Remuneration Committee

Date: **3 June 2015**

Item 10: **Pensions Update**

This paper will be considered in Public

1 Summary

1.1 On 27 March 2014, the Committee considered a paper on individual choice in relation to pension provision.

1.2 On 3 June 2014, the Committee agreed that the Commissioner would determine requests for unfunded pension arrangements, subject to the criteria agreed by the Committee.

1.3 On 27 November 2014, the Committee agreed the following criteria:

(a) Criticality of the individual to the business; or

(b) Retention of the individual, where if they left this would or could cause immediate and significant risk to high profile projects or operations of the business; and

(c) In every case, only where impacted by the Lifetime Allowance.

1.4 The criteria were designed to keep the number of awards to a minimum and would be reviewed whenever the Government made significant changes to the pension Lifetime Allowance that was likely to increase the number of eligible applicants. It was agreed that the Commissioner would report back to the Committee on an annual basis those individuals to who he had offered the provision of unfunded pension benefits.

1.5 The Committee requested an update on the general pension landscape following the Government announcements on flexibilities and tax changes.

2 Recommendations

2.1 **The Committee is asked to:**

(a) note that the Commissioner has approved 12 individuals out of 21 impacted by the Lifetime Allowance for the provision of unfunded pension benefits using the agreed criteria; and

(b) note the general update on the Pensions Flexibilities.

3 Lifetime Allowance and Annual Allowance

3.1 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.

3.2 TfL introduced an element of choice for employees whereby the individual is able to opt out of the TfL Pension Fund and instead receive a cash allowance (on a cost neutral basis to TfL) which currently amounts to 17.93 per cent of pensionable salary.

3.3 The option is only available to individuals who are affected by the Lifetime Allowance (LTA).

3.4 The levels in operation as at 6 April 2014 were:

(a) the AA reduced from £50,000 a year to £40,000 from April 2014; and

(b) the LTA reduced from £1.5m to £1.25m from April 2014.

3.5 The Government has announced in the budget of March 2015 that it will make further changes to the LTA by reducing this even lower to £1m from 6 April 2016.

3.6 This reduction in the LTA will clearly result in more individuals exceeding the £1m level and as a result, may influence the number of individuals offered the provision of an unfunded pension benefit promise, clearly on the basis of the criteria was set by the Committee.

3.7 Currently five employees who are affected by the April 2014 LTA have elected for the cash allowance.

3.8 Out of 21 senior managers (including Directors and Chief Officers) the Commissioner has approved 12 for the provision of unfunded pension benefits.

4 New Pension Flexibilities

4.1 Members of TfL Pension Fund are now able to transfer out either their whole benefit or part of their benefit (e.g. their additional voluntary contributions) to an external defined contribution arrangement and access this fund without having to buy an annuity. This could take the form of either a draw down or 100 per cent cash.

4.2 Where the transfer from a defined benefit arrangement such as the TfL Pension Fund to a defined contribution arrangement is above £30,000, the member will have to seek independent financial advice (although they will not be required to follow it). They will then be able to ‘draw down’ their invested fund over a period or to take out 100 per cent as cash. Of the amounts taken, 25 per cent will be tax free and the remainder taxed at their marginal rate.

4.3 At retirement, if the value of a TfL Pension Fund member’s fund does not exceed £30,000 from all sources, they will now be permitted to take this amount as a cash lump sum (“trivial commutation”) rather than taking a pension. Of the amount taken, 25 per cent will be paid tax free and the remainder at their marginal tax rate.

4.4 From the end of June 2015, TfL’s own defined contribution arrangement, the TfL Savings for Retirement Plan plans to offer members who are above age 55 and who have left service the option of taking their fund as 100 per cent cash, of which 25 per cent will be paid tax free and the remainder taxed at their marginal rate.

4.5 This will be an additional option to taking up to 25 per cent of their fund as tax free cash and using the rest to buy an annuity. If they wish to take advantage of other flexibilities available, such as ‘draw down’, they will have to transfer out to a personal pension arrangement.

4.6 Currently the number of enquiries to the TfL Pension Fund seeking information about transferring out to a defined contribution arrangement in order to take advantage of the new flexibilities available since 6 April 2015 has not been significant.

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the Committee on Individual Choice on 27 March, 3 June and 27 November 2014.

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