt Information?	<i>NO - Part I</i>
Member reporting:	
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels 15 May 2017
Responsible Officer(s):	Nick greenwood, Pension Fund Manager
Wards affected:	None

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 Following the triennial actuarial valuation and the imposition of new deficit recovery contribution rates Officers requested Barnett Waddingham, Actuary to the Fund, to prepare a cash-flow model for the fund. This has then been extended to include forecast operating expenses.

Two cases are presented – the base case (no-outsourcing of services) and the bear case (25% of payrolls out-sourced over 3 years). In reality the impact of out-sourcing is marginal as transferred employees will remain members hence their new employers will be paying future service contributions and previous employers will continue to make deficit recovery contributions.

Base Case

Year to 31 Mar	2018	2019	2020	2021	2022
Contributions £m	104.5	110.9	118.1	116.6	121.1
Benefits £m	(98.2)	(102.7)	(110.1)	(112.5)	(117.0)
Investment Costs £m	(7.0)	(7.7)	(8.2)	(8.7)	(9.2)
Administration £m	(1.2)	(1.0)	(1.0)	(1.1)	(1.1)
Net Cash-Flow £m	(1.9)	(0.5)	(0.9)	(5.7)	(6.2)

Bear Case

Year to 31 Mar	2018	2019	2020	2021	2022
Contributions £m	104.2	110.0	116.2	113.5	116.8
Benefits £m	(98.2)	(102.7)	(110.1)	(112.5)	(117.0)
Investment Costs £m	(7.0)	(7.7)	(8.2)	(8.7)	(9.2)
Administration £m	(1.2)	(1.0)	(1.0)	(1.1)	(1.1)
Net Cash-Flow £m	(2.2)	(1.4)	(3.1)	(8.8)	(10.5)

Notes: Investment costs forecast to increase 10% in 2019 (pooling) and 6% per annum thereafter based on asset growth assumption. Administration costs fall in 2019 (reduction in investment team). No allowance has been made for LPP costs.

- 2.2 Panel also requested modelling of the contributions receivable from an admitted body which does not allow new employees to join the Fund. The table below is hypothetical and assumes an initial payroll of £10 million, pay rises (including scale promotions of 2% per annum) and staff turnover of 14% per annum. It should be noted that this table only covers future service contributions, deficit contributions certified as at 31 March 2016 will be the responsibility of the ceding employer whilst any deficit recovery contributions certified in 2019 will, subject to any out-sourcing agreement, be the responsibility of the admitted body.

Table 1: Forecast Cash-Flows for a “closed” admitted body

Year to 31 March	Pensionable Pay Roll £	Contributions (Future Service Only)
2018	10,000,000	1,430,000
2019	8,772,000	1,254,396
2020	7,694,798	1,100,356
2021	6,749,877	965,232
2022	5,920,992	846,702
2023	5,193,894	742,727
2024	4,556,084	651,520
2025	3,996,597	571,513
2026	3,505,815	501,332

3. KEY IMPLICATIONS

Whilst the forecast cash-flow is better than previous estimates no allowance has been made for additional benefits payable due to early retirements nor capital sums received by the Fund in respect of those early retirements.

Overall there will still be a need for investment income albeit not at the 2% of assets (£39 m per annum) level previously targeted. Officers recommend that the current strategy, in particular the equity dividend growth strategy, should be maintained although this will be subject after 31 March 2018 to the whims and fancies of The Local Pensions Partnership.

4. FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 Officers forecast that the Fund will require Investment Income to avoid selling assets to pay benefits. This requirement is forecast to grow over time.

5. LEGAL IMPLICATIONS

- 5.1 None

6. RISK MANAGEMENT

- 6.1 This report highlights the risk that contributions will be less than benefits paid and the mitigating affect of investment income to avoid selling assets to meet liabilities.

7. POTENTIAL IMPACTS

- 7.1 None

8. CONSULTATION

- 8.1 Barnett Waddingham modelled the whole fund forecasts in Section 2.

9. TIMETABLE FOR IMPLEMENTATION

- 9.1 Not Applicable

10. APPENDICES

- 10.1 None

11. BACKGROUND DOCUMENTS

- 11.1 None