

Annual Members Meeting: 2nd October 2007

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

Q1: Among the proposals in the government's pensions deregulatory review is repeal of section 67 of the 1995 Pensions Act. This would allow the varying and reduction of pensions. I am concerned about this risk to my quality of life in the future.

A1: Repeal of section 67 would not alter the existing protection for members provided by Fund Rule 44. Under this Rule if a proposal is made which would adversely affect benefits payable it would need to be agreed by a resolution of the Members at a General Meeting convened for that purpose.

Q2: Is Metronet now under TfL control and has it being paying contributions ?

A2: Since Metronet Rail SSL Ltd and Metronet Rail BCV Ltd went into administration they have been under control of four individuals from Ernst & Young who are authorised insolvency practitioners. Their role is to pass on the PPP contracts to a successor contractor. TfL does not own Metronet but has agreed to loan it money for a 6-month period in order to enable tube operations and upgrade work to continue. It has also signalled its intention to bid for the contract later this month.

When the Metronet companies went into administration their sections in the Fund were frozen by law. Contributions could not be received nor further benefit accrued. During this time contributions continued to be deducted by the PPP administrator and were held in trust. These have now been paid over to the Fund. Contributions are collected each time a payroll run takes place and are required by the Rules to be paid over within 5 working days from the end of the period for which they are being paid. The Trustees monitor that contributions are received according to the Rules.

Q3: Should the Fund's governance be dependent on voluntary service by pensioners or deferred pensioners rather than providing remuneration for these categories of member serving on the Trustee Board ? Also you are working enough with employers so that staff side Trustees, including deferred pensioners have proper arrangements for their work for the Fund?

A3: There was a commitment given at last year's Annual Members Meeting for a review of payments to Trustees and this has taken place at some length. Consideration was also given to the fact that there were other groups where voluntary service is also given currently such as the Pension Consultative Council. The conclusion from the review was that the current voluntary practice for those serving as Fund Trustees should be retained.

With respect to Trustees being given time to carry out their duties, they would always have the full support of the Chairman for this, if needed. However for

deferred members who were not with participating employers there was not comparable influence that could be exercised over their employers.

Q4: I have deferred AVCs with the Fund and would like to be able to make further contributions but have been told I cannot.

A4: This is a matter where the Fund must follow the law and the law only permits contributions into the Fund to be made by current employees.

Q5: Why is there a section on winding up included in the Summary Funding Statement Summary Funding Statements and following the actions on Metronet are you going to bail out any of the other closed sections ?

A5: The section on winding up is included in the summary funding statement because it is a legal requirement to do so. It does not indicate any future intentions in this regard

This Fund did not bail out Metronet. Support for Metronet has come from TfL and we cannot speculate as to what TfL might do in the future. The Trustees welcomed the fact that TfL joined with the Metronet companies to enable a scheme rescue of their sections to take place.

Q6: Why cannot I continue to accrue 1/60ths pension after age 65 (reached on 31st January 2007) rather than ceasing contribution and receiving the “bonus” of 8% pa?

A6: Agreeing to your request would involve a change to the Fund Rules which requires both Trustee and TfL agreement. Also your specific request forms part of a wider study arising from recent changes to age legislation and discussions on flexible retirement. The Trustees are expecting to receive shortly the considered view of TfL on these issues. This is taking place against a background where the government itself is still consulting on the issue of flexible retirement and pension provision. While I cannot give you a final response now, I do expect to be in a position to do so soon.

2) Questions received from members prior to Annual Members' Meeting 2007

Q7: What is the ethical investment policy for the pension fund, and has this been validated by a staff survey to clarify with members whether they are happy investing in:

- **The arms trade**
- **Companies involved in environmental degradation**
- **The exploitation of animals (experiments, etc)**

A7: The Trustees of TfL Pension Fund have agreed that social, environmental and ethical factors should be included amongst the criteria taken into account when considering the purchase, retention or sale of investments, and have asked the investment managers to proceed accordingly in their stewardship of the Fund's assets.

The Trustees must exercise their investment powers in accordance with legislation. They have a legal duty to seek to maximise investment returns in order to meet the cost of current and future benefits and to take proper investment advice. The view of the Trustees' Investment Adviser is that excluding companies that represent particular industries would increase the volatility of the Fund's investments to the possible detriment of the beneficiaries. The Trustees would not legally be able to override these financial considerations except possibly where there was unanimity among the members on a particular investment issue. With a large scheme such as ours there would be a divergence of opinions and that being the case there would be nothing to be gained from carrying out a survey of members.

Q8: Why are we still charging £50 for a copy of the actuarial valuation?

A8: A proposal will be put to the November meeting of the Operations Committee of the Trustee Board for the £50 charge to cease.

Q9: Why no mention of the resignation of the Secretary of Fund in the Annual Review?

A9: The resignation of the Fund Secretary is different from the resignation of Trustees which has been mentioned in the Annual Review. When a Trustee resigns there is a clear vacancy until a new Trustee is appointed. However in the case of the resignation of the Fund Secretary there have been interim arrangements in place, agreed with the Trustees, which have ensured the continuity of the Fund Secretary's duties pending the appointment of a replacement. It is expected that the new Fund Secretary appointment will be announced in the next "Pensionnews" which will be an appropriate time for the formal announcement of their predecessor's departure.

Q10: Why did the underpayment referred to in the Summary Funding Statement of Public Sector section arise?

A10: The slight underpayment was a consequence of the new funding arrangements for the Public Sector section having been agreed in July but being back-dated to 1 April 2007. As the new employer contribution was slightly higher, there was a catch-up payment required.

3) Chairman's statement to the AMM on Private Sector Sections

In my introduction to the Annual Review sent to you earlier last month, I noted that the Trustees had considered the results of the actuarial valuation and were in the process of agreeing future contributions with TfL.

I am pleased to inform you that except for the two Metronet sections, where discussions were interrupted as a consequence of Metronet BCV and Metronet SSL going into administration, the Trustee has concluded agreement on future funding for all sections. With a scheme rescue of Metronet now achieved, negotiations have resumed and we are hopeful of reaching an agreement soon.

Although formal agreement has been reached on the other sections, this was preceded in some cases by a long process of proposal, counter-proposal and discussion involving the Trustee and TfL (who consulted with the participating companies). A key negotiating point was how long the recovery period should be for the repayment of any deficits that arose in the individual sections of the Fund.

The Trustee's preferred position was to seek an immediate payment of any deficit. But in reaching a final agreed position the Trustee was required to take account of the representations made by TfL, as principal employer, to its proposal. It also needed to consider the strength of the employer covenants, the advice given by our professional advisers and the general guidance provided by the Pensions Regulator.

The section for which this process was the most protracted was Tube Lines and for that reason I would like to provide you today with further detail about what was finally agreed. Here the agreed compromise proposal means that the section's deficit of £7.8 million will be repaid over a seven year period ending on 31 March 2014. I would note that at the last actuarial valuation a recovery period of 10 years was set, so that the Trustee has not extended this.

Had the Trustee continued to insist on an earlier repayment of the deficit, it was clear that TfL would not accept this. Eventually the Pensions Regulator would have become involved and there would have been further delay. There can be no guarantee either that he would have imposed a better deal. So taking all factors into account the Trustee believes the future funding settlement reached is reasonable both for TfL, the Tube Lines section members and for the Fund as a whole.

Details of the future funding settlement for each section formed part of the information included in the summary funding statements sent to members with the Annual Review. These also referred to other documents covering the actuarial review which are available to members on the website or from the Fund Office, if they want further information. But I would be happy to take any questions you may have during our Open Forum.