Statement of Funding Principles for the BBC Pension Scheme

1. Introduction

This statement sets out the Trustee's policy in relation to scheme funding and other related matters. It has been prepared by the Trustee of the BBC Pension Scheme (the Scheme) to satisfy the requirements of Section 223 of the Pensions Act 2004, after taking account of the advice of the Actuary[1]. It has been agreed with the British Broadcasting Corporation (the BBC). Together with the statement of investment principles it sets out how the Scheme's technical provisions[2] and the liabilities on the Scheme's Journey Plan basis[3] are calculated and how the Trustee expects to meet the statutory funding objective[4] and the secondary funding objective[5].

Regular actuarial valuations are obtained by the Trustee to check whether the statutory funding objective has been met. The results of each valuation form the basis for decisions about future contributions to the Scheme, including whether a recovery plan is needed to restore funding to the level of the technical provisions and whether any additional actions are needed to achieve the Journey Plan objective in the long term.

This statement relates to the actuarial valuation as at 1 April 2024, and supersedes the statement dated 16 June 2023.

2. Statutory funding objective

The statutory funding objective is that the Scheme must have sufficient and appropriate assets to cover its technical provisions and this statement sets out the Trustee's policy for ensuring that this objective is met.

All pension schemes which come under the scope of Part 3 of the Pensions Act 2004 are required to satisfy the statutory funding objective. The schedule of contributions sets out the level of contributions required to continue to meet the statutory funding objective for the next five years. The legal obligations of the BBC and Trustee in relation to the funding of the Scheme are determined by reference to the statutory funding objective and the Scheme's Trust Deed and Rules.

3. Secondary funding objective

The Trustee's secondary funding objective is for the Scheme to be fully funded on a measure which would have a low dependency on the BBC (known as the Journey Plan). The BBC recognises this secondary funding target as the Trustee's long-term objective for the Scheme.

The discount rate used for the Journey Plan basis will equate to the rate of return that could be generated by holding low risk assets that match the Scheme's liabilities (less a margin for prudence). The Trustee's intention is that the Scheme will be fully funded on the Journey Plan before 31 December 2028.

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[1] "The Actuary" is the actuary appointed under rule 16.1 of the Scheme and is currently Debra Webb FFA, of Towers Watson Limited.
[2] The Pensions Act 2004 defines "technical provisions" as the amount required to make provision for a pension scheme's liabilities, as assessed under an actuarial valuation.
[3] The Journey Plan basis is described in section 3.
[4] The statutory funding objective is described in section 2.
[5] The secondary funding objective is described in section 3.

4. Method

The method chosen to calculate the technical provisions and the liabilities on the Journey Plan basis is known as the projected unit method[6], which is the same as that used for the 2022 valuation. It aggregates the present capital value of prospective benefits on the effective date of the valuation for:

- pensioners, deferred pensioners and their dependants, allowing for future increases in pensions in payment and prospective pensions; and
- active members in respect of past service, allowing for increases in projected pensionable salaries up to their assumed exit date and for pension increases thereafter.

5. Assumptions

In choosing the assumptions the Trustee will take account of advice from the Actuary and, as required for the technical provisions basis, reach agreement with the BBC.

The main financial and demographic assumptions (including sample rates) adopted for the 2024 valuation are shown in the appendix to this statement.

Discount rate for technical provisions

The discount rates used to calculate the capital value of future cashflows will be prudent estimates at the effective date of the valuation of the investment returns expected to be achieved based on the Scheme's current and anticipated future investment strategy.

In setting the discount rates, the Trustee may assume that the Scheme will be able to capture part of the investment premium relative to gilts from the assets held by the Scheme. The Trustee and the BBC acknowledge that the additional return is not guaranteed, and it may be necessary to request further contributions if investment performance is worse than expected.

Discount rate for the Journey Plan basis

The Scheme's Journey Plan basis currently uses a discount rate of Gilts + 0.5% pa, reflecting a number of factors, including the Trustee's view of the BBC's covenant. The discount rate is set by reference to the yields at the effective date of the valuation on a full fixed-interest gilt curve + 0.5% pa.

Other assumptions

Other than the discount rates, all assumptions (both financial and demographic) are common for the technical provisions basis and the Journey Plan basis.

The financial assumptions, in particular future price inflation, will take into account information available in respect of financial markets at the effective date of the valuation.

Demographic assumptions will have regard to an analysis of recent changes in the Scheme membership as well as relevant statistics applicable to similar pension schemes, and the views of the Trustee and the BBC about how these may change in future.

Funding strategy concerning discretionary benefits and discretionary increases

No allowance has been made for advance funding of discretionary benefits or increases, other than as detailed in the appendix.

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[6] The projected unit method is so called because it allows for all projected increases in benefits. The future service contribution rate relates to the average annual cost of accrual for three years following the valuation date (known as a three-year control period).

Longevity reserve

A longevity reserve is currently included to cover the estimated cost of securing a longevity swap for the pensioner liabilities not already covered by existing longevity swaps. This reserve will be reviewed at future valuations.

Expenses

Investment manager fees are assumed to be met out of future investment income. The valuation discount rates are therefore net of such costs.

Administrative and other expenses are met from the Scheme, including the insurance premiums that cover the provision of lump sum benefits for deaths in service and Pension Protection Fund levies. The cost of the insurance premiums is included in the normal future service contribution rate and the BBC reimburses the Scheme for the Pension Protection Fund levies. An expense reserve is included for the other expenses not reflected elsewhere. For the 1 April 2024 valuation, this reserve reflects estimated running costs for a number of years, but does not reflect the full expenses that may be incurred if the Scheme runs on indefinitely or is wound up.

Prudence of assumptions for technical provisions

Taken together, the assumptions adopted for the technical provisions at a particular date will be prudent and consistent with the Trustee's chosen level of confidence that the technical provisions will prove adequate to meet accrued benefits as they fall due, without the need for further contributions.

6. Eliminating a shortfall on the technical provisions basis

As there is a surplus on the technical provisions as at 1 April 2024, no recovery plan is needed for this valuation.

Any funding shortfall identified by a future actuarial valuation on the technical provisions basis will be eliminated as quickly as the BBC can reasonably afford, by payment of additional contributions over an agreed recovery period.

When determining a recovery plan the Trustee may take into account (among other things) the following factors:

- size of the shortfall on the technical provisions basis, both at the valuation date and at the date of signing the valuation documentation;
- size of the shortfall on the Journey Plan basis and the progress towards meeting the secondary funding objective;
- the risk that the value of the Scheme's assets may deteriorate further against the technical provisions, the Journey Plan liabilities and the solvency liabilities of the Scheme;
- a prudent view of the expected returns on the assets held by the Scheme and
- strength and nature of the BBC's covenant, its business plans and the interaction between the demands of any recovery plan and the need for the BBC to invest in those business plans, and any contingent security the BBC can offer.

If there is a recovery plan in place, the period over which the shortfall on the technical provisions basis will be met will be included in the appendix to this statement.

7. Eliminating a shortfall on the Journey Plan basis

The Technical Provisions are designed to align to the current Journey Plan basis by the end of 2028.

8. Frequency of actuarial valuations

In the normal course of events the Trustee will request valuations at intervals of three years, but the Trustee and the BBC have agreed that the next valuation will be brought forward with an effective date no later than 1 April 2026.

In the intervening years the Actuary will provide a report on the estimated financial position of the Scheme relative to the statutory funding objective and the secondary funding objective.

The Trustee can request a formal valuation at any date. Before doing so they will seek advice from the Actuary and consult the BBC.

9. Arrangements for other parties to contribute to the Scheme

There are no arrangements for persons other than Participating Employers[7] and active members to contribute to the Scheme.

10. Paying funding surpluses to Participating Employers

The Scheme rules limit the circumstances in which surplus can be transferred to Participating Employers. In broad terms, it can only happen on winding up, after members' benefits have been secured in full with an insurance company, and subject to the power the Trustee has to augment benefits up to Scheme limits.

11. Cash equivalent transfers

At each valuation the Trustee asks the Actuary to advise them whether the Scheme's assets are sufficient to provide cash equivalent transfers, based on the method and assumptions currently used, for all active members and deferred pensioners without prejudicing the benefits of pensioners and other prospective beneficiaries (also measured on a cash equivalent basis). Provided the Actuary is able to give them such an assurance, it is their policy not to reduce cash equivalent transfers paid to members.

12. Dates of review of this statement

This statement will be reviewed and if necessary revised:

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period if the Pensions Regulator has used its powers to: modify future accrual in the Scheme; stipulate how the Scheme's technical provisions are to be calculated; determine the length of a recovery plan; or impose a schedule of contributions. At the effective date of this statement the Pensions Regulator had not used any such powers against the Scheme; or

[7] "Participating Employers" means the BBC and any associated employer that has entered into a covenant with the Trustee to observe and perform the provisions of the BBC Pension Scheme. Participating Employers are listed in the Scheme's annual report and accounts.

- at any other time the Trustee judges it to be necessary.

The effective date of this statement is 13 December 2024.

Signed on behalf of the BBC Pension Scheme

Signature:		Print name:	Catherine Claydon
Position:	Chair of Trustee	Date:	

Signed on behalf of the BBC

Signature:		Print name:	Alan Dickson
Position:	Chief Financial Officer	Date:	

This statement of funding principles has been agreed by the Trustee of the BBC Pension Scheme, after taking account of actuarial advice from me:

Signature:		Print name:	Debra Webb
Position:	Scheme Actuary	Date:	

Technical provisions and Journey Plan liabilities

Having taken into account the advice of the Actuary (which will be summarised in the formal report), the Trustee and the BBC have agreed the following assumptions for the valuation as at 1 April 2024[8]. Assumptions are the same for technical provisions and the Journey Plan basis unless stated otherwise.

Financial assumptions as at 1 April 2024

Retail Prices Index (RPI)

This is assumed to be in line with the term-dependent ‘breakeven’ RPI inflation rates as derived by WTW from the difference between nominal and index-linked real gilt yield curves at the valuation date.

The single equivalent RPI assumption weighted by the liability cashflows at the valuation date is 3.4% pa for both the technical provisions basis and the Journey Plan basis.

Consumer Prices Index (CPI)

This is assumed to be in line with the RPI assumption described above, with a deduction of 1.0% pa at all durations up to 2030 and no deduction thereafter.

Pension increases and deferred pension revaluation

These assumptions have been set reflecting the guaranteed level of increases under the Scheme rules as summarised below, based on the relevant inflation curve above with caps and floors applied to each year’s forward rate, as appropriate for each benefit type, as set out in the table below.

	Level of increases
Pension increases	
- Old Benefits (in payment and deferment)	RPI (min 0%, max 10%)
- New Benefits (in payment and deferment)	RPI (min 0%, max 5%)
- CAB 2006 (in payment)	RPI (min 0%, max 2.5%)
- CAB 2011 (in payment)	CPI (min 0% max 4%)
Revaluation*	
- Career Average Benefits 2006 (CAB 2006)	CPI
- Career Average Benefits 2011 (CAB 2011)	CPI (min 0% max 4%)

* Revaluation in service and deferment for Career Average Benefits 2006 and 2011 is discretionary. The funding strategy concerning discretionary increases is summarised below.

Pay increases (including promotional allowance) for Old and New Benefits sections

This is fixed at 1.0% pa, in line with the pensionable salary cap.

Discount rates for technical provisions

The Trustee has adopted the following term-dependent discount rate structure:

- A discount rate based on the full nominal forward gilt yield curve (as derived by WTW), plus a margin which varies by term.

- The margin is derived having regard to a prudent estimate of future returns in excess of gilt yields from the Trustee’s current and anticipated future investment strategy, and its Journey Plan funding target.

[8] Nothing in this document or any schedule to it affects any discretion or power which the BBC or the Trustee may have or requires that any discretion or power is exercised in a particular way

As at 1 April 2024, the discount rate margin in excess of gilt forward rates is assumed to be as summarised below:

Period	Discount rate margin over gilts (% pa)
1 April 2024 – 31 March 2027	1.0
1 April 2027 – 31 December 2028	0.8
1 January 2029 onwards	0.5

Weighting by the Scheme's liability cashflows at the valuation date leads to an average discount rate margin over gilts as at 1 April 2024 of 0.65% pa, giving a single equivalent average discount rate as at 1 April 2024 of 4.95% pa.

The margins in excess of gilts up to and including 31 December 2028 in the table above have a 67% confidence level when measured against the standard parameterisation of the WTW Investment Model, but with no allowance for yield reversion beyond that implied by the gilt market or for investment manager alpha.

The Scheme Actuary will consider whether any changes to these margins are necessary at each annual funding update if there have been significant changes in any relevant factors, for example changes in the projected returns from the WTW Investment Model relative to gilts or unusual market conditions.

Discount rate for the Journey Plan basis

The discount rate for the Journey Plan basis is equivalent to the yield at the valuation date on a full fixed-interest gilt curve + 0.5% pa, leading to a single equivalent average discount rate as at 1 April 2024 of 4.8% pa.

Demographic assumptions as at 1 April 2024

See Schedule A to this Appendix.

Funding strategy concerning discretionary benefits and discretionary increases

- Allowance is made for CAB 2006 accrued pensions to increase up to retirement or death, if earlier, in line with the Consumer Prices Index, subject to a minimum of 0% in each year.
- Allowance is made for CAB 2011 accrued pensions to increase up to retirement or death, if earlier, in line with the Consumer Prices Index, subject to a minimum of 0% and a maximum of 4% in each year.
- Active members can retire voluntarily before normal pension age with the consent of the BBC. The reductions applied to their pensions are determined by the Trustee and the BBC, having consulted the Actuary. The Actuary has made an allowance for a number of active members to retire each year from age 55 onwards to take account of these terms - see Schedule A attached to the appendix.
- A member may be given an ill-health pension with the consent of the BBC, based on suitable medical evidence as to his or her state of health. This is on enhanced terms and the allowance made by the Actuary in her calculations is based on the experience of the Scheme.
- Allowance is made for benefits to be paid to Discretionary Dependants after the member's death.

Expenses

An allowance of £160m is included in both the technical provisions and the Journey Plan liabilities in respect of administrative and other expenses (excluding the direct cost of investments). The BBC reimburses the Trustee for the Pension Protection Fund levies; the insurance premiums that cover the provision of certain benefits on death in service are met from the normal future service contributions.

Demographic assumptions

In service – specimen rates per 1,000 members at each age

Old and New Benefits active members

	Withdrawal Rates		Mortality Rates		Ill-health Retirement Rates	
Age	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**
30	123	147	-	-	-	-
35	106	128	-	-	-	-
40	90	108	-	-	-	-
45	72	87	1	-	-	-
50	55	66	1	1	1	1
55	31	39	2	1	2	2
60	31	39	-	-	-	-

There is no allowance for Old and New Benefits active members to retire before age 55, other than due to ill-health.

There is allowance for early retirement before age 60, with the early retirement factors in force at the valuation date. The annual rates assumed are: 2% of members at ages 55 and 56, 3% at age 57, 4% at age 58 and 5% at age 59.

Career Average Benefits (2006 and 2011) active members

	Withdrawal Rates		Mortality Rates		Ill-health Retirement Rates	
Age	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**
25	123	147	-	-	-	-
30	106	128	-	-	-	-
35	90	108	-	-	-	-
40	72	87	-	-	-	-
45	55	66	1	-	-	-
50	31	39	1	1	1	1
55	31	39	2	1	2	2
60	31	39	3	2	4	5
65	31	39	-	-	-	

There is no allowance for Career Average Benefits active members to retire before age 65, other than due to ill-health.

Other members

All active members in service on or after Normal Retirement Age are assumed to retire immediately.

Deferred pensioners are assumed to retire as follows: 30% are assumed to retire 2.5 years early and 25% of members are assumed to retire 2.5 years late on average, with the remaining 45% assumed to retire at Normal Retirement Age.

An additional allowance is included for the value of the favourable early retirement terms available to some members who were made redundant.

Mortality assumptions for all members

Base tables: The subset of the standard "S4" series of tables, published by the CMI[9], relating to the experience of Self-Administered Pension Schemes, for males and females, with the following subsets and multipliers used:

	Males	**Female**	**Male dependants**	**Female dependants**
Subset of SAPS S4 Tables used	S4NMA	S4PFA	S4NMA	S4DFA
Multiplier - pensioners	98%	99%	98%	99%
Multiplier - non-pensioners	101%	101%	98%	99%

The above base tables and multipliers allow for future mortality improvements from 2017 to the valuation date and in future, based on the CMI 2023 Core Mortality Projection Model with 1.5% pa long-term trend, an initial addition of 0.5% pa for both males and females and the core smoothing parameter. Default weightings of 0% to 2020 and 2021 and 15% to 2022 and 2023 experience are used in the future improvement model.

There is a longevity reserve to cover the cost of insuring longevity risk for 100% of the non-insured pensioners, assuming the cost is 3.5% above the best estimate mortality assumptions. The best estimate is assumed to be as the technical provisions except 3% higher multipliers on the base tables and future improvements have a 1.25% pa long-term trend.

For the benefits covered by the existing longevity swap, the liabilities are the value of the fixed leg plus fees. An adjustment will be made to the liabilities to avoid double counting the impact of the longevity swap as stated in the assets, which is taken from the Scheme's report and accounts.

Other demographic assumptions

An allowance has been made for 10% of all pension at retirement to be commuted for tax-free cash, using factors that are in line with those due to be implemented from 1 January 2025.

An allowance has been made for 1% of non-pensioner members' liabilities to transfer out of the Scheme at retirement, with transfer values 10% lower than the value of the technical provisions or Journey Plan basis at the relevant time.

Male members are assumed to be 3 years older than their partners (who are assumed to experience female mortality rates) and female members are assumed to be 1 year younger than their partners (who are assumed to experience male mortality rates).

[9] The Continuous Mortality Investigation of the actuarial profession

The proportion of members assumed to have an adult dependant at age 60 (reducing with age to allow for the partners' mortality for all members is as following):

	Males	Females
Benefits not covered by the longevity swap		
Old Benefits (pensioners who did not take a partial refund of contributions)	93%	90%
Old Benefits (non-pensioners)	85%	60%
New Benefits, CAB 2006 and CAB 2011 (all members)	85%	60%
Benefits covered by the longevity swap		
Old Benefits (pensioners)	88%	80%
New Benefits, CAB 2006 and CAB 2011 (all members)	80%	50%

These assumptions include an allowance for pensions to be paid to discretionary dependants.

Pensioners who took the partial refund are assumed to have no dependant's pension payable after their death. An allowance for non-pensioners taking the partial refund option at retirement has also been made using contributions data for those members assumed not to be married.

Schedule B to Appendix – Yield curves as at 1 April 2024

The following table sets out the nominal gilt yield (which is used as a reference point for the discount rates) and the RPI assumption which forms the basis for other assumptions, ie CPI and pension increases.

The tables below show the one-year forward rates which are applicable to each year, measured from 1 April 2024. To derive the rate for a period of consecutive years, the yearly forward rates are compounded.

Year	Fixed interest gilt yields used for discount rates (% pa)	Breakeven RPI (% pa)
2024	4.615	3.753
2025	3.793	3.736
2026	3.567	3.684
2027	3.517	3.546
2028	3.576	3.485
2029	3.705	3.719
2030	3.884	3.744
2031	4.098	3.469
2032	4.328	3.216
2033	4.557	3.361
2034	4.768	3.598
2035	4.946	3.595
2036	5.086	3.401
2037	5.183	3.243
2038	5.237	3.339
2039	5.251	3.516
2040	5.229	3.495
2041	5.176	3.308
2042	5.101	3.121
2043	5.011	3.071
2044	4.915	3.044
2045	4.818	2.975
2046	4.724	2.928
2047	4.636	2.980
2048	4.556	3.099
2049	4.482	3.221
2050	4.413	3.314
2051	4.345	3.359
2052	4.277	3.352
2053	4.207	3.296
2054	4.133	3.199
2064	3.183	2.561
2074	2.299	3.042
2084	1.900	3.004
2094	1.878	3.003
2104	2.112	3.003