

Date: 21 January 2016

Item: 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 2015 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 2012.
- 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 2012, the Trustee is currently carrying out its latest valuation with an effective calculation date of 31 March 2015.
- 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. Any revision to the rate of contributions payable is expected to apply from 1 April 2016.
- 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 2015) and hence for the current valuation this deadline is 30 June 2016 although both the Trustee and TfL are keen to ensure that any agreed contributions are paid from 1 April 2016.
- 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 several separate Sections, the Trustee has to request and agree each separate set 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 2015, 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. This outcome is the result of a series of representations and counter proposals. The next step is for the Trustee to issue its formal Summary of Results, which is expected in early January 2016. 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 the resulting 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 2016 with the clear expectation that agreement will be reached before the June 2016 deadline.

7 Private sector sections

- 7.1 Like the Public Sector section, the funding position of the other sections has generally 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 2016. 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 at its next meeting and to the Pensioners Forum on 9 February 2016.
- 8.3 The Trustee is expecting a proposal from TfL on an appropriate Recovery Plan by the end of January 2016 and to conclude matters prior to the end of March Trustee board meeting.

List of appendices to this report:

Exempt supplementary material is included in Part 2 of this agenda for members.

List of Background Papers:

None.

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