

Date: 27 March 2014

Item 7: Individual Choice on Future Pension Provision

---

**This paper will be considered in public**

**1 Summary**

- 1.1 The purpose of this paper is to ask the Committee to agree to the introduction of individual choice on pension provision for Chief Officers with effect from April 2014 with provision for death-in-service benefits.

**2 Recommendation**

- 2.1 **The Committee is asked to approve TfL offering a facility where the individual Chief Officer is able to opt out of the TfL Pension Fund and instead is eligible to receive a cash allowance (on a cost neutral basis to TfL based upon the ongoing recurring future pension rate i.e. does not include any amount in respect of deficit repair contributions) and to provide life cover at the exactly same level as provided under the TfL Pension Fund.**

**3 Background**

- 3.1 Currently Chief Officers are provided with membership of the TfL Pension Fund, a final salary defined benefit arrangement. The main benefit provision is a pension calculated upon years of membership using set formulae of 1/60<sup>th</sup> of Capped Pensionable Salary. Additional death-in-service life assurance is also provided at the rate of four time basic salary.
- 3.2 Currently members of the TfL Pension Fund pay contributions at the rate of five per cent of Pensionable Salary and the employer pays the balance of cost. The current rate of employer contributions is 20.4 per cent plus deficit repair contributions of 10.6 per cent of each member's Pensionable Salary.
- 3.3 The employer carries all of the risk under the Fund of investment, longevity and future deficits emerging.
- 3.4 As a result of recent Government interventions, it may no longer remain attractive to all employees to receive a set approach to pensions and the introduction of individual choice may be more beneficial.

**4. Individual Choice**

- 4.1 TfL aims to provide a 'total remuneration' package that remains competitive within the context of the external market and in comparison to 'peer' organisations. Remuneration should be proportionate, justifiable, fair and reward the level of contribution to the business in a way that enables TfL to attract and retain high calibre individuals in these positions.

- 4.2 The introduction of choice for Chief Officers may be beneficial to both the individual and TfL.
- 4.3 The proposal is that TfL offers a facility where the individual is able to opt out of the TfL Pension Fund and instead is eligible to receive a cash allowance (on a cost neutral basis to TfL based upon the ongoing recurring future pension rate i.e. does not include any amount in respect of deficit repair contributions).
- 4.4 This will currently amount to 20.4 per cent discounted for the additional employer National Insurance, resulting in a cash allowance of 17.93 per cent of pensionable salary. Pensionable salary would continue to be subject to the annual rate of the earning cap, which is currently £145,800 (April 2014).
- 4.5 The advantage of this approach to the individual is that should they be affected by changes to the Life Time Allowance (LTA) or Annual Allowance (AA) they can opt out of receiving the pension benefit in return for a salary supplement.
- 4.6 The new pension levels, which are being introduced from 6 April 2014, can be summarised as:
- (a) The AA reduces from £50,000 a year to £40,000 from April 2014.
  - (b) The LTA reduces from £1.5m to £1.25m from April 2014.
- 4.7 Contract variations in respect of Chief Officers may be required in order to implement a cash alternative to membership of the TfL Pension Fund. This would be undertaken by obtaining individuals consent to the change by contractual variation.
- 4.8 It should be noted that any individual who opts out of membership of the TfL Pension Fund would no longer be automatically covered for either death-in-service benefits or active member ill-health retirement provisions. It would therefore be a matter for the individual to take advice as to whether an additional cash allowance subject to tax and national insurance outweighs the benefits of membership, albeit subject to tax charges in respect of benefits above the permitted maximum.
- 4.9 While individuals could be left to make their own arrangements for life cover, TfL already has in place arrangements through which life cover could be provided at a competitive price. Life cover will be provided at the same rate as the TfL Pension Fund for those who elect to take the cash alternative. It should be noted that these individuals would be excluded from the TfL Death Benefit Scheme, to maintain consistency with members of the TfL Pension Fund and to avoid the issue of providing a higher level of cover than previously provided.
- 4.10 In respect of TfL, as the cash supplement would be provided on a cash neutral basis for the ongoing pension provision TfL would also receive a further benefit of not exposing itself to the additional liability resulting from future benefit accrual. In respect of the life cover there is a relatively small cost with current indicative rates of £0.66 per £1,000 of life cover.

## **5 Annual Report Disclosure**

- 5.3 The remuneration of individuals earning more than £150,000 is detailed in full in the TfL Annual Report each year.

- 5.4 If a cash supplement is introduced then this amount would be included under the heading of 'salary, fees and allowances'. A note would need to be included to ensure that it is clear that an element of the total disclosed represented discounted cash in lieu of pension contributions to the TfL Pension Fund.
- 5.5 Additionally the employer pension contribution column in respect of the TfL Pension Fund would show a zero amount.

**List of appendices to this report:**

None

**List of Background Papers:**

Changes to pensions were announced in Autumn Statement 2012 and included in the Finance Act 2013. Further detail, for example on Individual Protection, will be in the Finance Act 2014.

Contact Officer      Stephen Field, Director of Pensions and Reward  
Number:                020 7918 3786  
Email:                  stephenfield@tfl.gov.uk

Contact Officer:      Tricia Riley, HR Director  
Number:                020 7126 3339  
Email:                  tricia.riley@tube.tfl.gov.uk