LRT PENSION FUND TRUSTEE COMPANY LIMITED

Notes of the 2004 Annual Members' Meeting
Held at 11:00 hrs on Thursday 30 September 2004 in the Assembly Hall at Church House, Dean's Yard, Westminster

Platform Party:	**Stephen Critchley**	**(Chairman)**
	Sue Timbrell	**(Director of Pensions and Fund Secretary)**
	Richard Williams	**(Scheme Actuary)**
	Garry Wake	**(Pensions Manager)**
	Marina Ainsworth	**(Trustee)**
	John Ingleton	**(Trustee)**
	Alexandra Barnes	**(Trustee)**
	John Timbrell	**(Trustee)**
	Tom Scanlon	**(Trustee)**
	Chris Godbold	**(Trustee)**
	Steve Grant	**(Trustee)**
	Jane Hart	**(Trustee)**
	Steve Allen	**(Trustee)**
	Phil Worthington	**(Trustee)**
Apologies:	**Pat Sikorski**	**(Trustee)**
	Liz Barrett	**(Trustee)**
	Gerry Duffy	**(Trustee)**
	Andy Good	**(Trustee)**
	John Robson	**(Trustee)**

There were 114 other members in attendance

1. Stephen Critchley introduced himself, the Trustees and guests. Having dealt with safety notices he ran through the meeting programme and reiterated the role of the Trustees, which is to:

   - Act in accordance with the Trust Deed and Rules of the Scheme, within the framework of the law
   - Act prudently, conscientiously and honestly and with the utmost good faith
   - Act in the best financial interests of the members and strike a fair balance between the interests of the different categories of members
   - Take advice on technical matters and any other matters where guidance is felt necessary
   - Invest the funds to the best possible financial advantage.

2. Sue Timbrell presented the Fund's Report and Accounts for the year ended 31 March 2004, highlighting changes during the period and clarifying the sector and manager analysis of the Fund's investments and returns. (Copies of slides attached.)

3. Richard Williams gave a presentation on the actuarial valuation as at 31 March 2003, which indicated that the Fund is now 85% funded and that employer contributions, in accordance with the Rules of the Fund, were increased as at 1 April 2004 in order to cover the deficit. (Copies of slides attached.)

4. Marina Ainsworth gave a presentation on the LRT Pension Fund website and talked about the purpose of the website being to improve communication for members. She outlined how to access the site, indicated the sort of information contained within it and advised that since its inception on 14 February 2003 there have been approximately 20,000 "hits". (Copies of slides attached.)

5. John Ingleton gave a presentation on the work of the Operations Committee. He informed the meeting of the names of the Trustees who contribute to the Operations Committee and highlighted some of the work the Operations Committee is currently engaged upon. (Copies of slides attached.)

6. Stephen Critchley invited questions from the floor. The following questions were raised:-

6.1 **Employer contribution multiplier: what is the effective date?**

The new level of employer contribution is effective as at 1 April 2004

6.2 **Investment Strategy : You** *[Richard Williams, Watson Wyatt]* **talked about the investment strategy a few slides back (Slide No. 16) when you mentioned about the 101% funding level at the last valuation going down to 95% at the current valuation. You mentioned that of this 7% fall, 2% is the reduction for the investment strategy. Has the investment strategy changed that much to have that effect?**

Overall investment strategy changed from one valuation to the next. In 2000, the benchmark was for 70% of assets to be invested in equities whereas by time of the 2003 valuation a review had taken place following which equities were reduced to 65% in the Fund as a whole. This reduction in proportion of equities meant less volatility but the expectation of a reduced investment return, which led to a reduction in funding level of 2%.

6.3 **Are you taking account of changing demographics and staff losses of 30%?**

It is not accurate to say there's a plan to reduce staff by 30% overall. The Business Plan is due to go to the TfL Board on 27 October and the Plan will be published soon thereafter. Projected staffing numbers will be included.

Deferred pensions were allowed for in the valuation. If more people than expected leave and become deferred members, this will not have a detrimental impact on the Fund.

6.4 **With the expectation of increasing longevity, and higher salaries what will be the impact on an existing pension in 10 years' time?**

There are no guarantees, but an increase in life expectancy is already included in the actuarial valuation calculations, at a rate of 1 year every 10 years, and this is monitored on an ongoing basis as the pattern between working life and retirement changes.

6.5 **How secure is the website for instance using the online calculation facility? How many hits has the website had?**

The website employs the latest protocols to maintain security and continual checks are made to maintain industry standards and security. There have been around 20,000 hits to date.

6.6 **How do you carry out mortality checks?**

This is referred to a specialist organisation which checks names and addresses against lists of people who have died. In the recent review there were around 40 possible cases where notification of death had not been received, and only one of those cases resulted in the individual responding to the enquiry and confirming that they were still alive.

6.7 **What is included in the Fund's administration expenses? We are already paying money to the Government in taxation so are we also involved in the Pension Protection Fund?**

Administration expenses are made up of more than staff costs. There are also accommodation, facilities and system expenses, which includes the cost of licensing, running and maintaining all the IT systems to allow us to make over 40,000 pension payments every four weeks. On top of that are insurance, legal fees, accounting costs and actuarial expenses; and actuarial costs are high this year due to the actuarial valuation. .

We pay fees to the investment managers for managing the Fund's assets and who perform well compared with industry standards.

We are in discussion with the Department for Work and Pensions and have been corresponding with them on issues such as the Pension Protection Fund. Our position is that TfL should not have to contribute and if we are successful we won't have that outlay. The reason for the PPF is to safeguard pension fund members against a company becoming insolvent and not able to pay its pension liabilities. TfL cannot become insolvent and the only risk to our Fund is the other private sector employers becoming insolvent. TfL therefore has a strong employer covenant.

6.8 **Can we change the policy of investing in tobacco companies?**

At present the investment managers have discretion on what they invest in. If we limit them we run the risk of not fulfilling one of our fiduciary duties as Trustees. Trustees need to satisfy themselves there would be no negative impact on returns. It is unlawful to fetter the discretion of the Trustees but this issue will be taken to the Board again.

6.9 **The Government are being pressed to make changes in the way retirement pensions are assessed by reverting to the pre-1979 basis of taking into account changes in wage rates as well as retail prices. If the Government were to move in that direction, would there be any changes in the way that Fund pensions are assessed?**

There would be no effect on Fund pension payments. These proposals are in the very early stages. It is a big "if" and these proposals may never be accepted.

6.10 **It seems very difficult for members to access the Fund Rules and Valuation report. How will you tell members of changes? Members are not told how to get the information. Can it be put on the website in future?**

The actuarial valuation is available upon request but due to the time and resources needed to make it available a charge is made for photocopying and postage. It is available free of charge in the Fund Office for any member to read. The same applies to the Rules of the Fund.

The Freedom of Information Act states that as of 1 January 2005 public authorities must provide information if they receive a request in writing from an individual. Arrangements for charges are not yet clear but be assured we will comply with the law.

The following information is posted on the website under 'Important Messages'.

A copy of this document is available for a charge of £50 (includes copying, postage and packing) to the following categories of persons and trade unions:

- *members and prospective members of the scheme*
- *spouses of members and of prospective members of the scheme*
- *beneficiaries under the scheme*

- *independent trade unions recognised to any extent for the purposes of collective bargaining in relation to members and prospective members of the scheme.*

Alternatively, it can be viewed by any of the above free of charge in the Fund Office.

6.11 **Has the fact that people are retiring before 60 been taken into account? Does this put a constraint on the Fund in the immediate future?**

Some years there will be more people retiring but liabilities are funded for in advance. The increase in employer contributions has meant an increase in cash into the Fund and in the year 2004/2005 money flowing into the Fund will increase.

6.12 **During the recent "crash" we had a number of equities, balanced by a number of bonds, which did not go down, so the remaining shares took the brunt of the crash to a greater extent that the whole of the Fund. I think there should be some explanation and perhaps a name or two, rather than blaming it on the market generally, although it should be said that the market has been climbing up a bit recently.**

2000-2003 saw rapidly declining investment values but in the subsequent year investment values grew considerably in the order of 20%. Since 31 March 2004 the market has been relatively moribund.

The Trustees have a difficult job. You could argue that the monies of the Fund could all be invested in the security of gilts, fixed interest investments not linked to equities, but in many ways that would be a quite unrealistic approach. There is a balance to be struck between security and long-term cost. The Trustees must strike a balance between having all the money in a very secure investment with a lower return, against investment in equities that are likely to produce a better rate of return over the long term. The Fund is in there for the long term.

It is true to say that in the period 2000-2003 markets in general performed badly. There had been an expectation from many commentators that the level of the market was unsustainable, but there were other comments that we were expecting certain stocks, particularly high-tech stocks, to deliver sustained outstanding performance. But the market's performance declined. This did not apply only to the assets that the Trustees had invested in, but applied generally. It's quite a difficult job for any one group of Trustees, or any one investment manager, to move totally against the tide.

Over that time there was one investment manager in particular that did take a view that the markets were overvalued and they had the assets of their pension fund clients invested far less in equities. Over time, they lost more and more of their clients because it became very difficult to sustain that argument. So while the comment that it is not very satisfactory to simply blame the market is understandable, we must take into account that the investment managers and the Trustees are all operating within a global environment.

6.13 **Many funds have a kitty on which to draw to provide pensioners with days out and other such treats. Could we provide such a service?**

With the current deficit there would not be spare funds for such activities. Nevertheless it would be an issue for the employers rather than the Pension Fund. The Staff Welfare Fund is provided by the employers, as is the Pensioner Liaison team.

6.14 **Vote of thanks to the Trustees and Fund Office staff.**

6.15 **Some of the largest stocks that the Pension Fund holds are invested in tobacco companies. How can someone who is a TfL employee and a Trustee support anti-smoking posters in the kitchens and turn a blind eye to where the Fund invests? It sends a mixed message and is an ethics question.**

The Chairman repeated his earlier comments regarding the fiduciary responsibilities of the Trustees, but also committed to take this issue back to the Trustees to consider. It must be remembered that Trustees may need to 'wear different hats' for different roles that they hold, so there can be conflicting priorities.

6.16 **Who owns the Fund's assets? Who are the beneficial owners of the Fund?**

Beneficial ownership of the Fund is the LRT Pension Fund Trustee Company Limited.