2015 AMM - Q & A's

Q1 The TfL Pension Fund has a variable pension option. If you retire before state pension age you can choose to take this option and have a higher starting pension. At state retirement age it is reduced to take account of the Basic state pension. But after state pension age if you continue drawing your pension until say age 80, you may have used up all the benefit of taking the higher initial pension. So is an adjustment made then to reflect this?

A1 Members have a choice as to whether they want to take the variable pension option. The amount of higher initial pension from the Fund is paid until state pension age and is calculated with reference to the actuarial assumptions at that time. After the higher Fund pension has been reduced when the state pension comes into payment, there is no other adjustment made other than the annual pension increases, irrespective of how much longer you may live.

Q2 How will the ending of contracting out in April 2016 affect entitlement to the TfL Pension Fund benefits and entitlement to the new state pension?

A2 There is no direct impact on the benefits provided by TfL Pension Fund as a result of the changes to National Insurance (NI) contributions for employees and employers from 6 April 2016. Also no proposals have been received from the Principal Employer for making any change in these benefits to offset the higher NI employer contributions.

The new state pension is replacing the current basic state pension and additional state pension (also known as the state second pension or SERPs).

Those who have reached state retirement age prior to April 2016 will continue to receive a state pension as calculated under the current arrangements. From April 2016 transitional provisions will apply to those who have credits earned under both the old and new regimes.

This means that entitlement to the new state pension, even if you have the required 35 qualifying years, will be reduced to take account of periods when you were contracted out of the additional state pension, such as during your membership of TfL Pension Fund up to April 2016. This reflects the fact that you paid lower NI contributions whilst you were contracted out. But from April 2016 through paying the higher NI contributions you will be able to increase your state pension up to the full level, at the rate of 1/35th of the full rate (£4.32 to the nearest penny) for each additional qualifying year.

Q3 What action has the Fund taken in relation to the prospect that up to 900 London Underground staff are to depart next year with its impact on future contributions and provision of cash to provide for lump sum payments?

A3 We have taken steps to plan for these prospective departures and the Fund will have sufficient cash available to pay for the lump sums. The Fund remains cash positive, so there will be no requirement to sell investments.

With respect to the loss of contributions because of the departures, the Fund remains open and our overall contributory membership trend continues to be upwards. So we are not expecting any significant overall fall in contributory income in the years to come.

Q4 In responding to climate change, there has been a requirement put forward to governments to ensure that world wide average temperatures do not rise by more than 2 degrees Celsius. This implies that there needs to be less fossil fuels burnt (estimated as only one-third of reserves available) and the economies have arguably failed to notice this. There is a conference to be held in Paris in December to discuss this, but it puts into question the value of companies who invest in fossil fuels such that their value will diminish dramatically. What action is being taken with respect to the Fund's investments?

A4 This is a topic that has been considered and has received the attention of the Trustees. From the financial perspective the question it raises is whether there are "bad" investments which the market has not recognised as such. Our view is that if there is any bad news regarding such stocks it has been recognised in their price. With respect to the non-financial aspects of investment in companies involved with fossil fuels, these would not feature in Trustees thinking. However based on financial considerations there has been a significant investment by the Fund into renewable energy with a £100 million commitment to a fund being managed by BlackRock.

Q5 In the light of the consultation which George Osborne is conducting on pension tax relief, what would be the consequences to the Fund if current practice changed?

A5 The consultation period has just closed and we will await the government response. Currently tax relief is given when contributions are made and the subsequent pension is taxed. If tax relief were removed on contributions, but pensions paid without tax then this would be a significant change. To fund the same level of benefit without the tax relief would result in members having lower net pay than currently. They would also need to have confidence that a future government would not renege on the promise that the eventual pension would be paid free of tax. Also there would need to be some sort of division in treatment between the benefits which applied to the existing and new tax regimes. Once we know what the government response is, then we will be in a better position to assess the impact, if any, on the Fund and advise members accordingly.

Q6 The Actuary in reviewing mortality experience in the Fund is making use, as a reference point, of post codes as national experience indicates that where people live can be a significant factor in estimating how long we live. Should he also consider the incidence of those who work night shifts as experience seems to point to higher mortality for this group? There is also some experience of other groups who suffered higher than normal rates of death before retirement.

A6 The Actuary is using what evidence is available that helps him to assess how long employees are going to live. This includes both the experience of the Fund itself and national data. He will do as much analysis as he can, but a perfect answer is never available. Experience also shows that as a balance to any sub-groups who may be expected to have a high mortality experience, there are others who will have significantly better longevity. For example, here are some 70 Fund pensioners currently over the age of 100.

Q7 In the accounts on page 17 it shows an investment return for European equities (ex-UK) was -4.5 and the benchmark as -4.7%. Should the Fund not have disinvested from these investments?

A7 If the Fund had known with certainty that these investments would fall in value it would have disinvested. Also once it was known they had fallen, there is no certainty that this trend would continue. These particular investments were part of a portfolio which was moved to another manager during the year. After the switch the return achieved during the remainder of the year was 10.9% positive. But as this was a passive investment which just tracks the market index, the recovery was just due to market changes, not to any particular management skill. In a diversified fund such as TfL Pension Fund it is not expected that the investment return on all its component asset types will always be positive. The aim over the long term is to achieve overall positive returns such that asset growth for the Fund as a whole is ahead of the growth in the Fund’s liabilities.