2017 AMM - Q & A's

Q1 Are there any plans to outsource the TfL Pension Fund administration?

A1 There are no plans to outsource the Fund administration, but we must continue to be mindful of costs and ensure the right balance between costs and service. The administration service provided is not perfect and so we try to rectify any shortcomings when they arise. The use of feedback from surveys help us to identify any common themes that we should address.

Q2 Could you comment on the safety of the protection provided to members by the Pension Protection Fund ("PPF"), given the recent cases of Monarch and Tata?

A2 Before the PPF pensions could be wiped out where the employer became insolvent, so its establishment has provided a significant safety net. But in the case of the TfL Pension Fund, it has to pay to support the PPF while there is only a remote possibility that any call will be made on it by the Fund. In the case of Monarch the PPF took an interest in the company as part of the settlement for it taking on its pension liabilities. The PPF will need to be vigilant about such deals, as it is the remaining pension schemes such as the TfL Pension Fund to which it will have to look for any additional funding.

Q3 There is concern over the withdrawal of non-pension benefits such as calendars, hampers and pensioner support.

A3 This is a matter for TfL, not the TfL Pension Fund. However the Chair has written to TfL indicating that this is a topic which came up and making due representation on the strength of feeling that was expressed. The letter and TfL's response have been copied to the Pensioners Forum and are included at the end of this document.

Q4 Any comment on Brexit, in particular how a "hard" "Brexit" may affect the TfL Pension Fund?

A4 This is a complicated topic and it is unknown what will be the eventual outcome. The 'central case' is that Europe is a very important trading partner for the UK and anything which adversely affects that will have adverse consequences for the UK. We have already seen a15-20% reduction in the value of the sterling and the expectation is of lower economic growth in the next five years. A very hard Brexit would be bad news, but this outcome is not expected.

The Fund is diversified in that by not having all its "eggs in one basket" it is better placed to ride out economic difficulties in any one area. Although sterling has suffered, there has been a rise in the main UK stock market because of the significant overseas earnings of its listed companies and the Fund has significant overseas holdings which are not directly affected by the kind of Brexit the UK experiences.

Q5 A lot of colleagues have been taking up Additional Voluntary Contributions (AVCs) in response to the rise in state pension age in order to increase their pension benefits from the Fund. However there is potential for tax relief being lost following announcements in the November budget. Can the Fund lobby against such an initiative.

A5 Where there is a consultation on pension matters, the Fund will actively respond. However there is nothing on this in public domain currently. The main purpose of the Trustees to manage the Fund, but through membership of its trade association (who have regular contacts with government) there has been direct lobbying in the past prior to the Budget against the prospect of any adverse pension tax changes and this will continue.

Q6 Is it possible to cash in a final salary pension?

A6 If the pension is not yet in payment this option exists now through the ‘pension flexibilities’ that were introduced in 2015. The final salary pension entitlement has to be converted into a monetary value and this is transferred to a member’s personal pension arrangement which permits the member to receive (subject to tax) the full amount or to draw it down in stages. However a member would need to think very carefully before taking up this option and formal advice would be required to be taken if the transfer value is above £30,000.

Q7 Does the Trustees’ consideration of Environmental, Social and Governance factors (ESG) take into account climate change risks?

A7 There is a focus on climate risk and carbon emission and the Trustees are building up their reporting capability in this area and plan to make more information available to members later in the year.

Q8 I am disillusioned by pensioners being ‘exited out’ such as through the loss of paper pay slips and calendars. How do the Trustees respond?

A8 As previously noted the calendars were provided by TfL and not the Fund and a representation has been made following this meeting. In general there has been a move to a digital economy and the Fund seeks to strike the right balance. It cannot ignore the advantages of moving to electronic communication, but remains conscious that this is not a preferred option for all members.

Q9 Are the non-consolidated bonuses which employees have received taken account of in calculating the pension fund liabilities?

A9 The calculation of the Fund's liabilities depends on pensionable salary and its growth. At the 2015 valuation account a lower allowance was used for pensionable salary growth to reflect the impact of non-consolidated bonuses and this will be reviewed when the next valuation takes place in 2018.

Q10 When can we expect to see the results of a carbon audit of the Fund's investments?

A10 Reporting functionality to measure this is being finalised. The first part has been done and once the data and trends have been assessed, the Fund will be in a position to publish either on the website and/or Pensionews.

Q11 With the prospect of receiving a non consolidated bonus and little increase in salary, are members better off opting out and rejoining the Fund so that their deferred pension will benefit from increases by reference to the Retail Prices Index?

A11 There are fact sheets available from the Fund which go into detail. There may be individual circumstances where this may be considered beneficial, but not in all cases. If considering this step you should take independent advice.

Q12 If I retire early is the lump sum also restricted?

A12 If you retire early (before age 60) your pension will be reduced because it will be paid over a longer period. The lump sum is a calculation in its own right. You can receive up to 25% of the value of the pension as a lump sum. So if the overall pension value is lower, so will the maximum lump sum available. But the lump sum itself is not subject to any specific age reduction.

Q13 What is the likelihood of the TfL Pension Fund being closed to new entrants?

A13 The Trustee are not aware of any plans to make that change and TfL has previously confirmed its commitment to the Fund.

Q14 How is the Fund supporting the Mayor's commitments to climate risk?

A14 Through the Trustees' diligence in monitoring this risk in the Fund's investment portfolio and in encouraging its investment managers to engage with companies more on this issue.

Q15 In the Summary Funding Statement in the Annual Review, the Public Sector Section deficit is stated as £396m, but a deficit figure of £1,218m is also quoted.

A15 The £396m figure is from the triennial valuation as at 31 March 2015, while the £1,218m is an assessment as at 31 March 2016. Since that latter date there have been improvements in the funding position and a new valuation is due as at 31 March 2018.

Q16 The largest element in the portfolio is overseas equities. If a good Brexit deal is made will the value of these decline in sterling terms?

A16 There have been some gains in these assets due to sterling depreciation which would reverse if sterling appreciated. However a significant part of the currency exposure has been “hedged” so that there will be smaller swings in the value of the Fund due to changes in the value of sterling.

Q17 How does the Fund’s significant investment in tobacco company BAT align with its consideration of ESG issues?

A17 The Trustees seek to use their investment powers to maximise financial returns to ensure they can meet the Fund’s pension obligations. However they are also required to consider risks such as the long term security of the portfolio and whether it is sufficiently diversified.

Their fiduciary responsibilities in seeking to ensure the best financial returns for members would normally take precedence over adopting any particular ethical stance unless a financial case could be made. Making an ethical stance for non-financial reasons could only be considered where there was good reason to think scheme members as a whole would share the concern and the decision would not involve a risk of significant detriment to the Fund. Such considerations form part of an ongoing consideration by the Trustees of ESG issues in their investment framework and in their monitoring of their investment managers.

Questions received from members unable to attend the meeting:

Q18 Has the TfL Pension Fund completed its carbon audit on the scheme. And if so what were the results of the audit? Alternatively if the audit has not been completed can you provide a completion date?

A18 See Q10 and A10 above

Q19 The London Pension Fund Authority (LPFA) will not consider new active investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas, and where engagement is not successful with existing investments, LPFA has committed to divest. TfL Pension fund still holds at least £23.4m in oil and gas. Does the fund plan on reducing its holdings in oil and gas to reduce exposure to the financial risks of climate change?

A19 The Fund has no specific divestment plans. The Trustees' policy is for engagement on ESG issues. It has access to ESG information and ratings from a third party source to support the monitoring of its investment managers to whom investment decisions have been delegated.

Q20 Has the Fund asked its investment managers for low carbon investment products across asset classes such as green bonds and certified low carbon infrastructure projects?

A20 As part of its commitment as a signatory to the UN Principles of Responsible Investment, the Trustees are working within that framework to engage with its managers in promoting the integration of ESG factors into investment decision making. It has also specifically targeted sustainable investment opportunities such as renewable energy and water and sewerage infrastructure.

Q21 Does the fund have a specific policy on climate risk management, and if not would you consider preparing one?

A21 The impact of climate change is one of the risks the Trustees review as part of their monitoring of the ESG ratings of the underlying portfolios of the Fund's listed equity and bond managers using ESG ratings from a third party provider.

Q22 Can the fund request that their investment managers' breakdown their voting records for each AGM/EGM, particularly in respect of shareholder resolutions?

A22 The investment managers have provided a quarterly breakdown of their voting activity for several years. This is summarised and particular issues are highlighted (such as shareholder resolutions) for review by the Trustees each quarter. Summary details are also included in the annual report and accounts.

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30 October 2017

Dear Simon

TfL – Provision of Pensioner Benefits

At the Annual Members Meeting of the TfL Pension Fund on Friday last week, a number of participants expressed very strong personal views on the withdrawal by TfL of pensioner benefits; in particular the annual calendar, provision of hampers and general pensioner support.

I was clear at the meeting that this was not a matter for the Trustee of the TfL Pension Fund, as these services were provided by TfL. I did however agree at the meeting that I would draw to your attention the very strong feelings that were expressed from the pensioners present that this was unfair, affected the pensioners disproportionately and was mean spirited, in light of the significant service and contribution that the pensioners had provided whilst employees of TfL and its predecessor organisations. This may be a matter you discuss with others members of the TfL Pensions Policy Group at their next meeting and respond back to the Pensioners' Forum directly.

Yours sincerely

M. Antoniou

Maria Antoniou
Chair of Trustees

cc: Mike Brown, Commissioner
Pensioners' Forum

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26 January 2018

Dear Members of the Pensioners' Forum

TfL- Provision of Pensioner Benefits

I am responding to the letter received from Maria Antoniou informing TfL of the views expressed by a number of participants who attended the Annual Members Meeting of the TfL Pension Fund about the withdrawal by TfL of pensioner benefits; in particular the annual calendar, provision of hampers and general pensioner support.

As you will be aware, TfL is going through the biggest ever overhaul of its organisation. A key part of this is finding efficiencies and savings from every element of its business, so that TfL can put itself on a solid and sustainable financial footing to deliver transport services for London. This is in the context of ever-reducing financial support from central Government: indeed, by end of 2018 TfL will no longer receive any money from the Government to support its day-to-day public transport services.

As TfL's revenue comes from public funds, largely from fare and tax payers there is an imperative to ensure that every penny of our income is reinvested in running or improving transport. It is in this context that TfL has had to carefully consider the services it can afford to provide to former employees in addition to TfL's generous pension arrangements. Hence the difficult decision that it was no longer a justifiable use of public money to continue to support the range of additional benefits provided to pensioners.

I am sorry that this is not the outcome you were seeking, but hope you can understand why TfL has needed to make this difficult decision given its wider financial constraints.

Yours sincerely

Simon Kilonback
Interim Chief Finance Officer

cc: Mike Brown, Commissioner
Maria Antoniou, Chair of TfL Trustee Company Limited