

2014 AMM - Q & A's

Q1 If because of TfL's pay for performance proposals there is a move to non-pensionable bonuses, is this going to impact income for the fund. Do you share concern over the long-term impact on the health of the fund?

A1 No formal proposals have been received by the Trustee from TfL on this matter so the implications are theoretical, but they will be considered as part of the actuarial valuation. Ultimately the pension for a member (and related liability for the Fund) will depend on the growth in pensionable salaries.

If the impact is that pensionable pay does not go up, for members their projected pension will be lower, but from the funding perspective, this will improve as liabilities will be less than previously anticipated.

A lower level of contributions going into the Fund will not adversely affect its overall health, if the corresponding pension liabilities that are being created are also lower. The important thing is that the contribution matches the liability being created.

The overall health of the Fund is also dependent on the strength of the sponsoring company covenant and the Trustee seeks regular re-assurances from TfL in this regard, using external independent advice where appropriate.

Q2 With respect to the 83,000 members of the Fund, how many are from the ethnic minorities?

A2 The Fund does not keep records of ethnic origins, but we would expect the membership to reflect the ethnic mix of TfL/LUL employees.

Q3 How concrete is the link between pension increases and the Retail Prices Index (RPI)?

A3 The Fund rules require the use of the RPI to increase pensions. As under the rules no adverse change can be made to benefits without it being approved by members, we do not envisage any change taking place.

Q4 Why has the Pension Protection Fund levy increased four times compared with last year?

- A4 There was a provision held for a potential levy liability relating to Metronet. This provision was released last year, so the credit from this significantly reduced the overall charge for that year. The actual year on year increase in the levy was just under 30%, which was due to both assets and liabilities increasing significantly while overall scheme funding remained broadly the same.
- Q5 Do you consider that the Transatlantic Trade and Investment Partnership (TTIP) is a one-sided contract and have you looked at its effect on the assets of the Fund?
- A5 From a company perspective there will be winners and losers from TTIP. As the Fund is invested globally and diversified it will not be exposed to individual company impacts. From an overall investment strategy perspective the Fund is not seeking to exploit the change.
- Q6 Are we on track for paying off the deficit and could TfL renege on the current commitment it has given in the Recovery Plan?
- A6 If the actuarial valuation shows a deficit then as part of the valuation process there is negotiation with TfL, as Principal Employer, as to how the deficit will be addressed. Once agreement has been achieved the Recovery Plan is legally binding and cannot be changed unless the Trustee agrees to it. The Fund is on track for the deficit to be paid off as set out in the current Recovery Plan. The employer's contributions are set out in the Schedule of Contributions and the Trustee has a legal right to enforce this.
- If the Trustee and employer cannot agree a valuation after 15 months, then the Pensions Regulator becomes involved and has the power to impose a Schedule of Contributions and Recovery Plan.
- Q7 Can the Fund benefits be changed?
- A7 There are legal safeguards for accrued pension rights. What can be changed going forward in terms of pension benefits for existing members is governed by the Trust Deed and Rules. Also if the employer wants to change certain pension benefits it has to follow legislation with respect to consultation processes with its employees.

Q8 Can the top 10 shareholdings published in the accounts be provided on a quarterly basis on the web site?

A8 Yes, we shall do so.

Q9 Can you comment on Boris Johnson's recent view about amalgamating all the public sector pension schemes into a single wealth fund?

A9 The Mayor is entitled to his views about public sector pensions generally. For the Fund itself, of more importance is the continuing support which it receives from TfL.

Q10 Can you comment on TfL's commitment to the Fund in the context of London Assembly political pressure on future payments being made into the Fund in accordance with the Recovery Plan?

A10 We can only re-iterate that once agreed, the Recovery Plan is legally binding.

Q11 What is the impact on the Fund of the Chancellor's pension proposals?

A11 If as a result of the changes it meant that 5% of active and deferred members decided to transfer out their benefits into a defined contribution arrangement, then the Fund would actually be more secure rather than being weakened. Both assets and liabilities would transfer out from the Fund, but the net impact would be very small.

QUESTIONS SUBMITTED OUTSIDE OF THE MEETING

Q12 I would like to hear an update from the Trustees about the fund's approach to climate change, noting the Law Commission's recent report, 'Fiduciary Duties of Investment Intermediaries'. The report included the statement that trustees should take into account factors which are financially material to the performance of an investment. Where trustees think ethical or environmental, social or governance (ESG) issues are financially material they should take them into account?

- A12 The Trustees have been briefed regarding the Law Commission report and will be taking this into account when the Statement of Investment Principles is next reviewed in Q1 2015. A summarised version of the Law Commission's guidance note on pension trustees' duties when setting an investment strategy will also be put on the Fund website for member information.
- Q13 Och Ziff in which the Fund invests, has received subpoenas from the Securities and Exchange Commission (SEC) and requests from the US Department of Justice (DoJ) in connection with an investigation involving the Foreign Corrupt Practices Act. What actions have the Trustees taken?
- A13 Previous to the action by the US authorities, the Trustees had raised the issue of allegations regarding the activities in Africa of a publicly listed company in which Och Ziff had invested with Och Ziff. The Trustees received a confirmation from Och Ziff that the allegations against it were false and disputed. The investigations thus far do not involve the Master Fund in which we are invested and were made at a firm level. The Trustees will continue to take a prudent and cautious approach until there is greater clarity on the SEC and DoJ matters.
- Q14 The Senior Manager Reward Framework, introduced in 2007 delivers 'bonus' payments and a reduced growth of year on year pensionable pay. To what extent has this curb on the growth of senior managers' pensionable pay benefited TfL funding levels since 2007?
- A14 Senior manager pensionable pay growth has not been reviewed in isolation. But developments in pensionable pay as a whole through the inter-valuation periods formed part of the analysis which went to support the discussions and agreement on the 2009 and 2012 actuarial valuations.
- Q15 Pay for Performance (PfP), which TfL proposes to implement in 2015, aims to reduce the growth of pensionable pay of Pay Band 1-3 TfL Employee contributing members. What modelling work has been done or is planned, to quantify the impact of PfP on Pension funding levels over the next 10, 20 and 30 years?
- A15 The possible outcomes which result from the introduction of PfP will be considered as part of the forthcoming valuation and future valuations. However although at a individual member level the effect on their prospective pension could be significant, in the context of total pensionable salaries of

currently over £900 million, the impact on salary growth assumptions for the Fund as a whole may not be material.

Q16 The impact of the Senior Manager Reward Framework upon contributing 'Existing' members is different to the impact upon 'New' members of the scheme. What 1-2-1 counselling and advice has been provided or made available to affected senior manager members since 2007?

A16 As for all members, the Annual Benefit Statement, online modelling tools and the opportunity for face to face discussion with Fund Office staff have been amongst the means by which the senior manager group have been able to review their accrued and prospective pension position. Additionally as part of the sacrifice of performance award scheme Senior Managers have had further opportunity to discuss their pension arrangements and/or take financial advice at their own cost.