Annual Members Meeting : 3rd October 2006

1) Questions and answers on pensions from Members at the meeting

Q1. What can be done to provide access to the Fund to those who are working in the privatised parts of the London Underground ?

A1. There was a commitment, which has been honoured, to those who transferred as part of the privatisation arrangements for them to continue in TfL Pension Fund. For those employed by the private companies subsequently, we can only do what the contract says and this does not include how they provide pensions to the new staff they recruit.

Q2. The Fund is fully compliant with Myners except in relation to the payment of Trustees. There are two Trustees who are retired members who should receive a fee, not just expenses. Also those Trustees who are working may be under pressure to complete the work which covers the periods they are released for Trustee duties.

A2. A commitment was made by the Chairman of Trustees to look into these two points

Q3. While offering congratulations on the information and communication provided by the Fund, I am appalled that there is a charge of £50 if we want to receive a copy of the actuarial review. Is there no longer an actuary employed in the Fund Office.

A3. The charge is if you want your own copy. It can be read at the Fund Office at no charge. There is no actuary in the Fund Office and this is not a necessary requirement. The Trustees receive independent advice from the Scheme Actuary.

Q4. The summary funding statement sent out had included mention of the position if TfL Pension Fund was wound up and the potential compensation available from the Pension Protection Fund. A similar document received from the Railway Pensions scheme had mentioned that it was guaranteed.

A4. Some parts of the Railway Pension Scheme do have a Crown Guarantee. TfL does not have a formal guarantee of that type, but its position comes close. Discussions continue with the Department for Work and Pensions and Pension Protection Fund (levy) about gaining an exemption from the PPF levy for the Public Sector section because the circumstances where the Fund might seek PPF protection are so remote. If this can only be achieved through a change in legislation or regulations we will ask for this. The private sector sections would not be exempted from the levy and they would continue to have PPF protection.

Q5. It is now fashionable for investment advisers to recommend investment in Hedge Funds, some of which have now "caught colds"

A5. The fund has looked at investing in "alternative" assets including hedge funds, but it does not do so at present. Currently a risk budgeting study was underway and the Fund was assessing the level of risk it was appropriate to take. Given the strong covenants of some of the participating companies such as TfL it is possible to consider taking on greater risks. One of the conclusions of the risk budgeting study will be the extent to which we invest in "alternatives" and this will be looked at carefully.

Q6. What comment would you make about the money which the Chancellor has stolen from pension funds ?

A6. A tax change was made when the Labour government came to power in 1997 in removing relief which pension funds had previously enjoyed from the tax on dividends. It has harmed funding but is not necessarily theft. The tax raised has been put to other uses.

Q7. I take a dim view of TfL money being used to fund the Pension Protection Fund. Can we go to the European Court of Justice ? Will the amounts paid to the PPF increase ?

A7. The Government decided that establishing the PPF was the right thing to do. I have already commented on the action we are taking to secure exemption from the levy. The levy is determined by a risk based assessment and a weaker credit or funding position will increase it. It would probably go up before it goes down because of the obligations the PPF was seeking to meet, but only once there was a history of claims, like any other insurance policy, would be a clear trend emerge.

Q8. Could we have increased life cover in the Fund?

A8. Improvements to benefits such as death-in-service were a matter for employers to consider in the first instance.

2) Other questions received prior to the Annual Members Meeting from those who could not attend and answers provided.

Q9. Why haven't contribution limits been raised from 15% as new legislation allows

A9. The Trustees are taking a measured response to new legislation. They have implemented mandatory changes and certain permissive changes (eg tax-free lump sum limit change and use of AVCs for lump sum). They will review contribution limit after 12 months after reviewing AVC arrangements and experience of member AVC contribution levels. It would be a significant step to change 15% limit and they need to consider carefully all issues eg administration costs and member financial advice.

Q10. Why not show in Annual Review breakdown of assets by participating companies as producing separate funding statements for each section. Shortfall in Public Sector is worrying.

A10. The Trustees will consider providing asset split in next year's annual review. There is already such an analysis in the Annual Report and Accounts.

On the shortfall, there has been a significant increase in contributions following last actuarial review and current one will establish appropriate rate going forward.

Q11. How does Fund exercise voting rights ? Why do we have a large holding in GlaxoSmithKline as it is not performing so well now ?

A11.The Trustees have asked their investment managers to exercise voting and other rights in accordance with best practice in relation to Institutional Shareholders' Committee's Statement on the Responsibilities of Institutional Shareholders and Agents.

Individual stock selection is a function of overall strategy eg in passive management will involve holding the stocks which comprise the index they are tracking. For active management we are measuring the overall performance of managers not individual stock-picking decisions. But of course managers will need to get most of their stock picking decisions right if they are to give a satisfactory performance.

Q12. I thought that when staff transferred under the PPP to Metronet my pension would still be protected. What happens if Metronet goes into liquidation ?

With sectionalisation of the Fund in 2001, assets and liabilities were apportioned between the new sections. Each section operates effectively as a separate pension scheme.

However currently where a member retires or leaves then a transfer is made and the Public Sector section assumes responsibility.

The asset allocation and contribution levels of the sections are set with reference to the strength of their employer covenants to reduce the risk of there being a shortfall. However in the unlikely event of Metronet going into liquidation and their not being sufficient assets to meet its pension liabilities then if you were still a contributing member you might not receive the full amount of pension.

If Metronet became insolvent, the Pension Protection Fund might be able to take over the section and pay compensation to members.