TfL PENSIONFUND

DECEMBER

2024

STATEMENT OF FUNDING PRINCIPLES

Notice for the visually impaired

Copies of this guide in large type and in a text-only format are available from the Fund Office. Please write to TfL Pension Fund, 8th Floor, Palestra, 197 Blackfriars Road, London SE1 8NJ, or email the Fund Office at **helpdesk@tflpensions.co.uk**

MAYOR OF LONDON

Transport for London

TfL Pension Fund – Public Sector Section

Statement of funding principles

This statement has been prepared by the Trustee of the TfL Pension Fund (the “Scheme”) 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 Scheme, after obtaining the advice of Gareth Oxtoby (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 2024.

Statutory funding objective

The statutory funding objective is that the Section 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 expected regular non-investment expenses and Pension Protection Fund levies. Overall this method of determining the technical provisions is known as the projected unit credit method with a one-year control period.

Assumptions

The Trustee and TfL have further agreed that:

- prudent assumptions will be made regarding the future returns on the Section's investments and future contributions, 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 Scheme'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.

For the purposes of this 2024 actuarial valuation of the Scheme, whilst the assumptions taken as a whole have been agreed by the Trustee and TfL, TfL's view is that the assumptions regarding pensionable salary growth and age difference at death for female members contain a greater degree of prudence than it considers necessary. As a result, these 2024 assumptions should not be treated as setting a precedent for future valuations, for which the assumptions will be determined taking into account available information at that time.

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 Scheme 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 an allowance should be made in the technical provisions to anticipate to some extent the financial effect of commutations.

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 the employers can reasonably afford by means of a one-off additional contribution shortly after the valuation has been completed and/or by the payment of specified additional annual contributions and/or 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 employers' business plans, 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 seventh actuarial valuation under Part 3 of the Pensions Act 2004 is being carried out as at 31 March 2024. 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 the statutory funding objective, 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 updated Pensions Funding Agreement ("the Agreement") agreed by the Trustee and TfL in conjunction with the 2024 actuarial valuation and dated 13 December 2024 sets out certain circumstances in which the annual updates referred to above may lead to the payment of additional one-off lump sums to the Section by TfL. The updates provided by the Scheme Actuary will not normally lead to further 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 it is 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 2024

The Trustee (having taken the advice of the Scheme Actuary) and TfL have agreed assumptions for the valuation as at 31 March 2024, in line with the process described above. The Trustee has based the investment return assumptions on the Section's target asset allocation as at 31 March 2024, whilst also incorporating some scope for future de-risking.

Financial assumptions as at 31 March 2024

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

	% pa
Investment return for valuing accrued benefits[1,2]	Term dependent discount rate trending from a real rate of 2.50% per annum to a real rate of 2.20% per annum over 4 years from 1 April 2024 (single equivalent rate approx. 5.75% per annum)
Investment return for calculating cost of future accrual[1,3]	Real rate of 3.05% per annum (single equivalent rate approx. 6.6% per annum)
Investment return assumed for the purposes of certifying the Schedule of Contributions [1,2]	As for valuing accrued benefits
RPI inflation	Gilt-implied RPI inflation curve
CPI inflation	In line with RPI assumption, less 1.0% per annum up to 2030 (no adjustment thereafter)
Increases in Lower Earnings Limit	In line with CPI assumption
General increases in pensionable pay[4]	In line with RPI assumption (single equivalent rate approx 3.65% per annum)
Pension increases in payment[5]	
- Pre-6.4.88 GMP	0.0
- Post-5.4.88 GMP	CPI-based up to cap of 3% pa (single equivalent rate approx 2.5% per annum)
- Non-GMP	
- Existing Members	RPI-based (single equivalent rate approx 4.05% per annum)
- New Members	RPI-based up to cap of 5% pa (single equivalent rate approx 3.2% per annum)
Pension increases in deferment[5]	
- GMP (section 148)	In line with RPI assumption plus 0.25% pa (single equivalent rate approx. 3.4% per annum)
- Non-GMP	
- Existing Members	RPI-based (single equivalent rate approx 3.2% per annum)
- New Members	RPI-based up to cap of 5% pa (single equivalent rate approx 3.15% per annum)

Notes to table of financial assumptions

1. Discount rates expressed in real terms relative to assumed RPI inflation. Nominal discount rates obtained by compounding with assumed RPI eg if RPI = 3.4% pa, discount rate used to determine cost of future accrual = (1.0305 x 1.034) – 1 = 6.55% pa.

2. Investment returns have been determined taking into account circumstances at the valuation date. Reflecting the Section's open nature and the strong covenant provided by TfL, assumed returns are modelled over a 17 year duration using the WTW investment model, and assuming a confidence level of 70% increasing to 75% over 4 years from 1 April 2024. 0.3% per annum was then deducted at the valuation date to reflect an agreed allowance for future de-risking of the investment strategy.
3. Investment returns have been determined taking into account circumstances at the valuation date. Reflecting the Section's open nature and the strong covenant provided by TfL, assumed returns are modelled over a 17 year duration using the WTW investment model, and assuming a confidence level of 60%. 0.3% per annum was then deducted at the valuation date to reflect an agreed allowance for future de-risking of the investment strategy.
4. Promotional increases in pensionable pay as set out in the Appendix apply in addition to the allowance for general increases in salary described above.
5. Pension increase assumptions reflect assumed inflation volatility of 2.0% pa for RPI and 1.5% pa for CPI. Approximate single equivalent pension increase rates shown have been weighted by the relevant benefit cashflows.

For the purpose of determining the contributions required for any future recovery plan, and also for the purpose of determining whether or not the Scheme Actuary can certify the schedule of contributions, the Trustee and TfL may agree to make allowance for the Section's assets to earn an additional investment return above that assumed for the purposes of establishing the technical provisions. For the purposes of the schedule of contributions to be agreed in conjunction with the valuation of the Section as at 31 March 2024, no additional allowance has been made in this regard as described in the table above.

Determination of Agreed Basis for the purposes of regular updates under the Pensions Funding Agreement

For the purposes of regular funding updates between triennial valuation dates as required by the Pensions Funding Agreement, the discount rate will be determined consistently with the table above but including allowance for any changes in market conditions that affect the WTW investment model from time to time. In determining the relevant discount rate, the 0.3%pa adjustment will continue to be made until the de-risking referred to above has been implemented.

Demographic assumptions as at 31 March 2024

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 Section and Pension Protection Fund (PPF) levies are met in full by the Section from its resources as they arise. An allowance of 0.4% of pensionable payroll (equivalent to 0.08 times member contributions) is included within the employer contribution rate to cover those non-investment expenses other than PPF levies. An allowance of 1.3% of pensionable payroll (equivalent to 0.26 times member contributions) is included to cover PPF levies.

GMP Equalisation

For the purposes of the 2024 actuarial valuation of the Scheme, the Trustee and TfL have agreed to include an allowance of 0.5% of the value of the accrued Section liabilities in the technical provisions as an estimate of the additional liabilities potentially arising from the requirement to equalise for the effect of Guaranteed Minimum Pensions (GMPs) in the Scheme. This reflects approximate calculations, taking into account the Section's membership characteristics and the Scheme Rules; the actual costs to the Section of implementing equalisation for the effect of GMPs in due course may be different.

Recovery plan

The 2024 valuation revealed that the market value of the Section's assets exceeded the technical provisions as at 31 March 2024 and hence no recovery plan is required.

The Agreement contains provisions for the payment of additional deficit contributions in the event that future triennial valuations reveal a worsening of the Section's financial position.

Arrangements for other parties to contribute to the Section

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

Payments of funding surpluses to the employers

The Scheme rules do not include provisions for the Trustee to make payments to the Participating 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 will from time to time consider whether or not to reduce cash equivalent transfer values in the light of the Section's financial position and the amount and volume of cash equivalent payments made from the Section. At the time of preparing this statement, the Trustee was not reducing cash equivalent transfer values.

Dates of review of this statement

This statement will be reviewed, and if necessary revised with the agreement of TfL, 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 with the agreement of TfL, the statement at other times.

Date of statement (for reference purposes): 13 December 2024

Signed on behalf of Transport for London

Signature: ....

Print name: R McLean

Position: Chief Finance Officer

Date: 13 December 2024

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

Signature: ....

Print name: M Antoniou

Position: Chair

Date: 13 December 2024

The demographic assumptions to be adopted for the purposes of the 2024 actuarial valuation of the Section are summarised below. The demographic assumptions to be adopted for future actuarial valuations will be agreed by the Trustee and TfL at the time, taking into account relevant Scheme experience 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.

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

	Withdrawal rates		Mortality rates		Ill-health retirement rates		Other early retirement rates		Salary scale	
Age	**males**	**females**	**males**	**females**	**males**	**females**	**males**	**females**	**males**	**females**
25	572	778	2	2	1	1	-	-	904	1,002
30	457	584	2	2	1	4	-	-	1,087	1,230
35	343	389	2	3	6	9	-	-	1,190	1,365
40	248	292	5	4	15	13	-	-	1,270	1,465
45	182	234	6	5	22	19	-	-	1,337	1,465
50	68	140	13	9	38	46	-	-	1,337	1,465
55	5	23	22	14	68	84	500	500	1,337	1,465
60	-	-	30	20	122	139	1,500	1,500	1,337	1,465

The table above shows, for each gender and for specimen ages, the rate at which members are assumed to leave service each year by the various means of exit. For example, for every 10,000 males aged 50, within a one-year period 68 are assumed to withdraw, 13 are assumed to die, 38 are assumed to retire on ill health and none are assumed to retire early in normal health.

The salary scale shows how salary is assumed to increase at each age due to merit increases. For example, for a male, salary is assumed to increase from age 40 to 45 by 5.3% (= 1,337 ÷ 1,270 - 1). General inflationary increases are assumed to apply in addition.

Mortality rates in deferment/retirement

Current mortality in deferment and payment is assumed to be in line with the following tables, projected to 2024 in line with the CMI_2023 1.5% model for the appropriate gender:

male members who retire on grounds of ill health	S4IMA	x 115%
female members who retire on grounds of ill health	S4IFA	x 111%
other male members	S4PMA_M	x 105%
other female member	S4PFA_G2	x 98%
male dependants	S4PMA_G1	x 105%
female dependants	S4DFA_G2	x 97%

Allowance is made for mortality improvements after 2024 in line with the default parameterisation of the CMI_2023 1.5% model for the appropriate gender (with a weight of 0% for 2020 and 2021 data and 15% for 2022 and 2023), with the core value of the smoothing parameter (S_K) of 7.0 and an initial addition to mortality improvements (A) of 0%.

Family statistics

The proportion of members assumed to have dependants varies with age and reaches a maximum of 80% 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) ranges from 2 to 3.5 years, depending on age. Female members are assumed to be 1 year older than their dependants.

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

It is assumed that members will commute 23% of pension at retirement, on the commutation terms in force at the valuation date (adjusted to reflect assumed future mortality improvements appropriate to each member's year of birth).

Allowance for retirement of deferred pensioners before vesting age

It is assumed that each deferred pensioner retires at his or her vesting age (60 in most cases, but 62 for males who left service before 1 April 1989).

Allowance for deferred pensioners to take cash equivalent transfer values

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

Allowance for late retirement

It is assumed that:

- all active members who are under age 65 at the valuation date retire by age 65;
- all active members who are age 65 or over at the valuation date retire immediately;
- all deferred pensioners who are below vesting age at the valuation date retire at vesting age;
- all deferred pensioners who are at or over vesting age at the valuation date retire immediately.

A 2% loading is added to the total deferred pensioner liabilities for the strains arising on late retirement.

This page is intentionally blank

THE TFL PENSION FUND OFFICE

The staff in the Fund Office will be pleased to answer any queries you may have. They cannot give financial advice or deal with tax matters but will be able to point you to who to contact for the assistance you need.

They can be contacted at:
TfL Pension Fund
8th Floor, Palestra
197 Blackfriars Road
London SE1 8NJ

Email at: helpdesk@tflpensions.co.uk

If you are telephoning the team, you can reach the call centre on **01737 235 298**. Please have your Member number and National Insurance number to hand when you call.

Fund Office appointments

The Fund Office team are working on a hybrid basis so we are now able to see visitors in the office, but with fewer people in the office each day we require that you contact us to book an appointment by email or telephone to ensure that a member of the team is available to help you.

If you have access to the internet, you can access our Pension Web Portal and find lots of information, including forms and Fund documents, on the Fund's website at **www.tflpensionfund.co.uk**