Appendix 6

Potential impact of 2014 budget flexibilities on the Fund

1. The Fund's actuary has analysed the potential impact of the 2014 budget freedoms on the pension fund's cash flow and liabilities.
2. The analysis assumes 5%, 10% and 20% of eligible active and deferred members i.e. those aged 55 or over elect to take the transfer value at their expected earliest retirement age (i.e. unreduced benefits).
3. The analysis assumes (i) the transfer value (TV) will not be reduced to reflect the funding level and (ii) TV reduced to 90% of the full amount. The Actuary has approximately assessed the Fund to be around 100% funded on the Government Actuary Department's (GAD) prescribed assessment basis. Reductions to TV will only be allowed if the funding level is <100% on the GAD basis; in addition, if this basis showed a deficit, it would still require consent from CLG/Treasury for the Fund to reduce the TV. The 90% basis is only showed for comparison.

Cashflow impact:

4. The Fund is already cash negative on a monthly basis (c. £2m p.m.) excluding investment income. The investment strategy is structured to use some of the investment income (currently c. £15m p.a.) to meet the cash shortfall.
5. The results of the analysis are as follows:
    a. If 5% of members transfer out then the *additional* cash outflow will be c. £7m p.a. for next 5 years (c. £6m p.a. if 90% TV)
    b. If 10% of members transfer out then the *additional* cash outflow will be c. £14m p.a. for next 5 years (c. £12m p.a. if 90% TV)
    c. If 20% of members transfer out then the *additional* cash outflow will be c. £28m p.a. for next 5 years (c. £24m p.a. if 90% TV)

Liability impact:

6. There will be savings versus current liabilities if members transfer out. A take up of 20% would generate transfers in the order of £140m i.e. £28m p.a. over 5 years which would reduce the funding deficit by c. £20m or £4m p.a. A 5% take up would only reduce the deficit by c. £5m over 5 years or £1m p.a. The savings would be greater if the TVs were reduced in line with the prescribed approach.
7. Obviously this financial analysis is at the aggregate fund level but the impact at the employer level will vary depending on the membership profile. Essentially the younger the members transferring, the greater the savings (a 50 year old would save the fund 15% of the liabilities whereas a 60 year old will only save 10% i.e. as members get closer to retirement the saving for the Fund will reduce). However, for individual employers the take-up could be a much higher proportion due to the small membership numbers. This could have a more significant impact at an employer level in terms of risk reduction both on an ongoing basis and termination basis (corporate bond basis).
8. Following on from this the reduction in the funding risk will be even greater for employers funded on the corporate bond basis.