

# BRITISH TRANSPORT POLICE AUTHORITY

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**Report to:** Strategy, Budget & Performance Monitoring Committee

**Date:** 6<sup>th</sup> February 2009

**Subject:** Pensions – update on valuations and Home Office transfers

**Sponsor:** Chief Executive & Clerk

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## 1. PURPOSE OF PAPER

- 1.1 This report provides details of the following:
- 1.2 Final pensions valuation of the BTP Police staff scheme as at 31 December 2007.
- 1.3 Details of the latest formal review as at 31 December 2007 of the BTP Police Officers scheme. (the last full valuation was performed as at 31 December 2006), together with a 2008 update.
- 1.4 Financial effect of the transfers of police officers between the home office and BTP since the creation of the police Authority in July 2004.
- 1.5 An update on the progress made on the transfers between the current Home Office pension scheme for officers and the current BTP pension scheme for police officers.

## 2. Final pensions valuation of the BTP Police Staff Scheme

- 2.1 The valuation as at 31 December 2007 is attached in appendix A.

A brief financial summary of the valuation is shown overleaf:

	£m	£m
<b><u>Value of Benefits arising from service before 31 December 2007</u></b>		
Pensioners	5,081	
Deferred Pensioners	4,669	
Adjustment for 2008 investment conditions (3.75% of fund ex BRASS)	1,513	
Serving Members	30,587	
BRASS Funds	2,788	
Total Technical Provisions		44,638
Assets at Market Value (inc BRASS)		44,730
<b>Surplus / (Shortfall) in relation to technical provisions</b>		<b>92</b>
<b>Funding level relative to Technical Provisions</b>		<b>100.2%</b>
Value of additional contributions as set out in the rules		-
Value of reserves required to support		
Contribution reductions as set out in the rules	361	
Employer matching	487	
		848
<b>Surplus / (Shortfall) under rules after allowing for contributions payable and reserves</b>		<b>(756)</b>
<b>Rules funding level</b>		<b>98.3%</b>

2.2 The above valuation shows a funding shortfall of 1.7% (£756k), this after making some allowance for 2008 investment conditions.

2.3 Current contribution rates from the previous valuation as at 31 December 2004 are as follows:

Employee	9.20 %
Employer	14.46 %
Total	23.66 %

The employer is currently bearing 61.1% of the costs as agreed at the previous valuation. The pension rules state the costs should be split 40% employee and 60% employer, with the employee bearing no more than 40% of the joint contribution rate. The current Section Rules and the valuation results require that from 1 July 2009, the contribution rates would need to change to the following rates:

Employee	9.96 %
Employer	14.94 %
Total	24.90 %

This contribution plan produces the funding shortfall of 1.7% (£756k).

2.4 The employers met with rpmi to discuss how to address the shortfall in funding. There are two actions that need to be taken, these are as follows:

- As a result of the scheme rules, the employer must start paying BRASS matching first as part of the shortfall recovery. This is calculated as £375k and will be around £85k per annum, reducing as members leave the scheme.
- The total contribution rate is then proposed to be 25.15% (subject to future valuations) and this will lead to the following contribution rates for nine years from 1 July 2009 until 30 June 2018:

Employee	10.06 %
Employer	15.09 %
Total	25.15 %

The cost to the employer of increasing the contributions total approximately £125k per annum.

2.5 The Pensions fund Committee have agreed to this proposal and the Trustees of rpmi have also agreed the plan of action. We are currently consulting with the staff in the scheme, which will take place over 60 days before the end of March. DfT have been informed of the change.

2.6 It is worth noting that the employee rate of 10.06% is quoted before taking into account the deduction of one and a half times the state pension and therefore the headline rate is inflated and not what is claimed against the employee's salary. This has been stressed in the consultation letter.

### 3. Latest formal review as at 31 December 2007 of the BTP Police Officers scheme

3.1 At the January Pensions Committee for the Police Officers pension scheme a presentation was given by our actuaries who summarised the 2006 valuation result, the 2007 actuarial review and the estimated position as at 30 September 2008. There are three schemes, the 1970 contributory scheme is by far the

largest and although the 2006 valuation has been summarised for the three schemes, this paper focuses on the 1970 contributory scheme.

<b><u>2006 VALUATION</u></b>	1970 contributory	1970 preserved	1968	Total
Liabilities (£m)	731.0	26.3	2.3	759.6
Assets (£m)	791.0	30.5	30.5	824.8
Surplus (£m)	60.0	4.2	1.0	65.2
Funding level	108%	116%	143%	109%

In line with legislative requirements an actuarial report on developments on the funding position to 31 December 2007 was prepared. The update applied the same principles as agreed in the 2006 valuation but to market conditions as at 31 December 2007. The 2007 update indicated a fall in cover for the Contributory section to 106% and no material changes in the other two sections.

In 2008 there have been turbulent market conditions. Applying the 3.75% investment condition provision applied on all rpm railway schemes subject to a full valuation as at 31 December 2007; this reduces the cover level by 3% to 101%. Therefore at the last formal review date, the BTP Police officers fund continued to have assets in excess of its target level by reference to its own and the RPS funding bases.

- 3.2 However, market conditions throughout 2008 have remained volatile and the actual investment losses incurred on the fund over 2008 have been significant. The legislation requires that a further actuarial update as at 31 December 2008 be made. In advance of this, the actuaries have broadly estimated the position as at the end of September 2008. This is based on the 2006 investment principles. The shortfall on the contributory pension scheme is estimated at £122m, which represents a funding level of 85%. The remaining schemes remain in surplus, as their proportion of investments held in equity is much smaller. The formal actuarial report on the 31 December 2008 funding position will be discussed at the next pension committee meeting to be held in April 2009. It is likely to show a worsened position. The next formal full valuation will be performed as at 31 December 2009. The valuation is unlikely to affect the contributions made until April 2011 at the earliest.
- 3.3 On a more positive note, each of our funds have to pay a Pension Protection Fund Levy, this is based on a score awarded by Dun and Bradstreet, our score came out at 88%, we appealed against this because of our Government backing and as a result of this on the second appeal, our D&B score was increased to 100%, this will lead to an approximate saving of £65k in the Staff scheme and £235k in the police officers scheme.

#### 4. Financial effect - transfers of police officers between the home office and BTP

- 4.1 Members have requested financial evidence on the statement that the transfers between the BTP police officers pension scheme and the Home Office Pensions schemes are neutral to the BTP scheme. By way of background for Police Officers the pension provision, with enhanced accrual rates and the facility to retire on a full pension after 30 years service is an important part of their remuneration package. Following the formation of a separate fund for British Transport Police ('the BTP') Officers in 1968 the pension schemes for BTP Officers and Home Office ('the HO') police became closely aligned, because the arrangements were separate, officers who transferred between the HO and BTP (and vice versa) suffered significant loss of pension rights. For an officer in mid career this was a significant barrier with the result that it was difficult to recruit experienced officers.
- 4.2 For many years discussions took place to more readily facilitate the transfer of HO police officers to the BTP and vice versa without loss of pension rights. In the early 1990's the Management Committee and Trustee of the BTP Superannuation Fund agreed to grant full year for year transfer for officers who joined from the HO police, notwithstanding the fact that the transfer payment received was insufficient to meet the cost of this. No reciprocal arrangement applied for BTP officers joining the HO. Although there was a cost to this decision it was met as part of the normal costs of the BTP Superannuation Fund and the cost shared in the normal way between the BTP and members. This arrangement made it easier to recruit from the HO police, but, because there was no reciprocal arrangement, there was still some difficulty in recruiting officers who felt they may wish to return to the HO police.
- 4.3 Following the recommendations of the Winship Report on the operation of the BTPF which identified barriers to interchange between the BTPF and the HO Forces the Police Negotiating Board (PNB) agreed that there should be mutual recognition of rank and service for pay purposes in order to facilitate interchange between the BTPF and HD Forces. The PNB agreement took effect from 30 April 1998. The Winship Report also identified pensions as a barrier to interchange, and the PNB agreed to take this issue forward separately from that of pay and rank but with a view to benefiting transfers falling on or after the same date. Negotiations with the HO and the BTP took place and in 2004, following the agreement of the Treasury, a bilateral agreement was put in place. The agreement effectively treated the BTP Superannuation Fund as a Public Sector Transfer Club participant in respect of transfers between the HO Police and BTP and vice versa. Transfers between BTP and other public sector schemes were not covered by the agreement.
- 4.4 The actuary to the BTP Scheme was involved with reviewing the agreement and the factors to be used. The agreement did not have any effect on the amount of the transfer payment for transfers from the HO to the BTP, but, because the transfer club factors are **less favourable** than the normal

factors for the BTP Superannuation Fund the agreement **reduced the payment for transfers from BTP to the HO**. In 2006 the HO introduced a new scheme which had a higher pension age (55 compared with 50) and longer period before full pension accrual (35 years rather than 30), than the previous scheme. A similar arrangement was put in place for the BTP from April 2007. As a result of these new arrangements it is necessary for the bilateral transfer agreement to be revised, with new factors for the new arrangements. For officers transferring from the HO to BTP the bilateral agreement has no effect on the transfer payment received and the year for year arrangements are similar to those in place from the early 1990's to 2004, when the bilateral agreement was first put in place. For officers transferring from BTP to the HO the bilateral agreement results in a saving because the Public Sector Transfer Club factors are **less favourable** than the normal transfer value factors used in the BTO Superannuation Fund.

- 4.5 Since the bilateral agreement came into force, 134 officers have transferred out of the scheme. The transfer values paid have totalled £7.7 million (under the public sector transfer value scheme this would have required a payment of £10.3 million). 108 people have transferred in, at a transfer value under the bilateral agreement of £7.4 million; this is estimated by pensions management to represent around 75% of the benefits granted which seems broadly in line with the values paid on transfers out. So, after long discussions with pensions management, if all things were broadly equal such as ages and pay of those going in each direction, it would seem safe to say the effect is neutral.

## 5. Reciprocity in Schemes

- 5.1 In contrast to the slow, but successful progress towards parity and reciprocity in pay and pensions between BTP and Home Office forces in the period 1998 – 2004, attempts to regain reciprocity in pensions following the introduction of the new Home Office scheme and the closure of the old one in 2006 have been unsuccessful to date. The Police Pension Scheme for police officers in Home Office forces is an unfunded scheme paid out of current expenditure. The BTP pension fund is a funded (railway) scheme with analogous benefits. The Police Pension Scheme (30yr scheme) was closed to new recruits in 2006 and a new scheme was introduced (a 35yr scheme). A similar new scheme was introduced for new BTP officers in 2007. The reciprocity between schemes was unilaterally broken by the Home Office in 2006. A concern about liabilities has never been given as a reason for the break in reciprocity or as a reason not to restore it. The reason given is a refusal by Home Office and Treasury Officials to countenance opening a closed scheme, even to original members who had transferred to an analogous scheme has been:

- (a) a refusal to open a closed scheme to individuals for any reason; and
- (b) that to do so may act as a precedent for those in other occupations arguing to admit individuals to other closed public sector schemes.

5.2 Both the DfT and the Home Office are now willing to find a solution but one that does not result in a technical reopening of the (HO) Police Pension Scheme that closed in 2006. To do so:

Either:

- (a) Service with the BTP for an officer formerly with a Home Office force (recruited prior to 2006) counts as relevant service for the old Police Pension Scheme. Should the officer then transfer back to a Home Office force, their place and length of service in the Police Pension Scheme would thereby be unaffected. The same would apply in reverse to officers who started with the pre-2007 BTP pension scheme; or
- (b) a similar and more complicated arrangement whereby an officer is technically seconded to BTP, but any promotion is substantive, discipline (including dismissal) and conduct and direction are for the receiving force, but payments for pension are made to the sending police authority. This is an unusual option and we need to test the feasibility of it.

These details have not been finally worked through or accepted by all parties.

- 5.3 The Home Office has signalled a willingness to use the provision of an amendment in the Policing and Crime Bill to amend section 97 of the Police Act 1996 (on secondments) to introduce a regulation-making power to make changes that would facilitate greater movement of officers between Home Office forces and BTP. The success of this depends on the exact detail of what we want to achieve and a legal opinion as to whether the scope of the amended section 97 will allow appropriate changes to meet it.
- 5.4 The Home Office Police Pensions Section has acknowledged that it will seek a further amendment to the Bill if this is necessary, but the message from those managing the Bill either suggests that the pension issue is being treated as wholly exceptional or that colleagues in Home Office police pensions are being unduly sanguine.
- 5.5 There is considerable resistance to anything that would lead a technical reopening of the old Police Pension Scheme to new members, even if these new members are (a) members of analogous scheme; or (b) were formerly members of the scheme prior to joining BTP. This has a bearing on the talent and diversity the force can attract. Administrative batching had been offered – transferring officers to BTP's former scheme but not vice versa. This will not encourage officers to apply to join BTP from a Home Office force if they want – later on – to pursue opportunities back in Home Office forces.

## 6. RECOMMENDATION

6.1 It is recommended that the Committee discuss and note the position on:

- final pensions valuation of the BTP Police staff scheme as at 31 December 2007.
- Details of the latest formal review as at 31 December 2007 of the BTP Police Officers scheme, together with a 2008 update.
- Financial effect of the transfers of police officers between the home office and BTP since the creation of the police Authority in July 2004.
- an update on the progress made on the transfers between the Home Office pension scheme for officers and the BTP pension scheme for police officers.