

Report to: Authority

Agenda item: Item 12

Date: 24 March 2021

Subject: Police Staff Pension – 2019 Actuarial
Valuation

Sponsor: Authority Chief Executive Officer

Author: Authority Chief Financial Officer

For: Approval

Ivason House
 8a London Bridge St
 London
 SE1 9SG

E: general.enquiries@btpa.police.uk

www.btpa.police.uk

1. Purpose of paper

The purpose of the paper is to provide members with an overview of the proposal submitted to the Trustee for the 2019 actuarial valuation of the British Transport Police Section of the Railways Pension Scheme (the “Scheme”). The Trustee has indicated that it will accept the proposal and therefore this paper requests approval from the Authority to finalise this valuation such that it can be submitted by the statutory deadline of 31 March 2021.

2. Background

An actuarial valuation of the Scheme is required to take place every 3 years. The 2019 valuation has been complicated due to the proposed closure of the Scheme to new entrants, however these two proceedings are very different workstreams and therefore have been appropriately conducted as such.

A set of preliminary valuation results were received from the Scheme Actuary on behalf of the Trustee, with various illustrations highlighting the impact on the draft valuation results of changing various assumptions, including whether the Scheme remained open or closed as it is proposed.

With the support of its actuarial advisors XPS Pensions Group, the Authority has engaged in a number of discussions with the Trustee and its own advisors regarding the assumptions underlying the valuation and in particular the change in assumed funding and investment strategy if the Scheme were to close to new members. The Authority was also keen to ensure that the assumed rate of future salary increases remained in line with the Police Fund valuation and reflected the anticipated changes that are to be implemented over the next few years.

3. Valuation assumptions – changes from those proposed by the Trustee

The changes to the assumptions incorporated into the final valuation proposal to be submitted by the Authority can essentially be split into two:

Firstly, the Authority felt strongly about the future salary growth expectations that are to be assumed within the valuation, which can be broken down into three separate elements:

- *General salary growth* - for a number of years now, the same general salary growth awards that have been provided to Police Officers have also been awarded to Staff. The Trustee previously accepted the Authority's proposal that future general salary growth for members of the British Transport Police Force Superannuation Fund should be set in line with CPI inflation, rather than RPI inflation. As such, the Authority is strongly of the view that the assumption for future general salary growth for the Scheme should be aligned with that assumed for the Police Officers' Fund, i.e. in line with CPI, *in the long term*.
- *Automatic pay progression based on "time served"* - in line with HMT Public Sector Pay Remit guidance published in May 2020, automatic salary growth enabled through the spine point pay and grading structure should be removed over the next few years as part of overall pay reforms. According to the guidance, this change should already have happened for all Government Departments and their Arms-Length Bodies (leaving the Authority currently in breach of government policy).
- *Promotional pay increases* - The 0.4% promotional pay increases assumption will remain in addition to the general pay inflation assumption, as it is recognised and supported that some people will continue to be promoted during their careers.

Salary increase assumptions proposals – summary

In summary, the final valuation proposal from the Authority regarding the pay inflation assumption is set to be in line with the following:

- RPI for 6 years following the valuation date (to take account of both general salary growth and automatic pay progression through the spine points). This is considered to be a prudent assumption, noting that it is the Authority's intention to modernise staff reward in much less than 6 years.
- CPI thereafter (by which time the automatic progression pay linked to time-served should have been removed).
- Promotional pay increases at the rate 0.4% p.a. in addition to the above.

Secondly, regarding the *covenant strength*, the Authority maintains its position that it is an incredibly strong employer, and it is this assessment which sets the context for the final valuation proposals. With the valuation using the funding approach and assumed investment strategy in line with this covenant strength classification (as set by the Trustee), the Authority has not proposed much at all regarding changes to the remaining assumptions as a result of the proposal to close the scheme.

There is however a relatively small change to the proposed future investment strategy, which would essentially impact in over 20 years time when the scheme is relatively mature. The Authority is proposing that at that time there is a 5% larger holding in illiquid assets (i.e. 10% in total) because it doesn't believe there is any significant increased risk to the Scheme as a result. The Authority's understanding is that additional return would be expected from these illiquid assets as compensation for the fact that these assets can't be 'sold tomorrow', which is considered reasonable given this is a long term pension scheme (and will still be at that point in time).

4. Valuation outcome

Having looked at all of the assumptions in the context of what is right for the Authority going forward, the final proposals would increase the future service contribution rate for members by 0.62% (and by 0.93% for the employer). Adopting these revised proposals would also leave the Scheme with a relatively small deficit of £6.3m. Although the Authority is permitted to split the cost of meeting this deficit 60:40 with the current active membership, it is minded to meet the full cost directly.

It is considered that this is a key demonstration of the fact that the Authority has worked extremely hard to be able to continue to offer this final salary scheme to its current members, and is looking to shield members from the impact of this valuation (and the immediate impact of closure to new members) to the extent it is able to do so.

5. Next steps

Both the Integrated Funding Committee of the Trustee and the Pensions Management Committee have agreed to the proposal submitted by the Authority, subject to the Authority confirming that the Scheme will close to new entrants from 1 April 2021 or as soon as possible thereafter. This confirmation will be made to the IFC and Pensions Management Committee following the Authority's approval on 24th March.

The valuation documentation is being prepared. The Schedule of Contributions will state that the member contribution rate will only be increased from 1 April 2022 if the Authority notifies the Trustee in writing before 31 December 2021 that it wishes to increase the contribution rate following completion of a consultation process with relevant employees. BTP/A intends to carry out this consultation in the first half of 21/22.

6. Recommendation

Members are requested to approve the submission of the valuation which will result in the following outcomes:

- the Scheme has a deficit of £6.3m as at 31 December 2019
- the BTP/A will pay £1.27m a year for six years to cover that deficit (with the first payable on or before 1 July 2021, but retaining the option to settle the deficit earlier in full should the financial opportunity arise)
- employee contributions will go up by around 0.62% (from 10.06% to 10.68%) from 1 April 2022 – subject to employee consultation
- BTPA employer contributions will increase, to the tune of around £400k a year
- BTPA will also pay the first 12 months of the extra employee contributions while we consult in 21/22 (costing BTPA a further £250k in 21/22)