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Message from the chairman

Welcome to the fourth issue of TfL Pension Fund's Pensionews. In this edition, we conclude on the latest actuarial valuation and look at the impact of Metronet Rail BCV and Metronet SSL going into administration on 18 July 2007. There are a number of changes to the Fund to announce, including revised procedures for resolving disputes, which come into effect on 1 April 2008.

We also provide updates on new AVC choices and flexibility and the 2008 pension increase.

In addition, we have improved the look and functionality of the Fund's website and hope to release an updated pensions modeller or calculator by the end of 2008.

As usual we provide a communications timetable for

2008, including the details of this year's Annual Members' Meeting for your diary.

This is also an opportunity to introduce a number of new members of the Trustee Board and also to welcome our new Head of Pensions and Fund Secretary, Stephen Field. You can read more about Stephen on page 2.

As always, we welcome your feedback so if you have any comments about Pensionews or any other Fund communications, please let us know by contacting the Fund Office at the address on the back page.

Chairman of Trustees

New Head of Pensions

We are pleased to welcome Stephen Field as Head of Pensions and Fund Secretary, following the departure of Sue Timbrell. Stephen joins us from The AA where he was Group Pensions Manager, a position he held for four years. He brings a wealth of experience having worked in the pensions industry for more than 23 years. Stephen started his career in the London Transport 1970 Superannuation Fund office so is no stranger to the Fund.

Stephen, who is a Fellow of the Pensions Management Institute said: 'I am really excited to be re-joining such a large and important pension fund. The TfL Fund is in great shape, thanks to



the stewardship of the Trustee Board and the hard work of the team at the Fund Office. Nevertheless, nothing ever

stands still where pensions are concerned and I'm sure there will be plenty of new challenges ahead.'

New Trustees

Since the issue of the 2007 Annual Review last September the following changes have been made to the Trustee Board:

Peter Regan was nominated by TfL to replace Steve Allen and appointed on 26 September

2007. Peter is the Director of Corporate Finance, TfL.

Clare Kavanagh was nominated by TfL to replace Richard Webster and appointed on 12 December 2007. Clare is the Director of Performance, London Buses, Surface Transport.

Also on 12 December, John Griffiths, nominated by Unite the Union (formerly T&GWU), was appointed, replacing Tom Scanlon. John is a Regional Industrial Organiser at Unite the Union.

Actuarial valuation

Pension schemes are required to carry out regular actuarial valuations and the Fund's latest valuation, as at 31 March 2006, has now been completed.

Each section of the TfL Pension Fund has its own separate valuation. Most members were sent a Summary Funding Statement for their section with their copy of the 2007 Annual Review, although Metronet members received

theirs later on because their sections' valuations were delayed by the recent events at Metronet. These outlined the sections' overall funding positions – whether there was a surplus or shortfall – and gave details of the new employer contribution effective from 1 April 2007.

The Public Sector Section of the Fund is by far the largest in terms of members and assets. In addition, members of other

sections continue to transfer to it when they leave or retire.

The detailed results for the Public Sector Section are provided below. As you will see, at the valuation date there was a shortfall of assets, however, the Trustees have reached agreement with TfL to pay additional contributions to make up the difference. In the meantime, there is plenty of money in the Fund to meet benefit payments as they arise.

Public Sector Section: Valuation Result

£ million

Value of benefits accrued to 31 March 2006

- members in service	1,212
- deferred pensioners	599
- pensioners	2,170
- additional voluntary contributions	31

Total value of liabilities

4,012

Market value of assets

3,820

Shortfall

(192)

Funding Ratio

95%

Valuation - making up the shortfall

For future benefit accrual, members' contributions remain at 5% and the Public Sector Section employer contribution (with effect from 1 April 2007) is equivalent to 21.75% of salaries.

To cover the shortfall, the employer is required to pay an additional 9.25% of salaries until

March 2010 and 0.75% of salaries from April 2010 to March 2017. However TfL has already paid £157 million of these contributions upfront.

At the Annual Members' Meeting the Chairman of Trustees discussed the actuarial valuation process with particular

reference to the private sections. He confirmed that, following negotiation, formal agreements had been reached for each of the sections on how any deficits should be repaid.

The Tube Lines section's deficit of £7.8 million will be repaid over a seven year period ending on 31 March 2014.

Similarly, a seven year recovery period has been agreed for repayments of the £21.9m and £24.6m deficits in the Metronet sections. However, there are special circumstances here as TfL is jointly responsible with Metronet Rail BCV and Metronet Rail SSL for the pension liabilities of these sections. TfL has informed the Trustees that, in the event of a successful bid for the Metronet undertakings, its current intention is to clear the deficits through lump sum payments.

The next full valuation is due as at 31 March 2009. In the meantime annual Summary Funding Statements will continue to be sent to members and the Trustees will continue to monitor the Fund in relation to changes to investment strategy and employer strength.



Metronet



The Fund has had many challenges to deal with over the years. One of the more significant of these was the announcement that Metronet Rail SSL and Metronet Rail BCV had gone into administration with effect from 18 July 2007. The first of a succession of special meetings between the Trustees and their advisers took place on 19 July to consider the implications and the impact on members of the Metronet sections.

Metronet's administration automatically triggered a Pension Protection Fund (PPF) 'assessment period'. This placed certain restrictions on

what could be paid into and out of the Metronet sections. During this period, the Trustees worked with TfL to make sure that members' benefits would remain as they would have been but for the administration.

The Trustees also worked with TfL and the administrators of the Metronet companies to achieve a 'scheme rescue' that would, in effect, put the Metronet sections back in the position they were in before the administration. This involved liaison with both the PPF and the Pensions Regulator, whose formal approval was needed for the scheme rescue proposal.

As part of the scheme rescue agreement, TfL became jointly liable with the Metronet companies for the pension liabilities of the Metronet sections. The Trustees also agreed Metronet members' pension arrangements would be safeguarded in the event of the future transfer of the PPP contracts to a new contractor. However TfL emerged as the only serious bidder and, assuming its bid is successful, the Metronet sections will be taken over by LUL nominee companies supported by a financial guarantee from TfL.

Fund investment

When considering how the Fund should be invested, the Trustees need to take account of the level of risk involved in achieving the necessary rates of return. One way to reduce risk is to increase the number of different types of asset class the Fund invests in – this is known as diversification.

The Trustees, with the assistance of their advisers, carried out a 'risk budgeting exercise' in 2007. Following this, and after

consultation with TfL as the Principal Employer, the Trustees have decided to invest in new 'alternative' asset classes to increase diversification. This is expected to provide similar investment returns to those achieved at present, but at a lower overall level of risk.

The new investments will be funded by reducing the investments in equities by 7% and in bonds by 7.5%. It is

expected that it will take 12-24 months to complete this change which will apply initially only to the Public Sector Section.

The Trustees are also considering further ways to manage investment risks more efficiently. A special Trustee group has been established to facilitate the decision-taking and monitoring of these new investments. We will provide further details in the September 2008 Annual Review.

New AVC investment options

The Trustees monitor the Fund's additional voluntary contribution (AVC) investment options and seek expert advice from time to time as to whether they remain appropriate. We have recently been advised that Standard Life remains a suitable provider.

The Trustees are extending the

current range of options provided through Standard Life, by adding three new funds – a fixed interest gilt fund, an index-linked gilt fund and an overseas equity fund. All of these will be 'passively managed' so that they will track their respective market indices. We will also be offering a Sharia fund. At the same time

the Trustees will withdraw the Standard Life with-profits fund for new AVC contributions.

We will write to members with an AVC fund to advise them of the options available by 30 May 2008. Active members wishing to start paying AVCs should contact the Fund Office.

New flexibility for AVCs

It is now possible for members to transfer their AVC funds to other pension arrangements separately from their main Fund benefits, both before and after leaving service. This will enable members who have other 'money-purchase' pension arrangements to consolidate these or allow members to take their AVC benefits earlier or

later than their Fund pension. However if AVCs are transferred out members cannot use them as part of their cash lump sum from the Fund.

The Trustees have confirmed that contributions to the Fund and its AVC Plan cannot exceed 15% of earnings (subject to the Earnings Cap for most members). This limit will be

reviewed periodically. However from April 2006 members have been allowed to contribute to other pension arrangements while contributing to TfL Pension Fund. Contributions of up to 100% of UK earnings, subject to the Annual Allowance (£235,000 in tax year 2008/9), can be made to registered pension schemes each year.

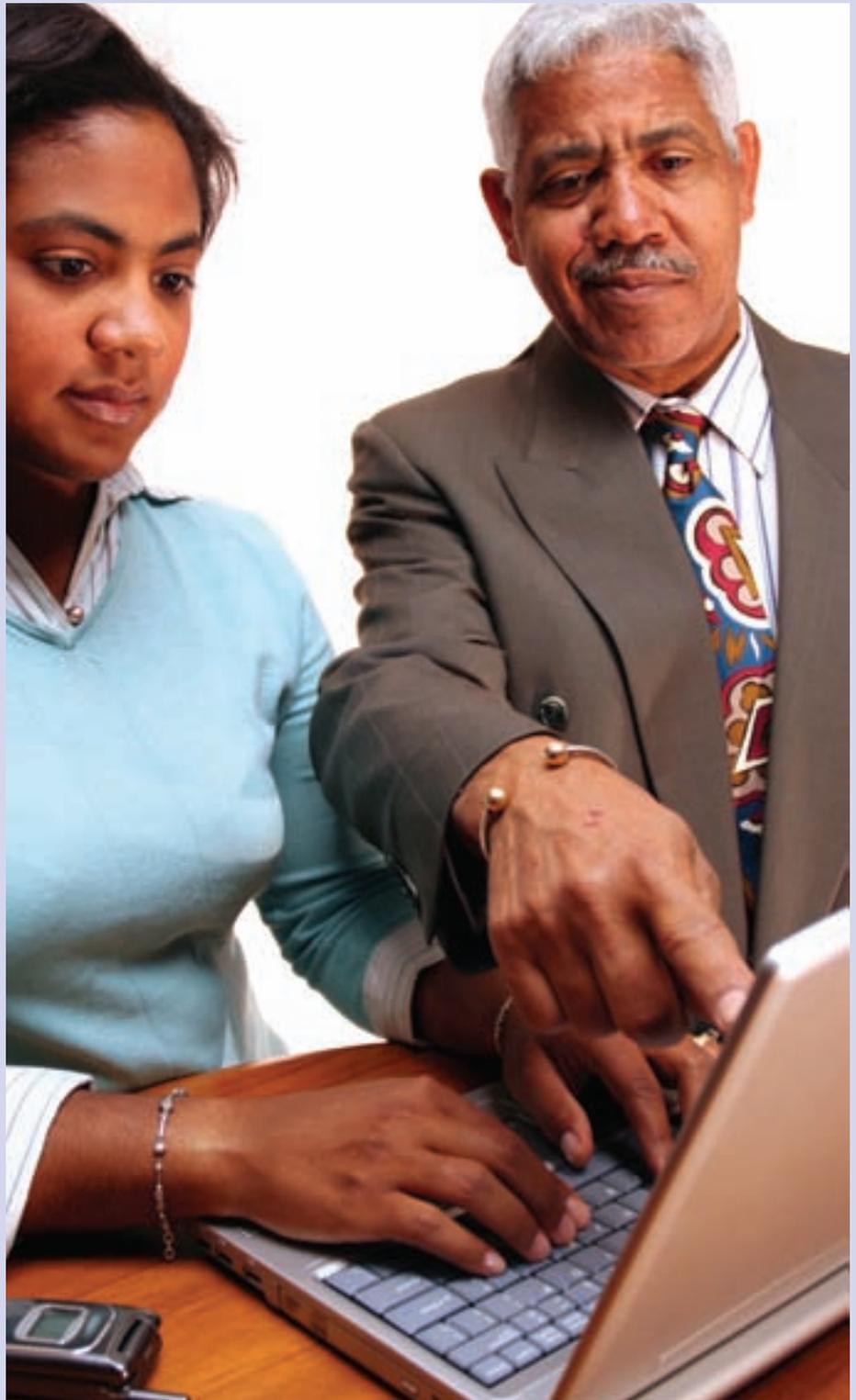
2008 Pension increase

The full pension increase this year is 3.9% and is based on the rise in the Retail Prices Index over the 12 months to September 2007. This will be paid to eligible pensioners on 28 April 2008.

If you have been receiving your pension for less than a year you may receive a pro-rata increase. You can find out how much this will be by visiting our website www.tflpensionfund.co.uk or by looking on the back of your annual payslip when you receive it.

Annual pension payslips

Payslips will be issued on 23 April this year. We appreciate that confirmation of your pension is needed before this in relation to State benefits however we understand that three consecutive bank statements will be accepted by benefit agencies. If you have any problems please contact the Fund Office for help.



Bank charges for overseas pensioners

Many overseas pensioners choose to have their pensions paid into their overseas bank accounts for security reasons. Both the pensioners and the Fund incur administration charges from Halifax Bank of

Scotland for payments made in this way.

Following a review of the pricing structure the Fund secured a substantial reduction in these costs, fixed for a five-year

period effective from 1 November 2007.

The existing and revised charging structures, per transaction, are shown in the table below:

	Current charges £	Revised charges £	Saving per transaction £
Fund	6.60	2.50	4.10
Pensioner	3.40	2.50	0.90

Late retirement for deferred members

In most cases, deferred pensions for members who have left TfL employment are payable in full from age 60 and, until now, there has been no benefit in drawing a deferred pension after this age. From 1 April 2008 the Rules will change so that where payment is deferred for at least six months after normal retirement date, the pension will increase by 2/3% each month (or 8% a year) on top of the usual annual pension increase.

There is no change to the Rules in place for active members who already enjoy similar provisions.



Expression of Wish

Under the Fund Rules, lump sum death benefits are payable on the death of active and deferred members and may, in certain limited circumstances, be payable on the death of a pensioner. Lump sum death benefits are paid entirely at the Trustees' discretion and are currently free of inheritance tax. Although your wishes are not binding on the Trustees they will always be taken into consideration.

Please make sure that the Trustees know what your wishes are by completing an Expression of Wish form. It is important that you update your Expression of Wish if your circumstances change – for example if you have children, marry or enter a Civil Partnership, or divorce.



You can obtain a form from the Fund Office or the Fund's website at www.tflpensionfund.co.uk

Benefit statements for active members

The Department for Work and Pensions (DWP) has advised that they are unable to provide the Fund Office with a forecast of your state pension to include in your annual benefit statement for 2008.

This is because Parliament has approved a number of changes

to the state pension for people who reach state pension age after 5 April 2010. The DWP is currently updating its computer systems to reflect these changes but the work is not expected to be completed in time for the production of this year's benefit statements. The

statements will therefore just provide details of benefits from the Fund.

If you would like more information about the changes to state pensions please visit the DWP's website at www.thepensionservice.gov.uk

Internal Disputes Resolution Procedure

From 1 April 2008 all first-stage applications to resolve disputes will be considered by the

Pensions Manager (or another designated member of the Fund Office). The Disputes Resolution

Committee will therefore disband from the same date. The second stage of the procedure remains the same and cases will be reviewed by the Appeals Committee of the Trustee Board.

Also from 1 April members will have the option to present their case personally at both stages of the procedure.

You can find more information about the Internal Disputes Resolution Procedure on the Fund's website at www.tflpensionfund.co.uk



TfL Pension Consultative Council Elections 2007

On 30 November each year, the longest serving quarter of the TfL Pension Consultative Council (PCC) must retire, although they can stand for re-election.

In Section One (pensioners and deferred pensioners) Christopher Sullivan and Alan Taylor retired and were both re-elected following a postal ballot of the members of the TfL Pension Fund.

In Section Two (TfL and its subsidiaries or contractors, excluding London Underground Limited) Trevor Haynes retired. There were no nominations for this vacancy. The PCC has therefore elected Trevor Haynes to fill this vacancy in accordance with the PCC Constitution.

In Section Three (London Underground Limited and its subsidiaries) Paul Murphy and

Terry Wilkinson retired. Paul Murphy was re-elected and Paul O'Brien was elected following a postal ballot of the members of the TfL Pension Fund.

For more information about the PCC please visit the TfL Pension Fund website at www.tflpensionfund.co.uk or contact Sarah Pascall, PCC Secretary, on 020 7918 3018 or by email at sarahpascall@tflpensionfund.co.uk

Annual Members' Meeting

The 2007 Annual Members' Meeting was another great success. It was held at the same venue as last year, One Great George Street, which has proved to be very popular.

After an introduction from Stephen Critchley, Chairman of the Trustees, the proceedings began with a review of the Fund's report and accounts presented by the Pensions Manager, Garry Wake. The Fund's Actuary, Richard Williams then presented the results of the Actuarial Valuation as at 31 March 2006. The guest speaker for the day was Alan Pickering, Partner, Watson Wyatt, who spoke on the topic of 'Should pensions be pensioned off?', an entertaining and educational talk on the

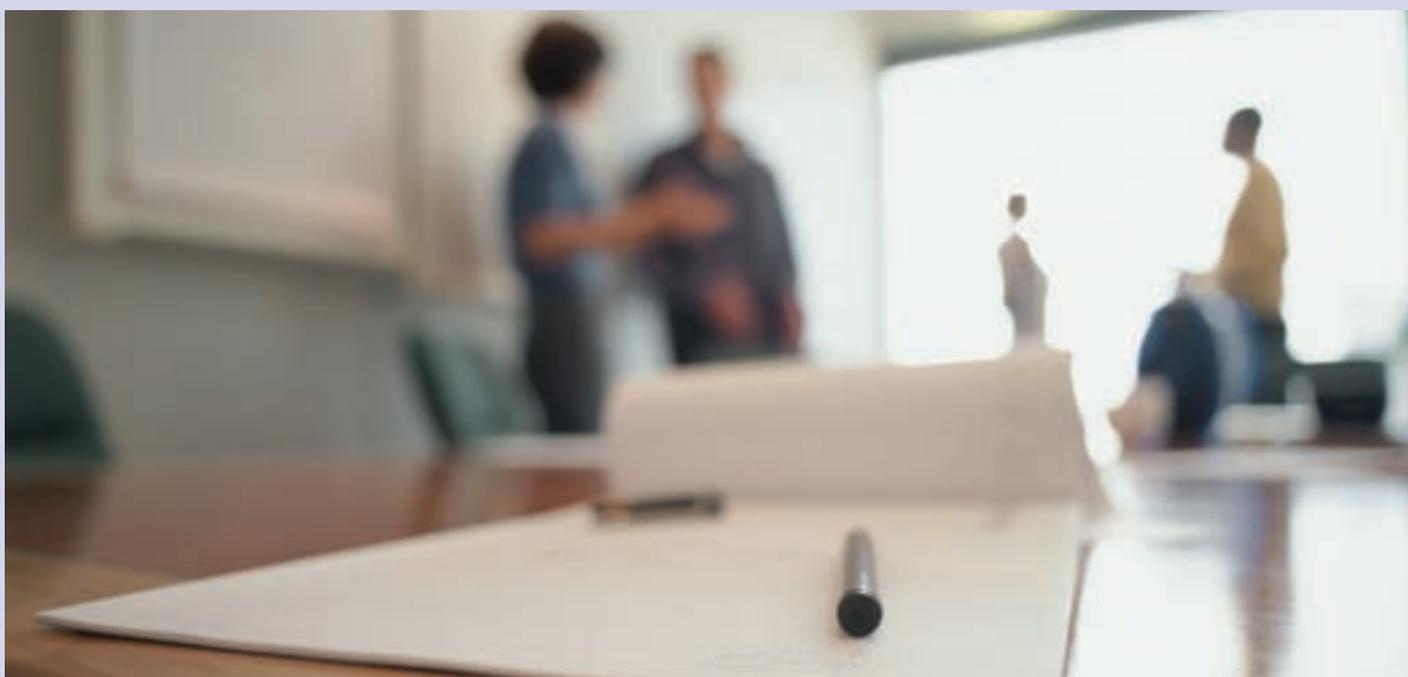
current UK pensions system and how it could (and should) be simplified. The proceedings concluded with a lively question and answer session.

Alongside the presentations there was an exhibition which opened half an hour before the meeting and continued during the post-meeting refreshments.

There were a variety of exhibitors including the National Trust, The Friends of the (recently re-opened) London Transport Museum, the Transport Benevolent Fund, Life Academy and the Royal National Institute for Deaf People as well as representatives from the Fund Office. Visitors were surprised to discover that SAGA now offers a range of adventure

holidays for the 25+ market as well as their better known holidays and financial services for the over 50s.

The 2008 Annual Members' Meeting will take place on Tuesday 7 October at 11:00 in the Telford Theatre, One Great George Street. Once again there will be an exhibition in the Great Hall so even if you can't attend the meeting you are welcome to drop in at the exhibition, which opens at 10:30 when refreshments will be available. The meeting runs from 11:00 to 12:45. After this there is an opportunity to meet the Trustees and attend the exhibition over a cup of tea or coffee.



Your team

The staff in the Fund Office are always happy to answer any questions you may have about your pension. They cannot provide financial advice or deal with tax matters, but will be able to advise you who to contact for the help you need. They can be contacted at:

TfL Pension Fund
4th Floor
Wing Over Station
55 Broadway
London SW1H 0BD

Telephone

External: 020 7918 3733

Internal: 1288 or 43733

Website

www.tflpensionfund.co.uk

If you have access to the Internet you can find lots of information on the Fund's website. There are also a number of on-line forms to download, for example to change address or bank details, or to submit an AVC enquiry.

Communications timetable 2008

April

- Annual payslips and P60s sent to pensioners. These will show this year's pension increase and payment dates for the forthcoming tax year, as well as showing total pension and tax information for 2007/08

June

- Benefit statements and AVC statements to all contributing members

September

- Annual Review – the Trustees' summary of the Full Report and Accounts

- Summary Funding Statement – how the Fund's invested assets compare with the liabilities to pay benefits

October

- Benefit statements and AVC statements to all deferred members
- Annual Members' Meeting – a forum for all members to meet the Trustees and discuss the Fund. This year's meeting will be held on 7 October at the following venue:
One Great George Street
Westminster,
London SW1P 3AA



Notice for the visually impaired

Copies of this report in large type and in a text only format are available from the Fund Office. Please write to TfL Pension Fund, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD, email the Fund Office at helpdesk@tflpensionfund.co.uk or call 020 7918 3733 for your copy.

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