

Date: 23 January 2013

Item 6: Actuarial Valuation of the TfL Pension Fund

This paper will be considered in public

1 Summary

- 1.1 To provide the Committee with an update on the progress of the formal valuation of the TfL Pension Fund (the “Fund”) as at 31 March 2012 together with details of the movement in funding for the Public Sector and Tube Lines Sections, which have improved since the previous valuation in March 2009.
- 1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from any public meeting.

2 Recommendation

- 2.1 **The Committee is asked to note this paper.**

3 Background

- 3.1 Every three years the Trustee of the Fund is required to carry out a formal actuarial valuation of the Fund. As the last valuation was carried out with an effective calculation date of 31 March 2009, the Trustee is currently carrying out its latest valuation with an effective calculation date of 31 March 2012.
- 3.2 The purpose of the valuation is to carry out an assessment of the value of the Fund’s assets and liabilities and to review and revise (if necessary) the level of contributions paid by TfL and the other Participating Employers. Any recommendations made by the Trustee in relation to the method and assumptions used in the valuation, as well as the required level of contributions must be agreed with TfL and set out in a number of key compliance documents. The revised contributions are payable from 1 April 2013.
- 3.3 The valuation is effectively split into two components. The first relates to what are known as the Technical Provisions. This stage is largely centred on what actuarial method and assumptions are appropriate for placing a value on the Fund’s liabilities. The second component relates to the “Recovery Plan” which sets out the pattern of contributions agreed between the Trustee and TfL in order to pay off any shortfall in the assets versus the liabilities. Furthermore, any contributions agreed between the Trustee and TfL must be set out in a “Schedule of Contributions”.

- 3.4 The whole valuation process must be completed by the Trustee within 15 months of the effective calculation date (of 31 March 2012) and hence for the current valuation this deadline is 30 June 2013, although both the Trustee and TfL are keen to ensure that any agreed contributions are paid from 1 April 2013.
- 3.5 Once the valuation process is completed the Recovery Plan, Schedule of Contributions and the valuation results must be sent to the Pensions Regulator (tPR) who will then review the appropriateness of the agreed funding plan. If tPR feels that the plan is not appropriate (for example, if the agreed assumptions do not contain enough margins for adverse experience) then it has the power to ask for further documents detailing the process followed by the Trustee and in extreme circumstances may require the Trustee to revisit its valuation or instruct it as to what contributions should be paid.

4 The valuation process

- 4.1 The Trustee has started the valuation process and has received some preliminary advice from its Scheme Actuary and pension advisers, Towers Watson. The advice received to date has been largely centred on what actuarial method and assumptions are appropriate for placing a value on the Fund's liabilities (or Technical Provisions). The main key assumptions required to place a value on the Fund's liabilities are:
- (a) the level of future investment returns expected to be generated by the Fund's assets;
 - (b) the level of future salary growth expected for the Fund's contributing members;
 - (c) the expected level of future price inflation (set with reference to the Retail Price Index) which dictates the rate at which benefits are expected to grow when in payment and for deferred members before their retirement date; and
 - (d) how long the Fund's members are expected to live.
- 4.2 As the Fund is made up of eight separate Sections, the Trustee has to request and agree eight separate sets of valuation results.

5 The preliminary results

- 5.1 Following discussions with the Trustee on what assumptions may be appropriate in the first half of 2012, the Scheme Actuary produced a set of preliminary valuation results (based on the Trustee's initial view about what assumptions may be appropriate) for the two largest Sections of the Fund: the Public Sector and Tube Lines Sections (the "two main Sections").
- 5.2 Details of the preliminary valuation results are set out in the paper on Part 2 of the agenda.
- 5.3 The Technical Provisions have been agreed in principle between the Trustee and TfL, subject to a satisfactory set of terms for the Recovery Plan being adopted. As a result of these representations and counter proposals the Trustee issued its formal Summary of Results in December 2012. This is a requirement under the Fund's Trust Deed and Rules which governs the operation of the

Fund, where the Scheme Actuary is required to issue results in a prescribed format.

6 Recovery plan

- 6.1 The next step is to reach an agreement with the Trustee as to how and when this deficit would be paid and further detail is provided in the paper on Part 2 of the agenda.
- 6.2 The Trustee and TfL will continue their discussions early in 2013 with the clear expectation that agreement will be reached before the March 2013 deadline.

7 Private sector sections

- 7.1 Like the Public Sector section, the funding position of all the other sections has improved since the last valuation. Similar discussions will be taking place with TfL and the private sector employers, as TfL determines with the Trustee both in respect of its Technical Provisions and Recovery Plan.

8 Timetable of activities

- 8.1 The Summary of Results will be issued to all interested parties in January 2013. In addition copies of the Public Sector Section results will be issued to the recognised Trade Unions.
- 8.2 The Fund Secretary will be making a presentation to the Trade Unions through TfL's Pensions Working Group on 29 January 2013 and to the Pensioners Forum on 5 February 2013.
- 8.3 The Trustee is expecting a proposal from TfL on an appropriate Recovery Plan by the end of January 2013 and to conclude matters prior to the March Trustee board meeting.

List of appendices to this report:

None.

List of Background Papers:

None.

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