Annual Members Meeting 18 October 2011: Questions & Answers

Q1 Instead of having questions and answers at the end of the meeting, could they follow each presentation?

A1 We always ask for feedback on the Annual Members Meeting and members should give their views at reception after the meeting or to the Fund Office.

Q2 How does investing in “alternative” assets fit in with the overall strategy taking into account risk and potentially falling membership?

A2 The Fund is still open to new members so we do not envisage a significant downward trend in membership. Overall the goal is to reduce investment risk and this is done by spreading risk over a range of different assets. Individual hedge funds can fail overnight, as can individual equities, but this does not usually happen to both at the same time. Financial analysts do debate the merits of diversification, but we believe in its merits. Also there is a high level of due diligence before such investments are made.

Q3 Are there any union representatives present at the meeting?

A3 There are a number of union sponsored Trustee directors and they are here today: John Knowles (TSSA), Pat Sikorski (RMT), John Timbrell (Unite the Union (Amicus)).

Q4 Will the trustees exercise their discretion so that the 5.6% inflation increase applies to all pensions in payment?

A4 Under Rule 28, the increase that applies to “New Members” (those who joined on or after 1 April 1989) is capped at 5%. The Trustees’ discretion to give a higher amount (i.e. above 5%) is subject to the consent of the Principal Employer. As the inflation figures were only released this morning, we cannot give a definitive answer on the Principal Employer’s views, but the Trustees will raise this issue with TfL. Many schemes have a 5% or 2.5% cap and in the current environment it is unlikely that they will exercise discretion to give an increase above the 5% cap. Members will be advised of the pension increases that will apply through the usual communications and will include the Principal Employer’s decision.

Q5 Are Metronet members “New Members”?

A5 Whether you are a “New Member” or “Existing Member” is based on when you joined the scheme. Generally if this was on or after 1 April 1989 you are New Member.

Q6 Why are the bus companies not brought back into the Fund?

A6 This issue has been raised on a number of occasions. It would require the bus companies themselves to seek participation in the Fund and for the Principal Employer to give its consent.

Q7 The accounts show the Pension Protection Fund (PPF) Levy has fallen from £6.2 million to £1.4 million. Did the BCV and SSL entities pay their share and what is this year's levy?

A7 The high cost last year was due to the levies incurred by the Metronet sections, following the Metronet companies falling into administration. The Metronet business was taken over by London Underground and the sections have now been transferred into the Public Sector section. So for levy purposes they now share the credit rating of TfL. The PPF levy is a thorny issue for the Fund, as we do not consider the levy charged reflects the actual risks we represent. Unfortunately developments in the levy are not going in our favour and this year's Public Sector section levy is higher at over £2.5 million and the following years are expected to be yet higher. We are exploring every avenue to seek exemption. We note that there are 7000 schemes subject to the levy. As the number of pension schemes fall when companies become insolvent, the burden remaining is on a diminishing number of schemes.

Q8 One element of my pension is not increased by inflation, why is this?

A8 Where the Guaranteed Minimum Pension (GMP) forms part of the pension, the increases to the GMP are partly increased through your Fund pension and the remainder though an increase to your State Pension. These increased are prescribed by legislation and are not in the gift of the Fund.

Q9 Do our investments have any exposure to failed European Banks?

A9 Dexia***** is the most recent European bank to have needed rescue and while we do not have specific detail on holdings in banks, any individual holdings will represent a small exposure by the Fund. There is exposure to the financial markets and accounts show the top ten individual holdings. The largest at 1.4% of the Fund is in Nestle, with number ten representing 0.9%. So any holdings in individual banks would be smaller than this.

*****After the meeting it was confirmed that as at the end of September that Dexia represented of 0.027% of the Europe (Ex-UK) Index. Through the Fund's holding in the tracking fund for this index, it had an investment in Dexia valued at £54,530.

Question raised prior to the AMM

Q10 Is it good practice for the Fund to have the same firm as actuary and investment adviser?

A10 Yes, as long as separate invitations to tender have been made for the actuarial advice and investment advice respectively and the Fund did so.

Historically there was concern that good investment decision making may suffer where the same firm provided actuarial and investment advice as a "bundled" service. Such firms would not necessarily provide the "best of breed" in both areas.

A recommendation in the original "Myners Principles" on investment governance was that contracts for actuarial services and investment advice should be opened to separate competition.

More recently this has been reinforced in the Morris Review of the actuarial profession where it is stated that it is best practice for pension fund trustees to invite tenders separately for actuarial, strategic investment and fund manager selection advice.

The decision of the Trustees during the year to market test its investment and actuarial advice is consistent with best practice.