Annual Members Meeting: 7th October 2008

Questions and answers on pensions from Members at the meeting

Q1: I note that the value of HBOS shares have gone down to practically zero. How has this affected our investments?

A1: HBOS is still trading and Lloyds TSB plans to take them over. Shareholders in HBOS will receive Lloyds TSB shares in place of their existing HBOS shares.

Banking sector share values generally have taken a big hit in recent months. Your Fund does contain banking shares both in index tracking funds and in those portfolios managed by active managers. But there is diversification of investments in the Fund as a whole and these investments are not wholly nor substantively in banks. The Fund has about 7% in cash and large holdings of bonds both in the UK and overseas.

The investment managers also have differing styles such as “value” and “growth” in the case of our UK equity managers Alliance Bernstein and Baillie Gifford. Accordingly, they tend to perform differently in response to market conditions. This means their overall performance when markets decline offers the Fund some downside protection.

In the Fund’s investment portfolio managers are selecting individual stocks and markets. Sometimes they do not get their choices right and in extreme circumstances companies fail as we have seen. In the current climate there is an expectation of recovery from which the Fund expects to benefit in the long terms.

Q2: When I joined the Fund the minimum age for entry was 25 years. It is now 18 years. Are there any plans to allow members to obtain “lost years”?

A2: The higher age qualification was the Rule as it operated at that time. So the question is not a matter for the Trustees, but for the employer and the employer has no plans to address this. There are a couple of instances concerning shorter periods of missing service which the employer is seeking to address. These concern members joining mainly LUL who had a period of training and were not entered into the Fund until after training and secondly those on fixed term contracts who became permanent and should have been admitted as members when they became permanent, but only joined later.

For these cases where membership of the Fund should have commenced earlier, agreement has been reached between TfL and staff representatives as to how this should be made good. The employer will make their contribution as long as the employee pays a sum broadly equivalent to 5% of their salary for the missing period of service.

Q3: Doesn't the £90 employee contribution for a missing period of service represent an overpayment for some of those affected if they joined at a lower salary?

A3: This aspect of the missing periods of service issue and agreement for addressing it is something which concerns the employer only and not the Trustees. We have summarised the position in answer to the earlier question. The Trustees have taken appropriate legal advice as to which aspects involve them and which do not.

Q4: Banks across the world are seeking funding and in Iceland the government is looking to its pension funds to help. Is there a possibility that Gordon Brown could do the same here?

A4: Under current legislation this would be illegal and any proposed legislation to make it legal would meet with significant resistance. Iceland is a special case because of the size of its exposures relative to its GDP and population.

Q5: I note the increase in costs due to the Pension Protection Fund (PPF) levy which has risen from £1.8m to £3.6m. Don't we count as a public sector scheme with exemption from the levy?

A5: We are not a public sector scheme for the purposes of being able to claim exemption from the PPF levy. This is because we do not have a Crown guarantee although TfL is statutory corporation and a local authority. As we do not have this or qualify for any other exemption we must pay the levy, even though there is no prospect that we would have to call upon the PPF. We have made representations at the highest level (including to the Secretary of State for Transport). We require a change in legislation to provide us with the exemption we are seeking and currently the government is not minded to do so.

Q6: Our investment in the Trillium infrastructure fund has the State as its principal tenant. How much leverage is there regarding rental income given we have a single customer?

A6: Each property has a long term contract which provides for the inflation linking of the rent and other payments. For the investment as a whole about 70% of this income is inflation linked and the remaining 30% is part linked to inflation. So except in the very unlikely case that the government defaulted or we suffered hyperinflation our position is well covered. The expected return on the investment is 9% and it can be considered as similar to holding a bond.