

LONDON BOROUGH OF CAMDEN	WARD: ALL
REPORT TITLE: Cash Flow and Membership report	
REPORT OF: Executive Director of Corporate Services	
FOR SUBMISSION TO: Pension Board	DATE: 6 April 2022
SUMMARY OF REPORT: This report details the Pension Fund cash flow and membership statistics for the previous year and over the longer term. The Pension Committee, at its meeting on 3 rd March 2022, noted the contents of the report.	
Local Government Act 1972 – Access to Information No documents required to be listed were used in the preparation of this report. Contact Officer: Nigel Mascarenhas Interim Director of Finance Finance and Procurement Corporate Services Dennis Geffen Annexe 110-112 Camley Street London. N1C 4DG Telephone: 0207 974 1904 Email: nigel.mascarenhas@camden.gov.uk	
RECOMMENDATIONS: The Pension Board is asked to note the contents of this report.	
Signed by Director of Finance Agreed Date 07/03/2022	

1. INTRODUCTION

- 1.1 This report details a quarterly analysis of the cash flow for the pension fund during the last year and over the longer term and analyses the movement in scheme membership. This report is received annually by Committee. Usually this report is taken at the July meeting but has been delayed due to finalisation of the 2020/21 accounts.

2. CASH FLOW

- 2.1 The cash flow for year to 31 March 2021, with previous financial years for comparison, is as set out in **Table 1**. In order to understand key trends and the impact of certain activities on the Fund's overall cash flow, this analysis distinguishes between three cash positions:
- Cash flow before Transfer values
 - Cash flow after Transfer values
 - Total cash flow to the Pension Fund (including investment income)
- 2.2 As Table 1 shows, the first of these totals includes most of the Fund's core activities around the administration of members' pensions, including the payment of pensions, lump sums and death grants, and the collection of contributions.
- 2.3 Transfer value activity occurs where scheme members move their pension to or from the Pension Fund. For example, if a new employee joins Camden and transfers their existing Local Government Pension Scheme (LGPS) benefits from another LGPS fund then this is a transfer in. Transfer activity can be quite volatile and can distort the Fund's core cash position, and so is shown separately. The final position is the ultimate cash position of the Fund and includes investment returns taken as cash. This line demonstrates the extent to which investment returns support the Fund's administration.
- 2.4 Cash inflows in 2020/21 were £71m, a £2.4m increase on the previous financial year. Employer contributions received during the year were greater than in the previous year and to a lesser degree, employee contributions increased too. Pension strain costs (early retirement charges) from services reduced slightly compared to the year before.
- 2.5 Total outflows fell slightly, although payments made to scheme members rose by £2.4m. Net flows prior to transfer values were positive (£2.0m), owing to a fall in administration and investment manager costs in 2020-21. There was reduction in the value of both transfers in and out of the scheme, although there was a net transfer value out of £2.0m as more members transferred their pension assets out of the Fund to other funds than transferred in.
- 2.6 After taking into account transfer value activity, but before investment income, the Pension Fund had a small positive net cash flow of £0.02m. This was the first time that cashflows had been positive after transfer value activity since 2017-18. It should be noted that this figure is greatly dependent on transfer values, which cannot be predicted and can contribute materially to the cashflow situation at any given point.

- 2.7 The other main determinant of cash flow position are the employer contributions. The increased employer contributions are driven by pensionable pay and the rates set at the Triennial Valuation.
- 2.8 Cash received from investment income is the final factor that has consistently increased cash in the Fund and ensured a cash flow positive position. Investment income in 2020/21 was substantially stronger in 2020/21. Investment income was £4.3m higher than last year at £10.3m. This is not surprising given the strong performance of equities over most of 2020/21, as equity markets in particular recovered from various lockdowns. It is unlikely to be as high as this in subsequent years.
- 2.9 After investment income, the total net inflow to the Pension Fund in 2020-21 was £10.3m, a strong increase of £6.2m on 2019/20.
- 2.10 As predicted in the previous cashflow report, the effects of lockdowns and Coronavirus on member behaviour have broadly helped the cash position of the Fund, as transfer values in and out have reduced sharply compared to previous years. However, the cash position of the Fund remains dependent on employers paying their contributions correctly and on time, and future years may see increased transfer in and out values, as decisions which may have been deferred in 2020/21 are made and undertaken later on.

TABLE 1

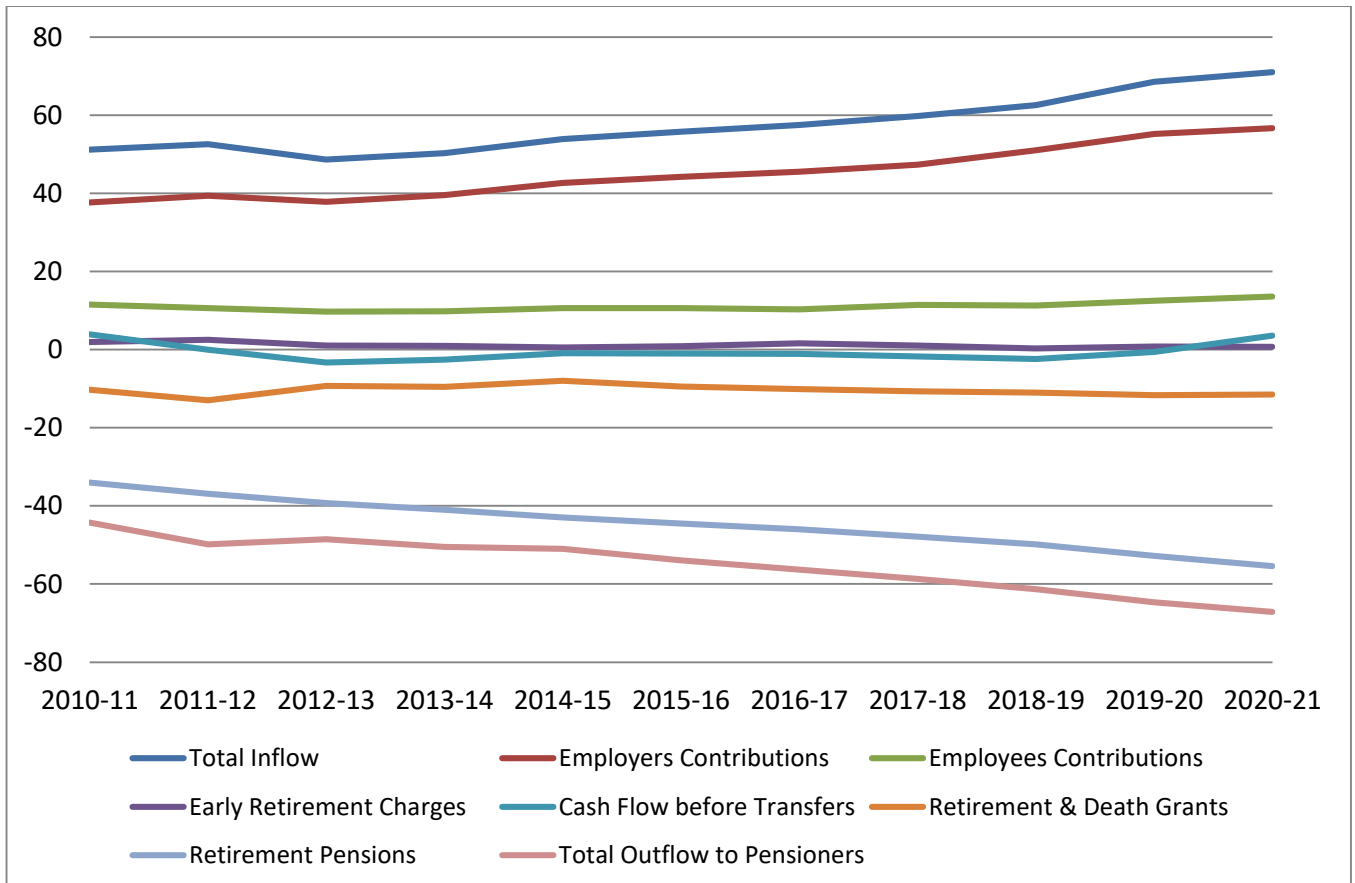
Pension Fund Cash Flow to March 2021

	2017/18	2018-19	2019-20	2020-21	12m Qtrly Avg	12m Mnth Avg	
	£m	£m	£m	£m	£m	£m	
Inflows							
Employers Contributions	47.328	51.035	55.253	56.695	14.174	4.725	1.4
Employees Contributions	11.461	11.288	12.572	13.636	3.409	1.136	1.1
Early Retirement Charges	1.059	0.325	0.786	0.678	0.170	0.057	-0.1
Total Inflows	59.847	62.648	68.611	71.009	17.752	5.917	2.4
Outflows							
Retirement Pensions	-47.855	-49.869	-52.821	-55.445	-13.861	-4.620	-2.6
Retirement Grants	-9.637	-10.044	-10.258	-10.052	-2.513	-0.838	0.2
Lump Sum Death Grants	-0.992	-0.977	-1.367	-1.446	-0.361	-0.120	-0.1
Refund of Contributions	-0.192	-0.388	-0.229	-0.152	-0.038	-0.013	0.1
Payments to Scheme Members	-58.676	-61.278	-64.675	-67.095	-16.774	-5.591	-2.4
Administration	-0.560	-1.359	-1.212	-0.724	-0.181	-0.060	0.5
Investment Management Fees	-2.334	-2.415	-3.271	-1.163	-0.291	-0.097	2.1
Total Outflows	-61.570	-65.052	-69.158	-68.981	-17.245	-5.748	0.2
	-2.983	-3.482	-4.106	0.177			4.3
Cash Flow before Transfers	-1.723	-2.404	-0.547	2.028	0.507	0.169	2.6
	-0.682	-0.680	1.857	2.574			
Transfer Values Received	8.337	9.039	8.941	4.137	1.034	0.345	-4.8
Transfer Values Paid	-5.086	-7.132	-10.233	-6.147	-1.537	-0.512	4.1
Net Transfer Values	3.251	1.907	-1.291	-2.010	-0.502	-0.167	-0.7
Net Inflow of Funds to Council	1.528	-0.496	-1.838	0.018	0.004	0.001	1.9
Investment Income	5.848	4.529	6.011	10.288	2.572	0.857	4.3
Inflow to Pension Fund	7.376	4.033	4.173	10.306	2.576	0.859	6.1

2.11 Officers continue to monitor cash requirements closely to ensure that funds are available for the day-to-day administration of the scheme. The Council now operates a segregated Pension Fund bank account and this is monitored daily to ensure it is kept in surplus.

2.12 Looking at longer-term trends **Table 2** below shows a summary position of quarterly cash flows over the past ten financial years. This only looks at the major cash flows of pension contributions and benefits.

Table 2: Contributions & Benefits Cash flow Trends



2.13 Cash flows associated with contributions and retirement pensions have tended to move upwards over time, as one would expect as pensionable pay increases over time and contributions are set with the aim of ensuring that the Fund moves towards being fully funded. Retirement and death grant payments fluctuate around an average that is almost constant.

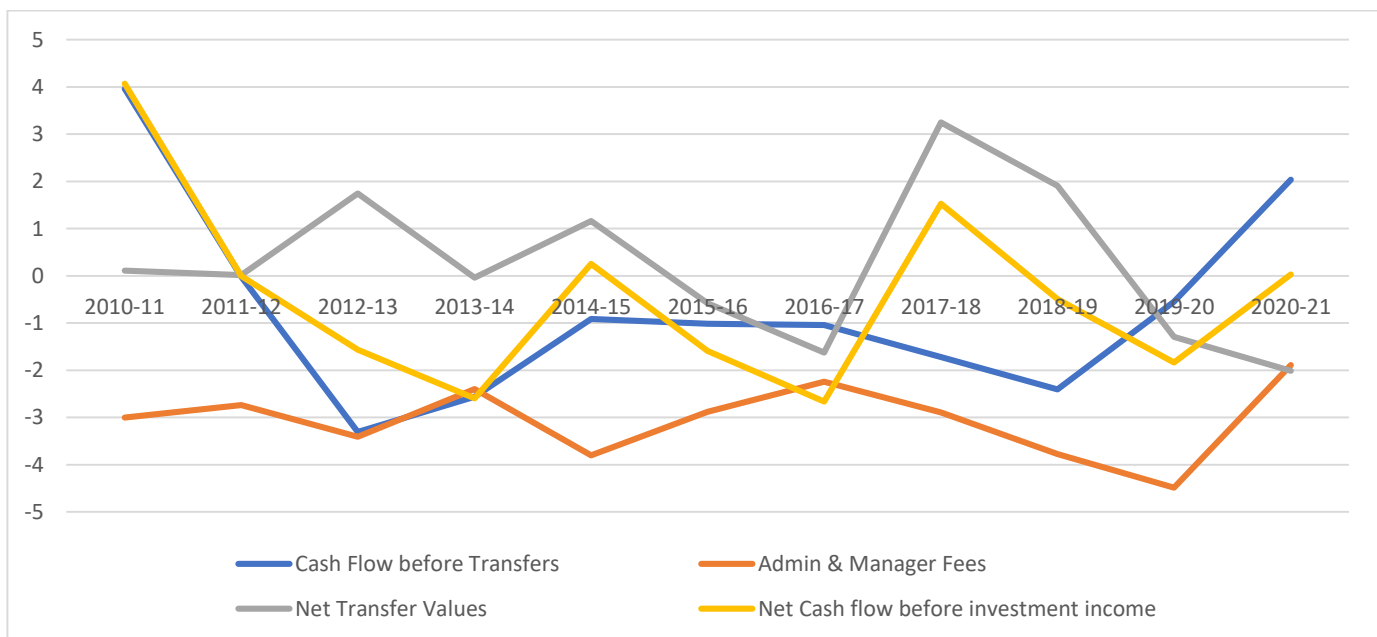
2.14 The clearest trend over the years has been the increase in retirement pensions paid, caused both by a combination of an increase in the number of pensioners and annual inflationary increases to pension payments.

2.15 Contributions have also increased – employers’ more significantly than employees’ - and a gradual increase in total inflows and outflows over the long term is evident. The resultant net cash flow before transfers remains broadly neutral over time.

2.16 Despite the stable trend lines shown in Table 2, the overall cash inflow to the Fund is significantly influenced by transfers in and out from members joining or leaving the Fund.

2.17 **Table 3** below shows the impact net transfer values, combined with the administration and investment fees, have on the overall cash flow. Net transfer values are clearly volatile over time causing the net cash flow before investment income to be volatile, accordingly.

Table 3: Transfers, Fees and Total Cash flow



2.18 On top of cash flow activity through the Council's accounts, investment managers retain and reinvest income from investments. Table 4 shows that a general downwards trend in investment income, due to the increased use of pooled investments, has reversed somewhat in 202-21, with a rise in investment income. This table shows the strong correlation between investment income and the ultimate net cash flow position.

Table 4: Investment Income and Total Fund Inflow



3. SCHEME MEMBERSHIP

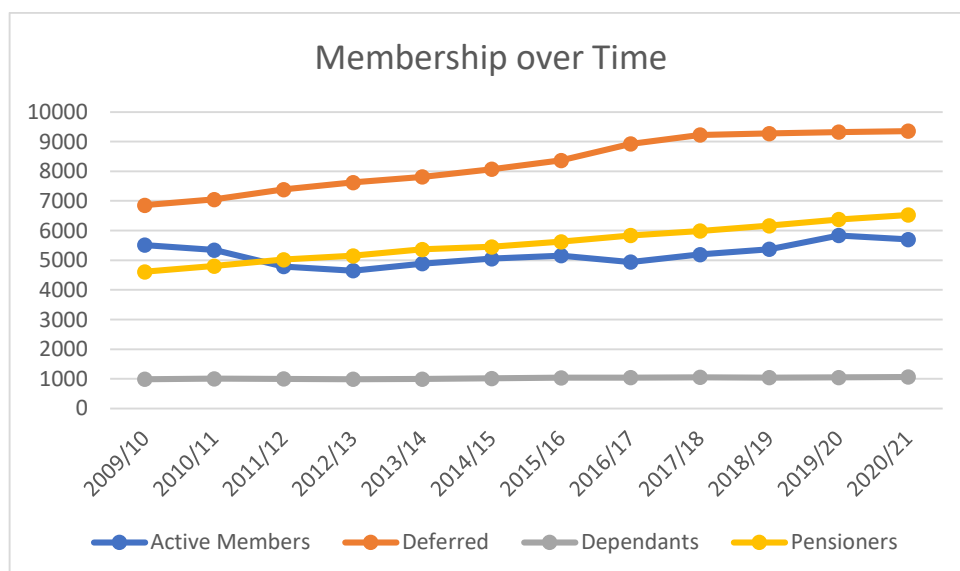
3.1 The activity in scheme membership for the past year is recorded in **Table 5** below. It should be noted that there will be movement in historic data due to retrospective processing of records, and the report shows known cases as at the time of compiling the data.

Table 5: Administration Report

	Year Ending	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21
TOTAL MEMBERSHIP STATUS						
Active Members		4,939	5,210	5,402	5,698	5,699
Deferreds / Frozen Refunds (ex employees)		8,953	9,211	9,326	9,467	9,354
Pensioners		6,866	7,004	7,185	7,431	7,589
		20,758	21,425	21,913	22,596	22,642
% MEMBERSHIP STATUS						
Active Members		23.79%	24.21%	24.65%	25.22%	25.17%
Deferreds / Frozen Refunds		43.13%	42.99%	42.56%	41.90%	41.31%
Pensioners		33.08%	32.80%	32.79%	32.89%	33.52%
		100.00%	100.00%	100.00%	100.00%	100.00%
ACTIVE MEMBERS						
Total New Active Members		1,027	1,506	780	1,622	539
Leavers		-690	-585	-461	-640	-403
Opt Out		-237	-468	-76	-437	-35
Retirements		-158	-109	-79	-105	-92
Death in Service		0	-3	-3	-4	-8
Total Active Leavers		-1,085	-1,165	-619	-1,186	-538
Net Movement of Active Members		-58	341	161	436	1
DEFERRED/FROZEN REFUND MEMBERS						
Total New Deferred Members		670	587	459	557	338
Transfers Out		-136	-116	-169	-319	-244
Retirements		-150	-146	-217	-233	-197
Restored Actives		-2	-2	-3	-2	-1
Deaths		-6	-2	-5	-4	-9
Total Leavers from Deferred		-294	-266	-394	-558	-451
Net Movement of Deferred Members		376	342	65	-1	-113
PENSIONER MEMBERS						
New Retirements		308	301	297	339	289
New Dependants Pensions		59	49	39	60	72
Total New Pensioners		367	350	336	399	361
Cessation of child pensions		-3	-3	-1	-3	-1
Undecided Leaver					-1	0
Deaths		-163	-142	-133	-160	-202
Total Pensioner Leavers		-166	-145	-134	-164	-203
Net Movement of Pensioners		201	205	202	235	158

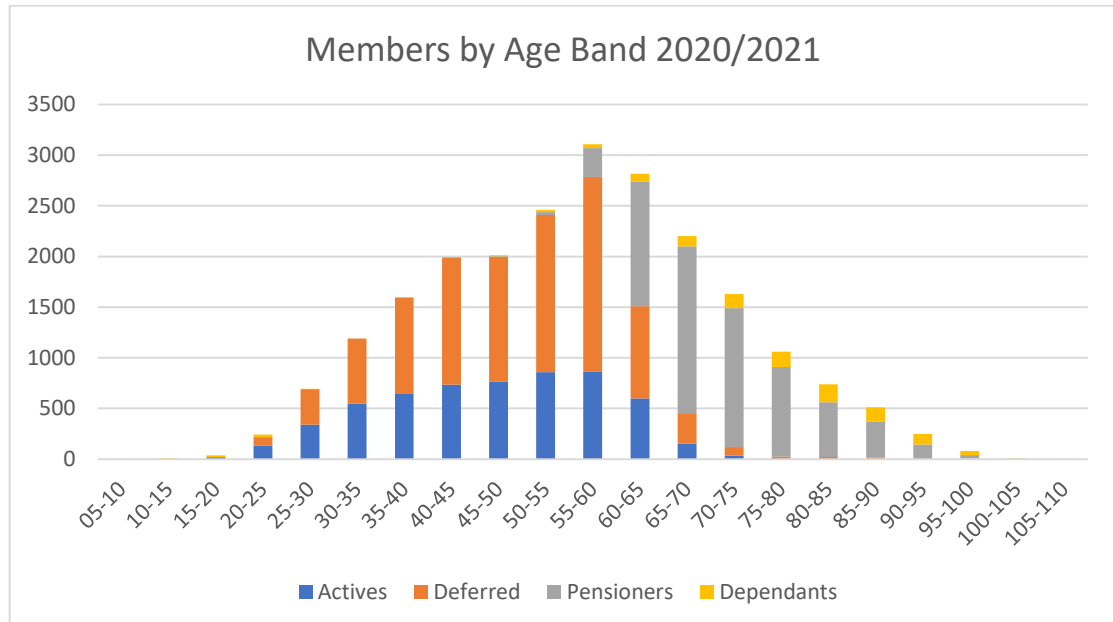
- 3.2 The total number of members (22,642) has marginally increased by 46 year-on-year and continues its upward trend. The table shows a decrease in the number of new active members into the Fund. Overall there was a net increase of 1 active member this year compared to an increase of 436 in 2019-20.
- 3.3 The new LGPS 2014 scheme increased the lower limit of employee contribution rates, which brought about an increase in active members opting out of the scheme in 2017-18. Subsequent to this, there was then a sharp decline in the number of active members opting out of the scheme at 76 for 2018-19 (468 in 2017-18). The numbers in 2019-20 increased again: there was an auto-enrolment exercise in May 2019 causing many to later opt out. The next auto-enrolment date for Camden staff is May 2022, and is expected to affect around 800 staff.
- 3.4 The introduction of the new scheme introduced the 50/50 option; pay half the contributions and get half the benefits. There were 142 members paying 50/50 option as at 31 March 2021, the same number as at 31 March 2020.
- 3.5 Deferred membership has fallen, compared to last year, due to more members than usual from this category retiring or leaving the scheme. It remains the largest proportion however at 41.31%.
- 3.6 Pensioner membership also continued to rise throughout 2020/21 with an increase of 158. The number of retirees continues to increase year on year.
- 3.7 **Table 6** below shows long term trends in scheme membership which has grown from 22,596 in 2019-20 to 22,642 in 2020-21. Active membership has dipped in the past but has been steadily increasing for the past four years. The largest increase has been with pensioner members, whose numbers have increased from 7,431 to 7,589 .

Table 6: Long Term Membership Trends



3.8 **Table 7** shows the age profile of the four main categories of membership as at 31 March 2021.

Table 7: Age Profile of Membership



3.9 The “pyramid” shape profile of the Fund’s membership demonstrates that a significant proportion of the fund’s total membership is aged between 45 and 70 (55%). Active and deferred membership increased towards age 60 and pensioner members are predominantly aged between 60 and 75. Dependants are mainly over 60.

4. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

4.1 It is important that cash flow is monitored to ensure that the Fund can meet its obligations to pay pensionable benefits in the short term and also that in the longer term the fund has liquid assets which can support the objectives of the Fund.

5. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

5.1 The Pension Committee has a fiduciary responsibility to protect the pension benefits of members by maximising returns and keeping contributions to a minimum. A failure to do so would be a breach of this responsibility and would be open to legal challenge. This report details information to ensure that the Fund is acting in accordance with its fiduciary responsibilities.