2016 AMM - Q & A's

Q1 With respect to responsible investment, on page 16 of the Annual Report and Accounts, I note that the TfL Pension Fund has a significant shareholding in British American Tobacco. Why would the Fund invest in such a company?

A1 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.

So their fiduciary responsibilities in seeking to ensure the best financial returns for members would take precedence over adopting any particular ethical stance. Investment decisions are delegated to the Fund's external investment managers. But as long term investors the Trustees recognise the importance of Environmental, Social and Governance ("ESG") issues in their investment framework and it forms part of their monitoring of their investment managers.

Q2 On page 7 of the Annual Report and Accounts there are details of the changes to the rules during the year. Can you provide further information regarding the express powers mentioned there?

A2 The Fund Rules previously allowed the Trustees to pay a Member's annual allowance tax charge and reduce that Member's benefits accordingly ("scheme pays") only where required to do so by the relevant legislation which includes a minimum threshold of £2,000.

To give assistance to a wider group of members the revised rules have introduced an express power for the Trustees to operate scheme pays at their discretion. So in addition to the existing express power to operate it when required to by the legislation, it permits the use of scheme pays, for example, where a Member's annual allowance tax charge is lower than £2,000.

The Fund Rules also previously provided that only the benefits of certain categories of member were required to be put into payment by the date on which the recipient reaches age 75. There was no express provision for other categories of member, although in practice the Fund Office does put benefits into payment by age 75 where possible. The revised rules provide for all benefits payable under the Fund to commence payment by age 75 unless the Trustees decide otherwise. .

Q3 Could TfL Pension Fund follow the state pension arrangements and introduce a "triple lock" in respect of future pension increases?

A3 The Trust Deed and Rules provide for annual pension increases to Fund pension in excess of any Guaranteed Minimum Pension element based on the change in the Retail Prices Index ("RPI"). Any change to this provision would require the agreement of the Principal Employer. As it would potentially involve providing pension increases in excess of the RPI and so result in additional costs for the Principal Employer, it is unlikely that such agreement would be given.

Q4 How will "Brexit" affect the TfL Pension Fund?

A4 This is a complicated topic and it is unknown what will be the eventual outcome. Currently it can be seen that there is increased volatility and the reason the Fund is diversified is that by not having all its "eggs in one basket" it is better placed to ride out such turbulence. Although sterling has suffered, there has been a rise in the main UK stock market because of the significant overseas earnings of its members. As long term investors, short term volatility matters less, but had a valuation been done today rather than in 2015 it would be showing a much worse position.

Q5 The government has made statements recently regarding lower pensions and in particular about the impact on women because of the change in their state pension age. Could there be more communication regarding such matters for members?

A5 There have been several articles in Pensions news and we will continue to provide information. The position is complex as it involves a combination of events; the ending of contracting out and introduction of the new "single-tier" state pension from 6 April 2016 together with the increase in state retirement age, especially for women which has been in progress for a number of years.

With the ending of contracting out, both members and employer now pay higher National Insurance ("NI") contributions which provide qualifying years towards the higher single-tier state pension. Employers have the option to off-set their higher NI contributions costs by increasing member contributions or reducing the benefit accrual going forward. To date TfL has not chosen to pursue this option, which could only be taken after employee consultation had taken place.

Your new state pension is based on your NI record when you reach state pension age. You may get less than the new full State Pension if you were in contracted out employment before 6 April 2016.

You can find out more about your individual position by using the Government service: https://www.gov.uk/check-state-pension to find out:

- how much State Pension you could get (this amount is also known as your State Pension forecast)
- when you can get it
- how to increase it, if you can

On the above site you can enquire either through using an online tool or through completing form BR19 and sending it through the post to the government's Newcastle Pensions Centre. Alternatively you can contact the Newcastle Pensions Centre by calling 0345 3000 168 to obtain a State Pension forecast.

Q6 Could you comment on the security of my TfL pension if the Pension Protection Fund went broke, TfL could not contribute the lump sum payment of £38 million due by 31 March 2018 and the government announced a 25% pension reduction?

A6 These are a pretty extreme set of circumstances and so may not represent any realistic scenario which is likely to occur. The only comment that could be made is that at times of severe financial distress, the pressure is more likely to felt through prospective change to future pension accrual than to any changes to the accrued benefits already built up through past service.

Q7 The Pension Liaison service is planning to shut down the scheme for providing hampers to pensioners over the age of 90. Is the cost saving justified?

A7 This is not within the remit of the Trustees as it is funded directly by TfL to whom representations should be made and there are representatives of the Pensioners Forum at this meeting who may wish to pick this up.

Q8 While the backing provided by the Pension Protection Fund ("PPF") may be considered a good thing, does it encourage the unscrupulous to ditch their pension liabilities?

A8 In response to events such as BHS and more recently the Bernard Matthews pension scheme, there is work going on in government and parliamentary committee to review whether the regulatory authorities have sufficient powers to prevent this or are exercising the powers they already have appropriately. However the exercise of power to force companies to contribute more may in some cases hasten a company collapse rather than saving its pension scheme.

The levy which funds the PPF is paid by occupational defined benefit schemes such as TfL Pension Fund. The Fund has long maintained, without success, that it should be exempt because of the remote circumstance in which it would ever call upon the PPF.

Q9 Is the Fund being adversely impacted by the increase pressure on TfL financially, e.g. through the fares freeze?

A9 At the moment the strength of covenant provided by TfL is considered very strong and so it is also considered "good for the money" in terms of continued funding. The increasing cost of defined benefit pension provision continues to be a major issue for all employers sponsoring such schemes, and many employers are reconsidering future levels of pension provision as a result.

The Trustees are not aware that TfL is considering any such changes at present. However, this is not a matter for the Trustees, but for the employer to discuss with the Trades Union representatives. The Chief Finance Officer of TfL recently attended a meeting of the Trustee Board and confirmed the organisation's commitment to the Fund.

Q10 Can you make available the slides presented at this meeting on the Pension Fund website?

A10 Yes, we shall do so.

Question received from a member unable to attend the meeting:

Can the scheme take steps to measure the exposure of its portfolio to climate risks. One way of doing this would be to undertake an inexpensive (c £4,000 - £5,000) carbon audit which would identify the scheme's exposure to carbon emissions, coal power production, stranded assets, divestment targets, energy transition pathways and water dependency, as well as quantifying the positive environmental impact of investments across all asset classes?

Answer:

This proposal is currently being considered by the Trustee Board's Investment Committee.