Transport for London

Independent Pensions Review

9 December 2021

Andy Byford
Commissioner of Transport for London
Transport for London

By email

Dear Commissioner

TfL Pensions Review: Independent Report

I wrote to you on October 28th to provide the first report on the independent review of TFL's pensions arrangements.

As you know, the Terms of Reference for the Review, required under TfL's funding agreement with HM Government of 1 June 2021, require me to provide a further report by December 11. This report is now attached.

The first report set out the full range of options for reform under review. Having done considerable work in the period since the October report assessing all of the options, the Interim Report outlines which options we now consider require further consideration and which should not be considered further. This judgement has been reached by considering all the options against a number of key principles which flow from the review's Terms of Reference around the key issues of fairness, affordability and sustainability. The report sets out clearly how we have interpreted each of these central principles. You will recognise, I am sure, that none of these are simple issues. They require careful analysis of relevant data some of which we are still gathering. There are particular issues around the "protected persons" within TfL's pensions arrangements which will need to be addressed and considerable complexity in any transitional and implementation arrangements that would arise if it was decided to take forward any reform. These issues will be addressed in the Review's third and final report.

The review will now turn to assessing in detail the options for reform identified as meriting further consideration.

There remain significant ongoing concerns about the lack of clarity about the strength of the employer covenant. This, of course, remains a significant factor for the Trustees in seeking to conclude the current valuation. These closely related issues of the covenant and the valuation are both dependent on TfL's long term funding. Certainty on these matters would be of great assistance in enabling the completion of the review's final report in March.

Yours sincerely,

Brendan Barber

Sir Brendan Barber
Lead
Independent Review

Attachment:
Interim Report

TfL Independent Pensions Review

Options for further consideration

Interim Report

December 2021

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INTRODUCTION

The Independent Pension Review's Terms of Reference (ToR) require that it shall, by 11 December 2021, produce an Interim Report explaining the options that will be considered in further detail, and how they meet the matters set out in the Purpose and Scope of the ToR. (See Appendix 1.) The Review is required under TfL's funding agreement with HM Government of 1 June 2021.

This Interim Report sets out the options for potential reform to the TfL Pension Fund (the Scheme) that will be the subject of further consideration and those that will not be considered further. In arriving at this assessment, the Review has considered all the options outlined in the letter to the Commissioner of 28 October 2021 against a set of principles which themselves flow from the Review's ToR. The assessment of options for further consideration also takes account of the responses from stakeholders to the Review's first Call for Evidence, issued in August 2021.

In reaching its assessment, the Review has attached particular significance to:

- the need to ensure members can retire with a decent level of income at retirement; and
- the need to ensure any potential future changes do not have unintended consequences for the current Scheme and TfL itself.

No conclusions have been reached and no recommendations regarding the future of the Scheme have been made.

Following the publication of this report, the Review will turn to assessing in detail the options for reform – including both the impact on TfL and its wider financial position and scheme members and the impact on their benefit provision.

The options for further consideration set out in this report are concerned with future service entitlements only. The Review is clear that much consideration will need to be given to the interaction of any potential changes to future service on past service liabilities and the management of those liabilities as well as the transitional issues of moving from one arrangement to another. These are not simple matters – for the sponsoring employer or members – and will need to be treated with caution. They will be key considerations in the next phase of our work. These issues will be addressed in the Review's third and final report which will be published in March 2022.

The Interim Report adopts the following structure:

1. Defining the matters contained in the Purpose and Scope.
2. The Principles against which potential options for reform have been assessed (the Assessment Principles).
3. Supporting information.
4. Assessment of the options for possible reform.
5. Conclusions – options for further consideration and next steps.

1. DEFINING THE PURPOSE AND SCOPE

The Purpose and Scope of the ToR require the Review to have regard to the following matters:

- the need to ensure that future pension provision is fair across TfL's employees (including protecting members' benefits built up to date); and
- TfL's future pension provision is affordable and sustainable in the long term (for TfL, farepayers and taxpayers).

Additional considerations are:

- risk (and how this can be shared between farepayers, taxpayers, employees and members);
- adequacy and the provision of choice for members;
- the position of pension provision as a recruitment and retention tool; and
- how TfL's pension provision fits into the overall reward package.

The ToR are also clear that members' benefits built up to date should be protected. The Review's ToR are set out in full in Annex 1.

The concepts of fairness, affordability and sustainability, as well as the other matters referred to in the ToR's Scope and Purpose, are open to many different interpretations in the context of pension provision. The Independent Review therefore sought views on these concepts from Stakeholders in its first Call for Evidence (CfE) which opened in August 2021. The views of TfL were also sought.

Building on the responses from Stakeholders, TfL and wider considerations, the Independent Review has developed its own interpretation of the matters set out in the ToR's Purpose and Scope. The Review's assessment of these matters is set out in Section 4. Based on this assessment, the Review has developed a set of Principles for assessing options for potential reform. The Assessment Principles and the definitions which underpin them have been discussed with the trade union Contact Group[1] as well as the Scheme's Trustee and TfL.

In conducting this assessment, and arriving at our conclusions, the Review has had two overriding objectives in mind:

- the need to ensure members can retire with a decent level of income at retirement; and
- the need to ensure any potential future changes do not have unintended consequences for the current scheme and TfL itself.

On this latter point, whilst this report is primarily concerned with future service rights, these rights cannot be completely divorced from past service liabilities. This is the case in terms of the adequacy

[1] The Contact Group comprises nominated representatives from all TfL's recognised trade unions with whom the Review meets regularly

of benefit provision for members as well as costs for the employer. As noted in the Review's October letter, we have seen elsewhere how a change to future pension entitlements which results in the closure of a defined benefit scheme can have adverse consequences due to the significant maturing of the scheme. In turn this requires trustees to adopt a more risk-averse investment strategy with associated lower returns reflecting the shorter duration of the scheme. This is likely to be accentuated by the requirement introduced in the Pension Schemes Act 2021 for schemes to adopt a long-term funding target, and a plan to reach that target by the time the Scheme reaches "significant maturity". These factors will increase funding pressures on the Scheme (eg by increasing the size of any deficit, or by creating a deficit where one did not exist before) and increase the demand for higher contributions from the employer. This, in turn, will be likely to have consequential pressures on the sponsoring employer's ability to provide transport services, for example. Were this situation to arise in TfL, it is estimated that the closure of the DB scheme to future accrual, with a consequential de-risking of the investment strategy, could result in significant funding calls to meet the costs of past service benefits, which would fall to the employer.

Therefore, in identifying the options for further consideration, we have been mindful of the impact any future changes to TfL's pension arrangements would have on the current Scheme in respect of past service liabilities and on TfL's wider funding position. We will comment further on this issue in our third and final report.

THINKING ABOUT RISK

When considering risk in pensions, it is acknowledged that risk cannot be eliminated completely. For example, there is the risk that if contribution levels are set too low in a defined contribution (DC) scheme, members will receive inadequate levels of income in retirement; conversely, if they are set too high, they could place a financial strain on the sponsoring employer, whilst high levels of member contributions could prompt high levels of scheme opt-outs. Investment risk can also pose challenges to schemes: an over-prudent investment strategy could risk assets not meeting the required liabilities, for example, whilst a risky investment strategy could have considerable down-side risk if markets turn and attract regulatory scrutiny.

Certain benefit structures will place more risk on the scheme member (eg in terms of investment risk) whilst others place risk on the employer (in terms of investment and funding risk). These risks cannot be completely eradicated. They must therefore be managed.

In the context of the Independent Review, we have taken this to mean satisfying the desire for employers for confidence in the affordability of providing benefits over the short and longer term and, on the part of the scheme members for a stable benefit structure that generates adequate benefits at retirement.

THINKING ABOUT ADEQUACY

There are many aspects to the consideration of adequacy in the context of pensions and many ways of measuring the adequacy of the benefits paid by pension schemes. One way is by reference to the PLSA's Retirement Living Standards[2] which sets the minimum retirement income needed (from their workplace pension and state pension) for a minimum, moderate or comfortable lifestyle in retirement. For a single person for 2021/22 these are set at £10,900; £20,800; and £33,600 respectively. It should be noted that figures for those retiring in London are slightly higher – £13,200, £24,500 and £36,700 – reflecting the higher cost of living in the capital where it might be assumed large numbers of TfL's workforce live.

An alternative way to measure adequacy is by reference to the 'replacement rate', ie the proportion of in work income being replaced by pension income (state and workplace). The Pensions Commission suggested benchmark replacement rates that varied according to income bracket. This saw someone in the lowest income bracket (earning less than £9,500) requiring a higher replacement rate – 80% – compared to someone in the highest income bracket (earning £50,000 or more) requiring a replacement rate of 50% to achieve an adequate retirement income compared to their pre-retirement income[3].

Additional considerations in relation to adequacy include:

- **Benefits paid due to ill-health early retirement and death in service:** This is an important consideration for the Scheme given the nature of employment for many Scheme members – for example those in physically demanding jobs such as track maintenance and engineering;

  and

- **Low take up:** If members choose not to join because the benefits are unattractive or because member contributions are seen as unaffordable, for example, it will likely result in inadequate benefits at retirement.

The position of TfL's pension arrangements in the wider context of the **remuneration and benefits package** available to employees so that the overall reward package pension scheme is competitive for recruitment and retention purposes.

The Review notes that Scheme is the only benefit of substance on offer to TfL employees. Whilst there are other benefits available across the organisation, their value is significantly lower than the pension arrangements. Benefits such as health care and bonuses, which might be seen in other comparable employers, are not available to the majority of staff (notably those in operational grades).

[2] Retirement Living Standards, PLSA, available at https://www.retirementlivingstandards.org.uk/details
[3] Pensions Commission *Challenges and Choices* (2004)

The overall benefits package at TfL tracks below the market median for a number of key roles – a point acknowledged by the TfL Independent Review in 2020[4].

A significant downgrading of the current pension arrangement would make the benefits package even less attractive. Evidence provided to the Review from TfL's most recent employee engagement survey shows that satisfaction levels with both pay and benefits has fallen over the past 12 months. Just 50% of employees were satisfied that their pay was fair for the work they do, down by 5 percentage points since 2020 whilst 81% were satisfied with their employee benefits, down by 5 percentage points compared to 2020[5].

It is not surprising, therefore, that the Scheme is a highly valued benefit across all sections of the workforce. This was made clear to the Review in the response from TSSA to the *Stage 1 Call for Evidence* issued in August 2021. TSSA shared with the Review the results of a short on-line survey conducted with its members which showed that 96% of members see the long-term future of the Scheme in its current form as either extremely important or very important to them[6]. Indeed, it is generally the case that the pension is one of the most valued employment benefits and an important factor when people are looking for a new job. Research from the People's Pension[7] found that the level of pension contributions was second only to holiday entitlement when considering a new job – and that was especially the case for large employers such as TfL.

The Scheme is also a considerable retention tool for TfL who have explained to the Review that they are finding it increasingly difficult to attract and retain key talent across the organisation.

The Independent Review notes that any changes to the Scheme may have consequences for other elements of the reward package.

THINKING ABOUT SUSTAINABILITY

There are many aspects to the consideration of sustainability in the context of pensions, and that sustainability may look different if viewed over the short, medium and long term. However, in the context of the Scheme, it might be thought of in the following way:

- viability – the ability of the Scheme to **pay benefits built up to date** now and in the future; and
- affordability – an **affordable level of regular contributions** for members and the employer now and in the future.

[4] *TfL Independent Review – Final Report*. (December 2020)
[5] TfL *Viewpoint* survey 2021
[6] TSSA Response to the TfL Pensions Review Stage 1 Call for Evidence (2021)
[7] *Employee and employer attitudes to Pensions as a Workplace Benefit. What do they really think?* The People's Pension (2017), available at https://thepeoplespension.co.uk/wp-content/uploads/2017/10/Pensions-as-a-workplace-benefit-research-report.pdf

A further consideration in relation to sustainability is **the adaptability of the Scheme.** This is both to meet the future needs of the workforce, eg changing demographics and working patterns and to adapt to sudden shocks (eg market or wider environmental shocks).

In the context of the Independent Pensions Review, sustainability is taken to mean sustainability over the long-term, as benefits will become payable for many decades to come. This recognises, however, that decisions taken over the short and medium term may have consequences for long-term sustainability (and visa versa).

THINKING ABOUT FAIRNESS

There are many aspects to the consideration of fairness in the context of pensions:

- **Intergenerational fairness** – for example:
  - fairness *between* scheme members so that different grades of members receive an adequate pension and particular groups of members (eg women, the lower paid) are not disadvantaged by the scheme; and
  - that its structure is fair so that *future generations* are not disadvantaged by paying for the pension commitments made to previous generations of scheme member.

In this context, it is also noted the ToR include the protection of members' benefits built up to date.

The Review notes that responses to the Call for Evidence raised particular concerns over the damage to staff morale that could be caused were a two-tier pension benefit set-up to emerge, especially if the arrangement leading to the lower quality benefit was not compensated for elsewhere in the remuneration or reward package.

We might therefore consider this in the context of equity: fairness between different *cohorts* (grades) of members and *generations* of members.

- Fairness between **scheme members and the sponsoring employer** (and others), for example in relation to the balance of risk borne by each party or the balance of contributions paid by each party.

For the employer, we have taken this to mean avoiding excessive volatility in pension contribution levels.

THINKING ABOUT PROTECTING MEMBERS' BENEFITS BUILT UP TO DATE

Section 67 of the Pensions Act 1995 ensures that where the rules of a pension scheme are proposed to be amended for future service, those amendments must not have a detrimental effect on members' existing rights at the time of amendment unless:

- that has been agreed by members; or
- the amended benefits have been shown to be actuarially equivalent.

Section 67 is overriding legislation, that is it supersedes anything that might be in the scheme's own rules. However, overriding pensions legislation does not require the final salary linkage to be maintained.

Public sector pension schemes that have been the subject of reform have affected change under Section 31 of the Public Service Pensions Act 2013 (PSPA) which has maintained the final salary linkage. If the Scheme were to be reformed in a similar way, section 31 empowers HM Treasury to issue an Order to add TfL and its subsidiaries to Schedule 10 of the PSPA 2013, which requires TfL to stop the future accrual of benefits in the Scheme from a date determined by TfL.

In other words, the ToR require the protection of members' benefits built up to date in a way that goes beyond the statutory protection usually afforded to scheme members by undertaking to ensure that the final salary linkage is maintained. This would be of benefit to Scheme members at the date of any change, and in particular younger members who will not retire for many years to come and whose salary would be expected to rise over that time.

All the options assessed would be capable of protecting members' benefits built up to date, therefore. As a result, we have not commented further on this point.

2. PRINCIPLES FOR ASSESSING POTENTIAL OPTIONS FOR REFORM

Based on this assessment the matters outlined in the Purpose and Scope, the Review has developed a set of Principles for assessing options for potential reform.

Figure 1: Principles for Assessing Potential Options for Reform (Assessment Principles)

1. Adequacy of benefit provision at retirement including the provision of ill-health early retirement and death in service benefits.

2. A scheme with high take up levels.

3. Protection of members' benefits built up to date.

4. A pension arrangement within the wider context of TfL's remuneration and reward package that is competitive for recruitment and retention purposes.

5. Fairness between different cohorts of members and generations of members.

6. An affordable level of regular contributions now and in the future which avoids excessive volatility in pension contribution levels.

7. A fair balance of contributions between members and employer.

8. A scheme that manages risk by satisfying the desire for employers for confidence in the affordability of providing benefits over the short and longer term and, on the part of the scheme members for a stable benefit structure that generates adequate benefits at retirement.

9. Sustainability over the long-term, as benefits will become payable for many decades to come, meaning an ability to pay benefits built up now and in the future and a Scheme that can adapt to the future needs of members and sudden external shocks.

The Assessment Principles, and the definitions which underpin them, were discussed with the trade union Contact Group as well as the Scheme's Trustee and TfL.

3. SUPPORTING INFORMATION

In assessing the options for potential reform, the Independent Review's ToR require it to consider:

> *"…the circumstances of the Scheme in terms of its employer covenant, member contributions, benefits, funding position on the bases required under Part 3 of the Pensions Act 2004, section 179 of the Pensions Act 2004 and section 75 of the Pensions Act 1995, investment strategy, legal status and legal constraints on making changes under its trust documentation and how this compares to other public and private sector schemes; and based on these circumstances, produce an analysis of the funding and legal issues faced by TfL in relation to the Scheme;"*

Since its first submission to the Commissioner in October, the Review has therefore commenced further analysis of the Scheme. This has considered in particular the risks and challenges facing the Scheme – including those which extend beyond the current valuation cycle. We have examined employer and member contribution levels (including the ratio of employer to member contribution levels) and likely future service costs and risks.

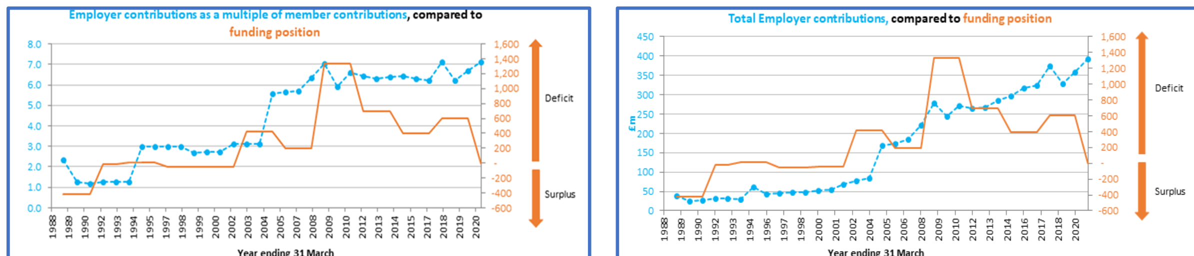
As our work develops, and as we continue with our further consideration of the options, we will continue to examine these and other relevant issues.

CONTRIBUTIONS

A point of debate in the submissions received as part of the *Stage 1 Call for Evidence* concerned contributions to the Scheme – the volatility of contributions and the ratio of employer to member contributions over the last several decades and how these factors relate to the funding position of the Scheme. The Review has therefore investigated this matter further.

Notwithstanding the likely 2021 valuation position, in common with other DB final salary schemes, employer contributions have increased significantly over the last decade and a half in monetary terms and as a ratio of member costs (which have remained fixed at 5% of pensionable salary). The Review notes that when the Scheme was introduced, the ratio of employer to member contributions was 2.5:1. Today, as a result of falling real interest rates; regulatory change; and improving longevity, that ratio stands at around 6-7:1, as can be seen in Figure 2 below. These tables show the level of employer contributions as a ratio of member contributions compared to member contributions and total contributions in monetary amounts since the Scheme's inception in its current form in relation to the surplus/deficit position of the Scheme.

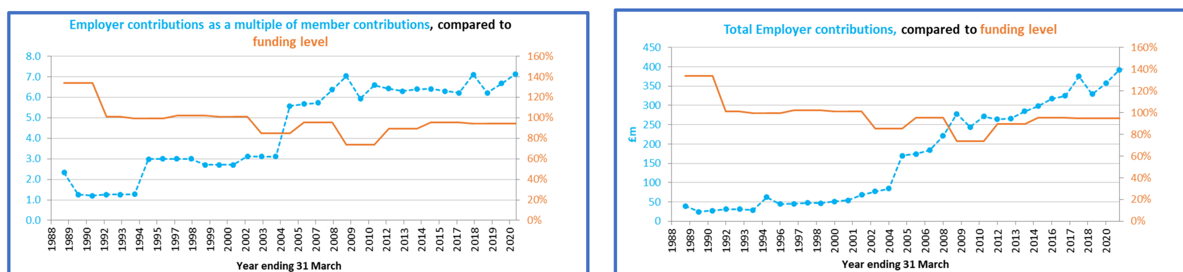
Figure 2: Employer contributions as a multiple of member contributions/ employer contributions £m (1988-2020) v surplus/deficit levels[8]



Note: The surplus/ deficit has been input at each triennial valuation date. This has been plotted with an increasing deficit on the right-hand Y-axis. Data drawn from scheme accounts and valuation reports (where available) between 1989 and 2020.

An alternative way of looking at the data is by comparison to the funding level of the Scheme. This is shown in Figure 3.

Figure 3: Total employer contributions as a multiple of member contributions/ employer contributions £m (1988-2020) v funding level[9]

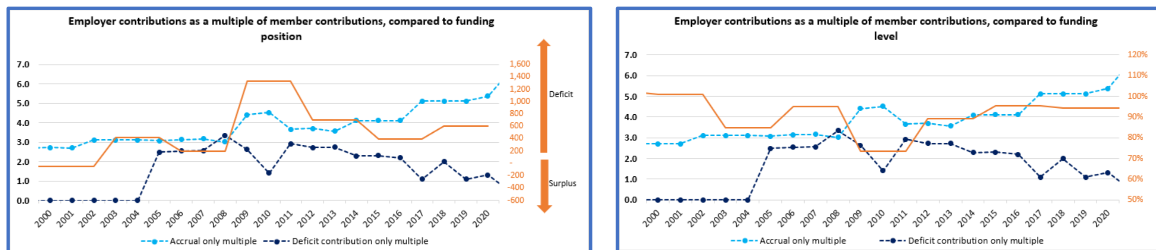


Both pairs of charts clearly show that, in common with other DB schemes, funding pressures (and consequential increases in employer contribution rates) started to emerge in the early 2000s. This can be attributed to a number of factors including falling real interest rates, improvements to longevity, and the global financial crisis.

Finally, the ratio and quantum of employer contributions (£m), split between normal contributions (accrual only multiple) and deficit contribution only multiple is shown below:

[8] These charts have been provided by TfL, with assistance from their advisers
[9] These charts have been provided by TfL, with assistance from their advisers

Figure 4: Normal and deficit recovery employer contributions v funding position and funding level[10]



FUTURE SERVICE COSTS AND UNCERTAINTY

As the Review commented upon in October, the actuarial valuation currently being undertaken by the Trustee is projecting that the Scheme will be fully funded or showing a surplus (though we note the results are dependent on there being no deterioration in the current sponsor covenant position, which itself is dependent on, amongst other factors, the long-term funding settlement struck between central Government and TfL and the finalisation of other key assumptions). This is a significant improvement on the position at the previous valuation in 2018 where there was a Scheme deficit of £603m.

The elimination of the deficit in March will mean that the need for Deficit Recovery Contributions (DRCs) is also eliminated. However, we also note that that this positive funding position cannot be guaranteed to remain the case in future years. Whilst a full valuation is conducted every three years (the triennial valuation), every year an assessment of the Scheme's funding position is undertaken in accordance with the Pensions Funding Agreement agreed between TfL and the Trustee at the 2018 valuation. If there is a deterioration in the funding position between valuations, then TfL would be required to pay additional contributions of up to £25m (indexed at RPI + 0.25%) a year into the Scheme. At future valuations, further contributions are payable by TfL under this agreement, along with a possible extension of any deficit recovery period.

Notwithstanding these excellent projected results, it remains the case that future service costs are likely to continue to rise. This is as a result of continuing improvements in longevity, changes in the profile of active members, and changes to assumptions. Together, these increasing cost pressures are likely to increase employer contributions for future service benefits to around 28-29% of salary (from the current 26.9%), or around £40-45m a year (it should be noted that this is the estimate for the 2021 valuation). Whilst these costs may be partially offset by the reduction in DRCs, they are nevertheless expected to increase in future years.

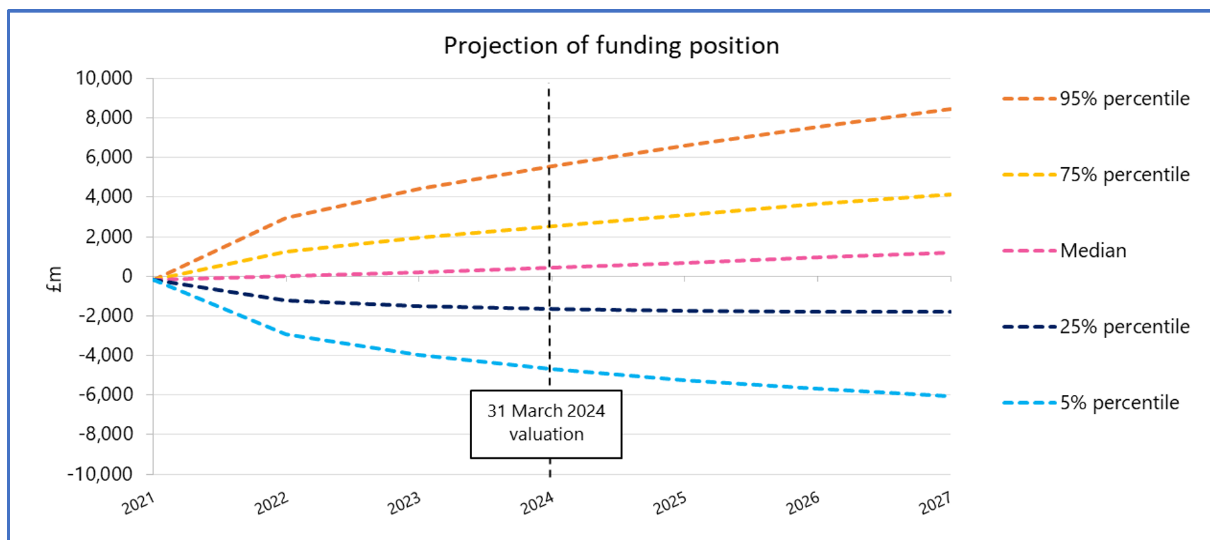
The Review also notes there is considerable uncertainty around, and risk to, the current funding position. This can be calculated by looking at the "Value at Risk" (VaR). This is a statistical tool which assesses the probability and possible funding losses within a portfolio within a given timeframe. The VaR tool combines lots of different market scenarios into a single monetary amount of risk at a given

[10] These charts have been provided by TfL, with assistance from their advisers

level of confidence. A lower VaR indicates a lower risk funding strategy. The VaR funnel then shows how the funding position of the Scheme could evolve over time for a given level of confidence.

This shows there is a 1-in-20 risk of a downside event occurring before the next actuarial valuation (ie 2024) such that a deficit of £4.5bn or more could be expected to emerge, which would translate into deficit recovery contributions from TfL of at last £400m a year (indexed) over the next ten years. Conversely, the current best estimate (ie an outcome that has an equal probability of under or overestimating the liabilities) over the same period would result in a small surplus in 2024. The best estimate outcome is shown in the pink dotted line below and the 1-in-20 worst case outcome in the light blue dotted line.

Figure 5: Projection of funding position – Value at Risk[11]



[11] This chart has been provided by TfL, with assistance from their advisers. It is based on an approximate funding position as at 31 March 2021. It should be noted different models and assumptions would result in different answers, but this is a broad illustration of the risks facing the Scheme in respect of the liabilities already accrued.

4. ASSESSMENT OF POTENTIAL OPTIONS FOR REFORM

The starting point for the options assessed against the Assessment Principles set out above is the range of pension reforms already undertaken across the public and private sectors in the UK. These were described in the Review's submission of 28 October 2021 to the Commissioner of Transport for London along with examples of schemes and employers that had implemented such reforms. It is set out again for reference below:

Figure 6: Range of possible options for reform[12]

	DB	AMENDED DEFINED BENEFIT			HYBRID			PURE DC	
	DB FINAL SALARY (AS IS)	DB FINAL SALARY	DB CARE + TIERED CONTS	DB CARE	DB CARE +DC	CDC	CASH BALANCE	DC	AUTO-ENROL'T
Accrual Rate	1/60th	1/60th	1/49th	1/60th	1/75th to salary cap then DC	1/80th	Targets pot of money at retirement	n/a	n/a
Salary cap[1]	£170,400	Yes	£172,800	Annual increases to pensionable pay capped at RPI	£59,884	-	n/a	Base salary	Band earnings[14]
Member Contribution	5%	5%[5]	Tiered (5.5%-12.5%)	7.24%	9.8%	6%	3%	5-8%	5%[15]
Employer Contribution[2]	26.9%	39% (min 5%)	19%[7]	10.86%	21.4%	13.6%	Balance to meet target pot	5-10%	3%
Basis	BoC[3]	BoC	BoC	Shared cost	Shared cost	Shared cost	BoC	n/a	n/a
Indexation – pensions in payment (cap)	RPI (5%)[4]	CPI	CPI	CPI	CPI	Depends on funding position	n/a	n/a	n/a
NRA (paid unreduced from)	65 (60)	65 (60)	SPA[8]	65[8]	65	67	60	TRA[12]	TRA
EXAMPLE ORGANISATIONS	TfL	NATIONAL GRID[6]	LGPS	NETWORK RAIL	USS	ROYAL MAIL[10]	BARCLAYS (legacy)[11]	BBC (LifePlan)[13]	NEST

MORE RISK WITH THE EMPLOYER ← RISK → MORE RISK WITH THE MEMBER

See Appendix 2 for footnotes.

It should be noted that none of the options are a perfect match for the Assessment Principles. In assessing the options against the Principles, the Review has considered those that most closely align to the Principles. The Review has therefore been required to make a judgement about the extent to which the Assessment Principles are met.

Importantly, the assessment should be considered with our two overarching objectives – benefits adequacy and avoidance of further strain on past service liabilities – in mind. It is also clear that there are many permutations of each of these options. In the time available we have therefore looked at the main options (so for example, CARE + DC has not been considered).

[12] From Annex 3, Submission to the Commissioner of Transport for London from the Independent Pensions Review, 28 October 2021.

CURRENT DB ARRANGEMENT – STATUS QUO

The current final salary arrangement has been in place since 1989 in its current form. It has around 85,000 members, some 25,500 of whom are actively contributing to the Scheme. Approximately 16,500 members are deferred and there are around 42,500 pensioner members and dependants. The final salary nature of the benefits gives members a stable and predictable source of retirement income. In the event of their death in service, members' beneficiaries receive a benefit of 4x salary (and a dependents income in some circumstances), and generous benefits are also available in the event of early retirement due to ill-health. Given the nature of employment for many of TfL's staff, these are important features of the pensions package. As such, the Scheme meets the principles of adequacy of provision. Someone on an average salary and with average job tenure would expect to receive a pension from the Scheme of £10,521 a year[13] – this would be paid on top of any State Pension entitlements and any other workplace pensions or savings. Given the benefit levels, the Scheme enjoys a high take up level – less than 1% of members opt out of the Scheme[14]. This reflects the value members attach to the Scheme and its position within TfL's remuneration and reward package.

All employees are entitled to join the Scheme and as such, there are no differences in pension type between different cohorts or generations of employees. It might be noted that, in common with all final salary schemes, higher earners at retirement and those with longer service benefit more compared to lower earners at retirement and those with shorter service.

As the Review noted in its 28 October letter to the Commissioner, the Scheme is well-managed and well-governed. The Trustee has implemented a sophisticated and successful investment strategy, afforded by the open status of the Scheme and the strength of the employer covenant to date, which has resulted in the latest actuarial valuation projecting that for March 2021 the Scheme will be fully funded (although as we have noted, this remains subject to finalisation). As we have noted elsewhere, were the Scheme to close it would mature significantly, potentially causing the Trustee to consider de-risking the investment strategy, reducing anticipated returns, thus causing a deterioration in the funding position leading to increasing calls for further employer support in the form of additional contributions.

As a balance of cost scheme, there is certainty in contribution levels for Scheme members. However, as shown in

[13] Assumes earnings of £53,000 and job tenure of 13 years (which are average salary amounts and job tenure durations within TfL) and that the member retires on an unreduced pension. Lower Earnings Limit (£6,240 for 2021/22) has been deducted from final pensionable salary in line with Scheme rules. Assumes no lump sum is taken.
[14] Information supplied by TfL Pension Fund

Figure 2, Figure 3, and Figure 4 in the previous section, as with any balance of cost scheme, there is greater exposure to volatility for the employer.

This option meets the Assessment Principles identified by the Review and will therefore, be considered further.

AMENDED FINAL SALARY STRUCTURE

As noted in the Review's letter to the Commissioner of 28 October 2021, the Scheme is extremely well run and well governed. Indeed, as described earlier in this Interim Report, the actuarial valuation currently being undertaken by the Trustee is projecting that (subject to the covenant assessment and finalisation of other assumptions) the Scheme is estimated to be fully funded. However, as described in Section 3 above, the Review notes that whilst this will mean that deficit repair contributions will be eased or eradicated, pressures on future service costs will continue.

It is in this context that concerns have been raised with the Review about the future sustainability of the Scheme and the balance of contributions and risk borne between TfL and Scheme members.

Therefore, whilst retaining the current link to final salary, it would be possible to make some adjustments to the current Scheme arrangements. The maintenance of the final salary link would continue to provide members with certainty of benefits and continue to provide high levels of adequacy of benefit provision at retirement. Additionally, it would also provide high quality benefits to members (and their dependents) in the event of ill-health early retirement and to their beneficiaries in the event of death in service. Whilst there would be some adjustment to the benefit structure, an amended final salary scheme would therefore avoid the sharp divisions seen in many workforces when pension reform is undertaken where some workers remain in the DB scheme whilst others (often younger workers) are placed into a DC scheme with much lower levels of contributions – all scheme members would enjoy final salary benefits. It would therefore meet the principle of being fair between different cohorts of members and generations of members.

It would also be possible to consider changes to contribution rates, including both the level and structure of contributions. For example, it would be possible to introduce a tiered contribution structure in which members with lower salaries paid lower levels of contributions than members with higher salaries. This would help to ensure that the Scheme remained affordable for those on lower earnings.

The retention of the final salary arrangement would also ensure that the Scheme could remain an important recruitment and retention tool for TfL and ensure that the organisation remained competitive – the Scheme would remain one of the few open DB schemes in the UK. Therefore, as now, it is likely that it would enjoy high take up levels.

Balanced against this, the adjusted level of benefits would provide greater certainty to the employer in terms of contribution levels and help manage volatility in contributions whilst providing members with a predictable benefit structure. As has been explained in Section 3, the Review has noted that the ratio of employer to member contributions currently stands at 6-7 times the member contribution compared to 2.5 times the member contribution in 1989[15] when the Scheme was established in its current form. It would ensure there is a fair balance of contributions between

[15] The TfL Pension Scheme was established in its current form on 1 April 1989, an amalgamation of two predessessor final salary schemes.

members and the employer and continue to provide adequate levels of benefits in a way that is sustainable over the longer term.

By retaining an open Scheme, the Trustee could continue to adopt its current return-seeking approach to investment, thereby avoiding the risks to TfL (and in turn farepayers and taxpayers) of the increased costs and risks associated with the closure to future accrual described earlier in this report.

This option meets the Assessment Principles identified by the Review and will, therefore, be considered further.

DB CAREER AVERAGE REVALUED EARNINGS (CARE)

Across large parts of the public sector, and in a number of large private sector employers, Career Average Revalued Earnings (CARE) schemes have been introduced. CARE schemes provide a defined benefit. But rather than the pension being linked to the member's final salary at retirement, it is linked to the average earning of the member taken over the whole of their pensionable service, which are then revalued to provide the pensionable salary on which the pension benefit calculation is based.

It would also be possible for a CARE scheme to enjoy a more favourable accrual rate than the previous final salary scheme. For example, the CARE scheme in the Local Government Pension Scheme (LGPS) has an accrual rate of 1/49^{ths} per year of service compared to a 1/80^{ths} accrual rate (plus 3/80^{ths} lump sum) in the previous final salary arrangement available to 2008 and a 1/60th accrual rate that was available in the CARE scheme that operated until 2014.

Because final salary pension scheme benefits are calculated on someone's salary at retirement, they benefit workers with traditional career patterns whose earnings rise over the course of their working lives and who end their careers on their highest salary. CARE schemes, on the other hand, can benefit people with a-typical employment patterns whose earnings may peak in mid-career – for example someone who may switch from full-time to part-time working mid-career. Their final pensionable salary will be an average of all their earnings experience and take account of their period of higher earnings even though it may have been many years prior to their actual retirement.

Additionally, because a CARE arrangement is a DB arrangement, different generations of members would not experience radically different outcomes and so its introduction would not result in the sharp intergenerational differences that might be seen with the introduction of the DC scheme, for example. Therefore, CARE arrangements meet the principle of being fair to different cohorts of members.

As a DB scheme, CARE schemes provide certainty and stability of retirement income for members. CARE schemes are also capable of providing high levels of pension income, death in service benefits and ill-health early retirement benefits. Thus, they meet the principles of adequacy and benefit certainty which can form a valuable benefit as part of an overall remuneration and reward package.

The link to revalued average earnings (rather than final salary) helps employers manage salary risk, providing them with greater certainty over future costs. A CARE scheme would therefore meet the principle of helping employers to manage risk.

Because of the DB nature of the benefits, CARE schemes often enjoy high levels of take up. For example, in 2019 opt out rates for the Teachers' Pension Scheme stood at just 3.4% and 1.45% for the civil service pension schemes[16] (though it is noted that opt out rates in the NHS scheme are higher).

This option meets the Assessment Principles identified by the Review and will, therefore, be considered further.

DB CARE + TIERED CONTRIBUTIONS

A particular feature of many of the CARE schemes introduced across the public sector as a result of the 2013 public sector reforms is tiered contributions. Here, contributions increase with rising levels of income:

- In the LGPS contributions start at 5.5% for someone earning up to £14,600 rising to 12.5% for someone earning between £165,001 or more[17];
- For the Civil Service Schemes, contributions for someone earning up to £23,100 are set at 4.60%, rising to 8.05% for someone earning £150,001[18]; and
- For the NHS pension scheme, contributions for someone earning up to £15,431.99 are set at 5.0% rising to 14.5% for those earning £111,377 and over[19].

As can be seen, the levels of contributions are calibrated to the employment profiles and income distributions of the underlying schemes. The common principle, however, is to ensure that those in the workforce who are better positioned to contribute more do so whilst setting lower contributions for lower earners to encourage their participation in the scheme. This requires a careful balance to ensure that the distribution is fair and that no-one is priced out of the scheme by paying an unaffordable level of contributions and that 'cliff edges' when someone moves from one salary band (and therefore one contribution band) to another can be managed. Nevertheless, the concept of tiered contributions further meets the principle of ensuring that the scheme is fair between different cohorts of members.

This option meets the Assessment Principles identified by the Review and will, therefore, be considered further.

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[16] Baska, M (2 January 2019) *People Management*. Available at: https://www.peoplemanagement.co.uk/news/articles/nhs-facing-epidemic-pension-optouts#gref
[17] Local Government Pension Scheme – contributions table 2021/22, LGA. Available at https://www.lgpsmember.org/toj/thinking-joining-how.php
[18] ENP621 – member contributions 2021/22 – Civil Service Pensions. Available at https://www.civilservicepensionscheme.org.uk/employers/employer-pension-notices/epn621-member-contributions-202122/
[19] Cost of being in the Scheme – NHS Business Services Authority. Available at https://www.nhsbsa.nhs.uk/member-hub/cost-being-scheme

COLLECTIVE DEFINED CONTRIBUTION SCHEMES

Collective defined contribution schemes (also known as collective money purchase schemes) are a new feature of the UK pensions landscape. They offer the member a target level of benefit at retirement. If the scheme is under (or over) funded, benefits can be adjusted up or down – eg by withholding some of all of pension increases.

Whilst the member has a target level of income and a guaranteed level of benefits (albeit at a lower level of guarantee than in a DB scheme), they also take on some of the investment risk (because if investments fail to perform and the scheme is underfunded as a result, benefits can be reduced). Employers, on the other hand, gain the certainty of reduced risk and a more certain level of contributions.

CDC schemes were introduced via the 2021 Pension Schemes Act. Enabling legislation is expected to be enacted in early 2022. Once enacted, it is expected that the Royal Mail will introduce a CDC scheme.

Given this legislative timetable, it is too early to assess the suitability of a CDC arrangement for TfL. This arrangement will not be considered further.

CASH BALANCE SCHEME

In a cash balance arrangement, a member is guaranteed a minimum cash value on retirement. The member may also be guaranteed a minimum level of investment return on their contributions. The member is then free to determine how they would like to take their pension retirement – for example, to buy a retirement income (annuity) or to take a lump sum or a combination of both. These arrangements aim to provide some guarantee to members whilst providing employers with more certainty and limiting employer contributions (because the employer is not exposed to risk in respect of increasing member longevity in retirement or investment or inflation risk post-retirement). So, whilst such an arrangement would provide certainty, it would not meet the principle of providing a stable benefit structure for members; they would have little certainty over their final income level as this would be dependent on the final size of their pension 'pot' at retirement and a range of external factors, such as interest rates, for example if they chose to buy an annuity. Importantly, depending upon where the target cash value is set, the scheme may not provide an adequate level of benefits for members. And in the absence of an investment guarantee, members would also bear the entirety of the risk post-retirement (eg longevity, inflation and investment risk). As such, a cash balance scheme would not meet several of the principles identified by the Review.

The introduction of a cash balance scheme would create sharp intergenerational differences between different cohorts of employees, with younger workers disadvantaged compared to longer-serving members. It would likely result in lower levels of benefits for high levels of risk compared to members with significant levels of DB benefits already accrued at the point a cash balance scheme were

introduced. Therefore, this would fail to meet the principle of fairness between different cohorts or generations of members.

It should be noted that cash balance schemes are rarely used in the private sector and the Review is not aware that they have been used in significant public sector organisations. It would be unlikely to meet the principle of a pension arrangement within the overall context of TfL's remuneration and reward policy that is competitive for recruitment and retention purposes.

This option does not meet the Assessment Principles identified by the Review and will not, therefore, be considered further.

DEFINED CONTRIBUTION

Unlike defined benefit schemes where the member is given certainty over the final level of pension income, in a defined contribution (DC) scheme the final pension will depend on contributions paid in, investment returns, and the charges levied on the scheme (which typically fall to the member). If the member wishes to convert their pension 'pot' into an annuity, their income will also depend on interest rates at the point of conversion. As such, members rather than the employer, bears the investment and contribution risk. They also bear the longevity risk, ie the risk that their pension income will run out before they die.

Contributions to DC schemes are typically lower than in DB arrangements. Average total contribution rates for DC schemes for FTSE 350 employers[20] that do not offer matching contributions currently stand at 10.8%, split 8.3% employer and 2.5% scheme member. Notably, whilst the total rate of contribution has remained steady since 2015, employer contribution rates have fallen from 9.8% on average to 8.3% in 2021. Employees have taken up the slack, with their contributions rising from 1% to 2.5% on average (though this in part may be accounted for by rising statutory automatic enrolment contribution levels over the period). Whilst contributions to DC schemes with matching contributions are typically higher (17.4% on average, split 11.3% employer and 6.1% member) less than a fifth of companies enrol members at contribution rates in excess of the minimum contribution rate (typically a 6.8% employer contribution and 2.9% employer contribution).

It would, of course, be possible for TfL to pay much higher contributions into a DC arrangement, reflecting the lower risk it would be facing. However, the lower levels of contributions typically paid in to DC schemes are unlikely to provide adequate levels of income at retirement. Therefore, at these typical rates this would not meet the Review's assessment principle of providing adequacy in retirement. Such an arrangement would also fail to provide adequate ill-health early retirement security as the member would simply be refunded their pension 'pot'. Separate death in service cover may be provided by the employer.

[20] FTSE 350 Defined Contribution Pension Survey 2021, Willis Towers Watson.

DC schemes are almost universal (for new employees at least) across the private sector. However, they are extremely uncommon across the public sector. In 2019, public sector employees accounted for 87% of all those actively contributing to a DB scheme (6.3m out of 7.6m)[21]. Notwithstanding the greater certainty of contribution levels and reduced volatility in a DC scheme for employers, it is highly unlikely that a DC scheme would meet the principle of ensuring that the pension arrangement remained competitive for TfL's reward and retention purposes.

The introduction of a DC scheme would create sharp intergenerational inequities in the workforce: older workers with large or modest amounts of DB benefits already built up would be in a much more financially secure position compared to younger workers who would be required to rely mainly or exclusively on the DC arrangement. As such, DC arrangement would not meet the principle of fairness between different cohorts or generations of members.

This option does not meet the Assessment Principles identified by the Review and will not, therefore, be considered further.

DC: AUTOMATIC ENROLMENT SCHEME

The principle of automatic enrolment was introduced in 2012 to extend pension provision to employees (and now workers) who were previously excluded from workplace pension provision. The review notes that, as a result of auto-enrolment, 8 out of 10 employees were workplace pension members compared to 5 out of 10 in 2012[22]. Auto-enrolment was not designed for employers such as TfL which places a high premium on the quality of its pension arrangements.

Statutory automatic enrolment contributions are set at just 8% of band earnings, with at least 3% paid by the employer and 5% (including tax relief) by the employee. Whilst there might be certainty for the employer in terms of pension contribution levels which avoids volatility of contributions, it is generally recognised that these low levels of contributions are inadequate – and they are significantly lower than those currently paid into the Scheme. As a result, an auto-enrolment arrangement based on statutory minimum contributions would not meet the principle of providing an adequate level of income in retirement. Such an arrangement would also fail to provide adequate ill-health early retirement security or death in service benefits (in both cases, the member would simply be refunded their pension 'pot'). Whilst it is possible for take up levels in auto-enrolment schemes to be high, nationally opt-out levels from auto-enrolment schemes are around 10%. Higher opt-out levels, combined with low contributions, further raises concerns over adequacy.

The introduction of an auto-enrolment minimum arrangement would create the same sharp intergenerational inequities in the workforce described for DC above. However, these issues would be

[21] Public service pensions: facts and figures. House of Commons Library Briefing Paper. Briefing Paper No8478, 11 May 2021. Djuna Thurley & Rod McInnes. Available at https://researchbriefings.files.parliament.uk/documents/CBP-8478/CBP-8478.pdf
[22] Employee workplace pensions in the UK: 2020 provisional and 2019 final results. ONS May 2021. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2020provisionaland2019finalresults#main-points-april-2020

further accentuated by the low level of statutory minimum contributions. As such, an auto-enrolment arrangement would not meet the principle of fairness between different cohorts or generations of members.

As noted above, DC schemes shift the balance of risk from sponsoring employers towards the scheme member: members, not the sponsoring employer, must take on investment risk and longevity risk. In addition, because of the low level of contributions, members also take on the adequacy risk and it could be argued that the investment risk could be enhanced as, to generate better returns and a bigger pensions pot at retirement, members might need to take more investment risk than might be appropriate. Therefore, minimum contribution auto-enrolment scheme would not meet the principle of managing risk between members and employers.

As noted above, DC arrangements are extremely rare across the public sector. Therefore, an auto-enrolment scheme based on statutory minimum contributions would result in TfL's remuneration and reward package becoming significantly uncompetitive compared to the rest of the public sector and key parts of the transport sector.

The Review does not believe an auto-enrolment minimum contribution arrangement would be a sustainable arrangement for employees of TfL and would be unlikely to be able to meet the retirement needs of current and future generations of workers.

This option does not meet the Assessment Principles identified by the Review and will not, therefore, be considered further.

5. CONCLUSION AND NEXT STEPS

Based on the assessment described in Section 4, the following options have been identified for further consideration.

Figure 7: Summary - in scope and out of scope options for further consideration

IN SCOPE	OUT OF SCOPE
▪ Current scheme arrangements	▪ CDC
▪ Modified Final Salary scheme	▪ Cash balance scheme
▪ DB CARE + tiered contributions	▪ Defined Contribution Scheme
▪ DB CARE	▪ DC auto-enrolment (minimum contributions)

NEXT STEPS

In line with its ToR, the Independent Review will now undertake further analysis of the in-scope options described above in respect of future service entitlements. The Review will continue to do so against its interpretation of the matters described in Section 2 of this report as well as the specificities of TfL, its pension Scheme and workforce. The Review's assessment will also consider the impact of the in-scope options on:

- the impact on members' benefits; and
- the impact on TfL's contributions.

As part of its further analysis, the Review will also consider the implications of any changes to future service entitlements on past service liabilities and the issues that may arise in respect of any transition from one arrangement to another. This will include considering the position of the c1,800 active Scheme members with "protected benefits"[23] and the application of the Scheme's Trust Deed and Rules. None of these are simple matters. As can be seen by the issues currently being faced elsewhere across the public sector, there can be unintended consequences of moving from one arrangement to another. These issues will therefore need to be carefully analysed as part of any consideration of the future direction of the Scheme.

As required by the Review's ToR, we will set out a full analysis of the Options and provide a recommended approach and implementation plan in our final report by 31 March 2022.

[23] These are employees afforded statutory protection under the Greater London Authority Act 1999 and who were members of the Scheme having been employed by London Regional Transport or one of its subsidiaries, and who transferred to Metronet BCV Limited, Metronet SSL Limited or Tubelines Limited under the London Underground PPPs.

APPENDIX 1: INDEPENDENT PENSION REVIEW'S TERMS OF REFERENCE

TRANSPORT FOR LONDON PENSIONS REVIEW (THE REVIEW) TERMS OF REFERENCE

1. PURPOSE OF THE REVIEW

Under the terms of the TfL funding agreement dated 1 June 2021, HM Government required that TfL conduct a review of the TfL Pension Fund (the **Scheme**) and reform options, with the explicit aim of moving TfL's pension arrangements into a financially sustainable position.

The purpose of the Review, therefore, is to conduct an assessment of the Scheme and to make recommendations in relation to TfL's pension arrangements generally that are sustainable and affordable in the long term, fair to employees, farepayers and taxpayers and consistent with TfL's financial challenges ahead, while protecting members' benefits built up to date (the **Purpose**).

2. SCHEME COVERAGE

The Review shall relate to all sections of the Scheme.

3. SCOPE OF THE REVIEW

The Review shall have regard to and consider the following matters (the **Scope**):

A. the need to ensure that future pension provision is fair across TfL's employees, including protecting members' benefits built up to date;
B. the needs of TfL in ensuring generally that TfL's future pension provision is affordable and sustainable in the long term for TfL, farepayers and taxpayers (including taking into account the volatility and risk associated with TfL's contributions to the Scheme);
C. the circumstances of the Scheme in terms of its employer covenant, member contributions, benefits, funding position on the bases required under Part 3 of the Pensions Act 2004, section 179 of the Pensions Act 2004 and section 75 of the Pensions Act 1995, investment strategy, legal status and legal constraints on making changes under its trust documentation and how this compares to other public and private sector schemes; and based on these circumstances, produce an analysis of the funding and legal issues faced by TfL in relation to the Scheme;
D. how risk should be shared between farepayers, taxpayers, employees and members;
E. wider policy considerations such as provision of choices for, and promoting adequate saving for, retirement and longer working lives;
F. the needs of TfL as an employer in terms of recruitment and retention including matters such as the overall reward package being offered; and

G. potential implementation and transitional arrangements for any recommendations.

Based on the Purpose and Scope set out above, the Review shall consider all options for reforming TfL's pension arrangements, with nothing ruled in and nothing ruled out (the Options).

4. REVIEW SCOPE EXCLUSIONS

It is recognised that TfL will be required by law to inform and consult with affected members and their union representatives about any proposals for reform which may arise as a consequence of the Review and to follow any required legislative processes. These matters are therefore excluded from the Scope.

5. REVIEW INDEPENDENT LEAD

The Review shall be independently led and facilitated by Sir Brendan Barber (the **Independent Lead**) who will be joined by Joanne Segars OBE, who will provide independent expert pensions advice.

The Independent Lead will have access to the knowledge and full co-operation of TfL, including the provision of a secretariat function.

The Independent Lead shall also have access to professional external advice in relation to legal, actuarial and technical modelling matters.

The Independent Lead will conduct the Review in accordance with these terms of reference, including the matters set out in section 6 below.

6. REPORTING DELIVERABLES

The Review will:

- identify and clearly set out the potential pros and cons of Options that would meet the Purpose and Scope; and
- set out a recommended approach (including an explanation of why the other Options considered are not being recommended) that would meet the Purpose and Scope.

These matters shall be reported as follows (the **Deliverables**):

- by 31 October 2021, the Independent Lead shall provide a final list of Options under consideration; setting out high level, general assessments on how they could meet the matters set out in the Purpose and the Scope;
- by 11 December 2021, the Independent Lead shall provide an Interim Report which shall explain the Options that are being considered in further detail and clearly describe in further detail how they meet the matters set out in the Purpose and the Scope; and
- by 31 March 2022, having considered all of the evidence and representations received, the Independent Lead shall provide a Final Report, setting out a full analysis of the Options and a recommended approach along with an implementation plan.

The Independent Lead shall meet regularly with TfL during the course of the Review period in order to discuss and report on progress and other matters pertaining to the completion of the Deliverables set out above.

ENGAGEMENT, EVIDENCE GATHERING AND REPRESENTATIONS

The Independent Lead of the Review shall offer interested parties (including but not limited to trade unions, the Trustee of the Scheme, HM Government, other public and private sector organisations with relevant pension arrangements) a reasonable period of time to engage with and submit evidence and representations to the Review. This will be taken account of at all stages of the Review.

The Independent Lead shall decide how this engagement shall be organised considering the period of time available to conduct the Review; for example, via written correspondence and/or meetings.

The Independent Lead shall decide upon the general views and/or specific questions to be posed in the engagement, in consideration of the matters set out in the Purpose and Scope.

APPENDIX 2: OPTIONS FOR POTENTIAL REFORM – FOOTNOTES

1. Salary cap – we have used this term to describe a variety of arrangements present in pension schemes whereby benefits may cease, or be different, for members above (or below) a certain salary level.

2. Excludes any deficit repair contributions paid by the employer.

3. BoC - Balance of Costs. Members contribute a specified amount; the employer pays the balance to fund the scheme. For shared cost schemes, contributions are split between the member and employer on a fixed proportion, eg 1/3rd member & 2/3rds employer.

4. It is noted that some Scheme members' benefits in deferment and in payment are not subject to the 5% cap. Depending when the member joined the Scheme there may be deductions or adjustments applied to pensionable salary.

5. Pensionable salary increases capped by the lower of 3% or RPI since 1 April 2013. Used as basis for calculating benefits.

6. Refers to The National Grid Electricity Group (NGES) of the Electricity Supply Pension Scheme which was closed to new members in 2006.

7. Average employer contributions across the LGPS. Subject to a cost cap – if employer contributions exceed the cost cap, member contributions or benefits must change.

8. SPA – subject to a min of 65, depending on when member joined the scheme.

9. For benefits earned post 2012. Benefits earned prior to 2012 can be taken on an unreduced basis from age 60 down to a minimum of age 50, depending on category of membership.

10. Expected to be introduced in 2022.

11. Closed to future accrual.

12. Target Retirement Age – member will select a retirement age but may retire before or after that age. This will often be state pension age.

13. Available predominantly for staff who joined after 1 December 2010.

14. Band earnings - £10,000-£50,270 for 2021/22.

15. Total statutory minimum contributions are 8% of 'band earnings'.

APPENDIX 3: GLOSSARY OF TERMS

ACTUARIAL VALUATION	A process which assesses the value of the Scheme's assets and liabilities at the assessment date (known as the effective valuation date) and to review and revise (if necessary) the level of contributions paid by the employer, both in relation to any deficit arising in the Scheme and those contributions required to meet the cost of new benefits that will be earned by contributing members in future. The method and assumptions used in the valuation to calculate the value of the Scheme's liabilities (the Technical Provisions), as well as the required level of contributions over an agreed time period must be agreed between the employer and the Trustee and set out in a number of key compliance documents which are ultimately submitted to The Pensions Regulator.
ANNUITY	A pension annuity is a financial product that pays you a guaranteed income for a fixed period or for the rest of your life. When you retire, you can choose to use some or all of your pension savings to buy an annuity.
AUTO-ENROLMENT	Auto-enrolment schemes are the legally required minimum level of pension provision in the UK. These are DC schemes into which the employer must contribute 3% of "band earnings" (currently £10,000-£50,270 for 2021/22) and the member 5%. (bringing the statutory minimum level of contribution to 8% of band earnings).
BALANCE OF COST SCHEME	This is a type of defined benefit scheme where the cost to the member is fixed and the employer must pay the balance of cost in order to meet guaranteed pension benefits. The TfL Pension Fund is an example of a balance of cost scheme.
CARE SCHEME	A Career Average Revalued Earnings (CARE) scheme is a defined benefit scheme. The guaranteed pension income a member will receive is based not on the member's final salary at retirement but on their average earnings over their period of pensionable service, increased with inflation. The benefits will also be calculated by reference to an accrual rate.
CASH BALANCE SCHEME	In a cash balance arrangement, a member is guaranteed a minimum cash value on retirement or, in some cases, a member is guaranteed a minimum level of investment return on their contributions. It is then up to the member how they choose to take their pension on retirement – for example, to buy a retirement income (annuity) or to take a lump sum or a combination of both.
COLLECTIVE DC SCHEME (CDC)	Collective Defined Contribution schemes (CDC, also known as Collective Money Purchase Schemes) are a hybrid of a DB and a DC arrangement whereby the employer's contributions are fixed as a

	percentage of salary and the member is offered a target level of benefit at retirement rather than a guaranteed income (as in a DB scheme). If a CDC scheme is under (or over) funded, benefits may be adjusted down (or up).
DEFICIT RECOVERY CONTRIBUTIONS (DRCs)	The level of contributions paid by the employer, in relation to any deficit arising in the scheme.
DEFINED BENEFIT SCHEME (DB)	This is a pension arrangement where members have a known benefit at retirement based on how much they earn and how long they have worked in an organisation.
DEFINED CONTRIBUTION SCHEMES (DC)	Defined Contribution (DC) pensions are arrangements where members do not receive a guaranteed level of income at retirement. Instead, members receive an income at retirement that depends upon the levels of contributions paid by the member and the employer during the period of membership, investment returns achieved on those contributions, charges and taxes and the cost of purchasing (or otherwise drawing down) the chosen benefits at retirement. The pension pot may also be taken as cash.
DE-RISKING	Means actively seeking to reduce the level if risk in the investment strategy in order to reduce volatility and match assets to liabilities.
DISCOUNT RATES	Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Section. The lower the discount rate the higher the resulting capital value.
EMPLOYER COVENANT	This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.
FINAL SALARY SCHEME	Under a final salary scheme, the member is guaranteed a certain level of income each year (usually increased with inflation) at retirement and/ or a guaranteed lump sum. The amount a member is guaranteed to receive is determined by a formula set out in the scheme's rules and is usually based on the period of a member's service and their final salary at retirement.
FUTURE SERVICE ACCRUAL (FSA)	The contributions required to meet the cost of new benefits that will be earned by contributing members in future.
INVESTMENT STRATEGY	A strategy developed by the Trustee that aims to ensure the Scheme's assets are carefully managed. It specifies matters such as the kind of investments to be held, expected returns on investments, the balance between investments and the level of risk undertaken.
PENSIONS FUNDING AGREEMENT (PFA)	An agreement related to contingent funding for the Scheme, entered into by TfL and the Trustee as part of the 2018 valuation.
PENSION PROTECTION FUND (PPF)	The Pension Protection Fund (PPF) protects people with a private defined benefit pension when an employer becomes insolvent. If

	the employer doesn't have enough funds to pay you the pension they promised, the PPF will provide compensation instead.
PENSIONABLE SALARY	This is your basic (or contractual) salary, inclusive of any permanent allowances but excluding overtime earnings. Depending on when you joined the Scheme, there may be deductions or adjustments applied.
PENSIONABLE SERVICE	This is the period you have been contributing to the TfL Pension Fund, beginning when you joined the Scheme and ending when you stopped making contributions.
RECOVERY PLAN	A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").
SCHEME MATURITY	A Scheme that is open is relatively immature – that is, the end date of the Scheme, when the last pensioner is forecast to be paid their last payment, is not known. A Scheme that is closed crystallises its maturity – that is, in a closed scheme it is possible to forecast when the last pensioner may receive their last payment. A plan's level of maturity affects its ability to recover from a negative shock, so different levels of funding and investment risk are likely to be appropriate.
SHARED COST DB SCHEME	This is a type of DB scheme where the cost of providing benefits is shared between the employer and the member, typically by a fixed proportion (for example one-third member and two-thirds employer). Depending on the funding position of the scheme , the members' and employer contributions may be adjusted up or down in line with these proportions.
STATE PENSION	The State Pension is a regular payment you can get from the government once you reach State Pension age. To qualify you must have paid National Insurance contributions during your working life.
TECHNICAL PROVISIONS:	The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

TIERED CONTRIBUTIONS	In some pension schemes, the members' contributions are scaled depending on, for example, salary with those on lower salaries paying lower contributions compared to those on higher salaries who pay higher contributions.
THE PENSIONS REGULATOR (TPR)	The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.
VALUE AT RISK (VAR)	A measure of market risk within an investment portfolio, it is often expressed as an amount of financial loss that might be suffered at various levels of probability within a given timeframe.