Remuneration Committee

Date: **27 November 2014**

Item 6: **Future Pension Provision**

This paper will be considered in public

1 Summary

1.1 At its meeting on 3 June 2014, the Committee agreed that the Commissioner would determine requests for unfunded pension arrangements subject to criteria agreed by the Remuneration Committee. The purpose of this paper is to recommend that the Committee agrees the criteria in relation to the award of unfunded pension arrangements.

2 Recommendations

2.1 **The Committee is asked to:**

(a) approve the Commissioner applying the following criteria for unfunded pension arrangements in each individual case:

(i) criticality of the individual to the business; or

(ii) 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

(iii) in every case, only where impacted by the Lifetime Allowance; and

(b) note than an annual report will be provided to the Committee on the use of unfunded pension arrangements.

3 Background

3.1 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. In March 2014, the Committee decided to introduce individual choice for Chief Officers who are impacted by the Lifetime Allowance for pension purposes.

3.2 Individual choice allows members of the TfL Pension Fund who demonstrate that they are impacted by the Lifetime Allowance to be able to choose to opt out of the TfL Pension Fund and instead receive a cash allowance equal to the employers' continuing contribution to the Fund, discounted for the additional employer national insurance that would be due on the cash allowance; this currently amounts to 17.93 per cent.

3.3 The Committee subsequently considered the further option of an unfunded arrangement to top up pension benefits to the level that would have been payable had an individual remained a contributing Member of the TfL Pension Fund.

Under this arrangement, the individual would sacrifice salary equal to the contributions that would otherwise have been paid to the TfL Pension Fund; in return when benefits come into payment under the TfL Pension Fund, the employer would top up the benefits to the agreed level, with the employee being responsible for the settlement of any tax liability due. This provision also includes death-in-service benefits as well as ill-health coverage.

3.4 The unfunded pension promise would have an overall benefit target to match what would have been paid under the TfL Pension Fund. The Earnings Cap applicable under the TfL Pension Fund would apply to the benefits payable and any future changes to the benefit structure of the TfL Pension Fund would also apply to the benefit target under this unfunded arrangement.

4 Proposed Criteria

4.1 The Committee asked that criteria should be established for circumstances in which this arrangement might be applied to others.

4.2 The criteria in each individual case are:

(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.

4.3 It is recommended that the Committee agree the criteria set out above and that an annual report be provided to the Committee on the use of unfunded pension arrangements.

List of appendices to this report:

None

List of Background Papers:

None

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