TfL Pension Fund – Public Sector Section

Statement of funding principles

This statement has been prepared by the Trustee of the TfL Pension Fund ("the Fund") to satisfy the requirements of Section 223 of the Pensions Act 2004 ("the Act") and regulations made under the Act in relation to the Public Sector Section ("the Section") of the Fund, after obtaining the advice of Richard Williams ("the Scheme Actuary"). The Trustee has discussed and agreed this statement with the Principal Employer, Transport for London ("TfL").

This statement covers the Section's statutory funding objective, the principles used to determine that objective and the Trustee's policy for securing that it is met. It contains other information required under the Act and relates to the actuarial valuation of the Section as at 31 March 2006.

Statutory funding objective

The statutory funding objective is that the Fund must have sufficient and appropriate assets to cover its technical provisions. This statement sets out, among other things, the Trustee's policy for securing that this objective is met.

The Trustee will adopt a prudent approach when determining the assumptions used to calculate the technical provisions. Where appropriate it will consider whether, and to what degree, margins for adverse deviations should be taken into account when selecting this approach. The assumptions adopted will be chosen on the basis that the Section is not expected to be wound up in the foreseeable future.

TfL and the Trustee have agreed that, in relation to the matters covered in this statement, the Scheme Actuary will advise solely the Trustee. TfL will take advice from its own actuarial adviser.

Technical provisions

Method

The Section's "technical provisions" means the amount required, on an actuarial calculation, to make provision for the Section's liabilities. The method used in calculating the Section's technical provisions must be an accrued benefits funding method.

Having regard to the above, the Trustee and TfL have agreed that the Section's technical provisions at any given date are to be calculated as the capital value of the prospective benefits arising from service completed up to that date, including allowance for prospective salary increases for members in active service at that date and for prospective pension increases for all members. The regular contributions payable are at a level sufficient to provide for the accrual of technical provisions over the year following the effective date of the valuation and to meet regular non-investment expenses and Pension Protection Fund levies (when aggregated with expenses and levies recovered from the private sector sections). Overall this method of determining the technical provisions is known as the projected unit credit method.

Assumptions

The Trustee and TfL have further agreed that:

- the future returns on the Section's investments and future contributions will be assumed to be consistent with the yields available at the effective date of the valuation on gilts, other bonds and equities, with allowance for a prudent level of future equity dividend growth, thereby anticipating some of the additional returns expected to be obtained by holding investments other than gilts;
- the remaining financial assumptions, in particular future price inflation, will take into account information available in respect of economic conditions and bond markets at the effective date of the actuarial valuation;
- demographic assumptions will have regard to an analysis of recent changes in the Section's and the Fund's membership as well as relevant statistics applicable to similar pension schemes and the Trustee's and TfL's views about how these may change in future.

Taken together, the assumptions adopted at a particular date will be prudent and consistent with the Trustee's desired level of confidence that assets equal to the technical provisions will prove adequate to meet benefits already accrued as they fall due without the need for further contributions from TfL.

Discretionary benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustee and/or TfL, the principal details of which are set out below:

- Pensions in deferment or in the course of payment are guaranteed under the Fund rules to receive annual increases in line with price inflation (subject to a maximum of 5% in any one year in the case of New Members) (subject to statutory requirements). The Trustee, subject to the consent of TfL, has discretion to increase pensions above this level. For the purpose of calculating the technical provisions, the Trustee has agreed with TfL that no allowance will be made for any discretionary increases.
- At the request of any employer, and upon payment by that employer (and/or the member concerned) of any contributions that the Trustee (having consulted the Actuary) may decide, the Trustee may increase any benefit or provide additional benefits under the Section. The Trustee and TfL have agreed that such discretionary benefits will not be taken into account in the calculation of technical provisions, but that the capital value of any such benefits granted would be paid in full by the employer (and/or the member concerned) at the time the discretion is exercised.
- Members may commute pension for cash at retirement using commutation factors that are determined by the Trustee. The Trustee and TfL have agreed that no allowance should be made in the technical provisions for commutation. It is acknowledged that such an approach introduces an element of prudence to the extent that the commutation factors place a lower value on each £1 pa of pension than the value included in the technical provisions.

Eliminating a shortfall

The Trustee and TfL have agreed that any funding shortfalls identified at an actuarial valuation of the Section should be eliminated as quickly as each employer can reasonably afford by means of a one-off additional contribution shortly after the valuation has been completed or by the payment of additional multiples of member contributions over the recovery period.

When determining the recovery plan the Trustee may take into account factors such as the size of the shortfall, the business plans of the employers, the Trustee's assessment of the strength of the covenants from the employers and any contingent security offered by the employers.

Frequency of actuarial valuations

The Section's first actuarial valuation under Part 3 of the Pensions Act 2004 is being carried out as at 31 March 2006. In the normal course of events the Trustee will request subsequent valuations three years after the preceding one. The Scheme Actuary will provide an estimate of the up-to-date financial position of the Section, relative to both the statutory funding objective and the solvency liabilities, as at each 31 March for which a full valuation is not requested.

The Trustee and TfL recognise that there is likely to be short-term volatility between the value of assets and the technical provisions. The updates provided by the Scheme Actuary will not normally lead to changes in the required contributions ahead of the next valuation unless, after discussion, the Trustee and TfL agree that changes are required.

The Trustee may call for a formal funding valuation at any date if they are of the opinion that events have made it unsafe to rely on the results of the previous valuation for funding purposes. In reaching such a view, the Trustee will consider the advice of the Scheme Actuary and consult with TfL.

Actuarial valuation as at 31 March 2006

The Trustee (having taken the advice of the Scheme Actuary) and TfL have agreed assumptions for the valuation as at 31 March 2006, in line with the process described above. They have based the investment return assumption on the Section's actual asset allocation as at 31 March 2006 and have assumed this will continue unchanged indefinitely.

Financial assumptions as at 31 March 2006

The financial assumptions made, both for the purpose of establishing the technical provisions and when assessing the contributions required to meet future service benefit accruals, are set out below.

	% pa
Investment return	6.15
Price inflation	2.8
General pay escalation (in addition to promotional scale)	4.3
Increases in Lower Earnings Limit	2.8
Pension increases:	
- non-GMP component	2.8
- pre-6 April 1988 GMPs in payment	0.0
- post-5 April 1988 GMPs in payment	2.5

Statistical assumptions as at 31 March 2006

Details (including sample rates) of the demographic assumptions are shown in the appendix to this statement.

Expenses

Investment management costs are assumed to be met out of future investment income and the assumed investment return is regarded as being net of such costs. Non-investment expenses payable by the Fund and Pension Protection Fund levies are met in full by the Section from its resources as they arise, although part of these expenses and levies are recouped from the other sections of the Fund. An allowance of 0.75% of pensionable payroll (equivalent to 0.15 times member contributions) is included within the employer contribution rate to cover those non-investment expenses that are not recouped from other sections. An allowance of 0.5% of pensionable payroll (equivalent to 0.10 times member contributions) is included to cover those parts of the levies that are not recouped from other sections.

Recovery plan

The Trustee has agreed with TfL that the shortfall of funds below the technical provisions revealed by the valuation as at 31 March 2006 should be made good over a period of ten years from 1 April 2007 by the payment for this period of additional employer contributions expressed as multiples of member contributions.

Arrangements for other parties to contribute to the Section

There are no arrangements for a person other than the employers or a member of the Section to contribute to the funds held by the Section.

Payments of funding surpluses to the employers

The Fund rules do not include provisions for the Trustee to make payments to the employers out of funds held for the purposes of the Section unless there exists a surplus following a winding up of the Section.

Cash equivalent transfer value calculations

The Trustee's current policy is not to reduce cash equivalent transfer values on account of a funding shortfall in the Section. This policy is reviewed from time to time in the light of the Section's financial position and the amount and volume of cash equivalent payments made from the Section. The policy will also be reviewed whenever the basis of calculation of cash equivalent transfer values changes.

Dates of review of this statement

This statement will be reviewed, and if necessary revised, by the Trustee either

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has used its powers to modify future accrual of the Section, directed as to the manner in which technical provisions are to be calculated or the period over which failure to meet the statutory funding objective is to be remedied, or imposed a schedule of contributions.

The Trustee may also elect to review, and if necessary revise, the statement at other times.

Date of statement (for reference purposes): 12 July 2007

Signed on behalf of Transport for London

Signature:

Print name: H E CARTER

Position: General Counsel

Date: 19 July 2007.

Signed on behalf of the Trustee of the TfL Pension Fund:

Signature:

Print name: S. R. CRITCHLEY

Date: 20 July 2007

Appendix – Statistical assumptions

In-service – specimen decrement rates per 10,000 members at each age and salary scale

Age	Withdrawal rates		Mortality rates		Ill-health retirement rates		Other early retirement rates		Salary scale	
	males	females	males	females	males	females	males	females	males	females
25	907	1,440	3	2	4	4	-	-	850	189
30	726	1,080	2	3	5	19	-	-	943	210
35	545	720	4	5	24	37	-	-	983	221
40	393	540	7	6	57	59	-	-	998	226
45	242	360	10	8	81	82	-	-	1,000	226
50	91	216	20	14	111	164	500	500	1,000	226
55	5	36	34	22	201	298	500	750	1,000	226
60	-	-	55	31	360	492	1,500	3,000	1,000	226

Mortality rates in deferment/retirement

Mortality in deferment and payment is assumed to be in line with PA92 calendar year 2006, rated as follows:

- members who retire on grounds of ill health	rated up 6 years
- other members	rated up 1 year
- members' dependants	rated up 2 years

Allowance is made for mortality improvements after 2006 in line with the medium cohort projections.

Family statistics

The proportion of members assumed to have dependants varies with age and reaches a maximum of 87.5% for males and 60% for females at age 60. Members are assumed to be of the opposite gender to their dependants. The age difference (male member – dependant) or (dependant – female member) ranges from 2 to 3.5 years, depending on age.

Allowance for option of members to commute pension for cash at retirement

It is assumed that no pension is commuted for cash at retirement.

Allowance for retirement of deferred pensioners before age 60

It is assumed deferred pensioners retire at age 60 and do not retire before this age either in normal health or on grounds of ill-health. A 4% loading is applied to the liabilities for deferred pensioners at the valuation date to allow for strains arising from retirements before age 60 on grounds of ill health or otherwise.

Allowance for deferred pensioners to take cash equivalent transfer values

It is assumed that no cash equivalent transfer values will be paid.