looking after your pension

LRT Pension Fund

Annual Review 2004

NOTICE FOR THE VISUALLY IMPAIRED

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A MESSAGE FROM THE CHAIRMAN

The year to 31 March 2004 was a period of significant change for both the Fund and the Trustee Board. Several long serving and experienced Trustees retired on 10 July 2003 and Transport for London (TfL) took over as Principal Employer from London Regional Transport (LRT) on 15 July. Amongst those leaving was my predecessor as Chairman, Clive Hodson, to whom I wish to pay tribute for his distinguished leadership in bringing the Fund safely through several difficult and challenging years. His steady hand on the tiller helped ensure that the shortfall of assets against liabilities ('deficit') revealed in the latest actuarial valuation was, whilst significant, less dramatic than many being reported by UK pension funds. Brief details of the valuation are included in this Annual Review and I am delighted to be able to confirm that all the Participating Employers have been able to agree a Schedule of Contributions going forward to eliminate the deficits and that TfL has felt able to continue to offer membership of our excellent defined benefit pension fund to existing staff and new entrants.

To help streamline pensions provision in TfL the Trustee Board agreed in June 2004 to the appointment of Sue Timbrell to a combined role of Fund Secretary and Director of Pensions. Chris Angell, Fund Secretary since 1998, took early retirement at the end of July and I would like to thank him on behalf of Trustees past and present for his support and ever-cheerful optimism. I look forward to working with Sue to continue to improve service provision for all our members.

The Fund's valuation

As we mentioned in last year's Annual Review, the Trustees must undertake a full actuarial valuation of the Fund every three years. We now have the results of the latest valuation, which looked at the Fund's financial health as at 31 March 2003.

We had already anticipated that the situation would look gloomy, as the valuation came at the end of three years of very poor investment returns. The actual assessment revealed that the value of the Fund (assets) was £450m less than the value of the benefits promised (liabilities). (In 2000 the same test showed that the Fund had £46m more assets than liabilities.)

In the short term, the Fund is in a strong position - we still have more than enough money coming in each year to pay benefits as they become due. This means that we do not need to sell investments and the Fund can continue to build up its assets.

To make sure that the Fund continues to be able to pay out benefits over the longer term, the Trustees have agreed with the employers that the employers will increase what they pay. Each employer's 'section' of the Fund has been valued separately to work out how much this increase will be. The actual amount depends on the number of contributing, deferred and pensioner members in each section, taking account of how old they are and the value of their benefits. In all cases the new contribution rate has been set with the aim of bringing the funding level back to 100% over the next 10 years. The Fund has received the full support of all the employers involved.

Since the valuation there has been a marked improvement in investment returns as you can see from the figures on page 5.

The Trustee Board is now considering investment strategy and an Asset Liability Modelling Study was concluded shortly before the year-end. With that as a basis we are moving towards the agreement of a revised investment strategy which recognises both the strength of TfL's commitment to the Fund (the 'employer's covenant') and the need to secure pensions within the level of risk to be adopted.

Myners update

You may remember us telling you about the principles set out in the Myners Review of Institutional Investment, which was published in 2001. The Government has said that it expects pension scheme trustees to work towards complying with these principles.

We reported our progress in full last year. Since then, the Fund's Trustees have been discussing investment risk tolerance with the employers and are currently reviewing the suitability of all investment classes available to them. The aim is to agree a new investment strategy with clear objectives and portfolios with explicit mandates and appropriate benchmarks clearly compliant with the Myners' Principles.

Trustee training has been strengthened. Regular monitoring and reporting includes making sure managers' costs are transparent and fully understood and that they comply with the Investment Management Association's (IMA) codes.

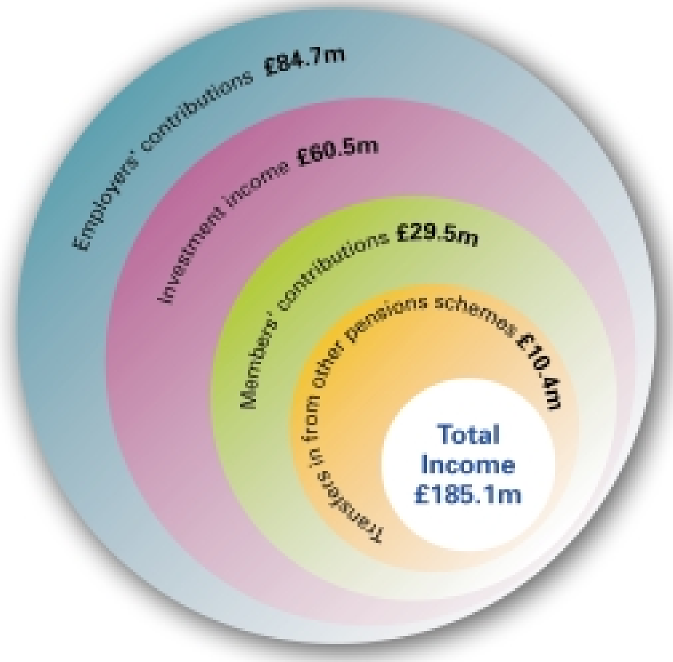
looking after your pension

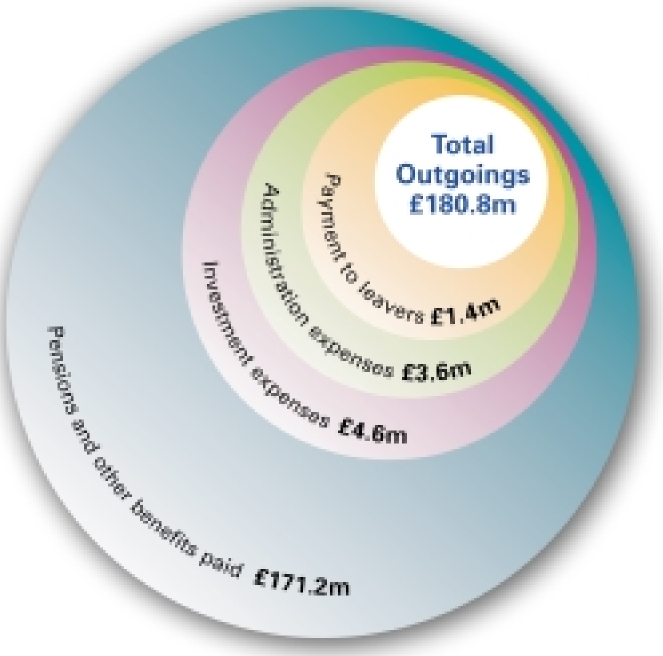
Money in and money out of the Fund

On 31 March 2004, the value of the Fund was £3,156.4m. This was an increase of £491.7m in the value at the end of the previous Fund year.

The diagram below shows the money coming into and going out of the Fund during the year.

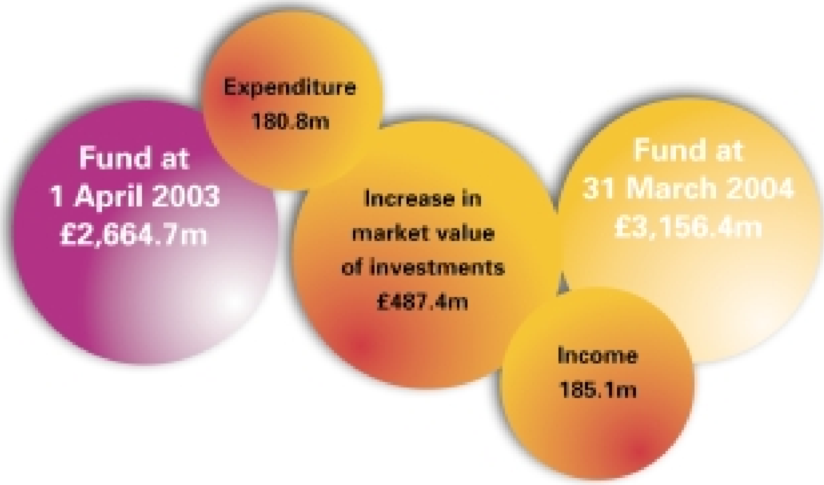
Money into the Fund





Money out of the Fund

Net movements in the Fund



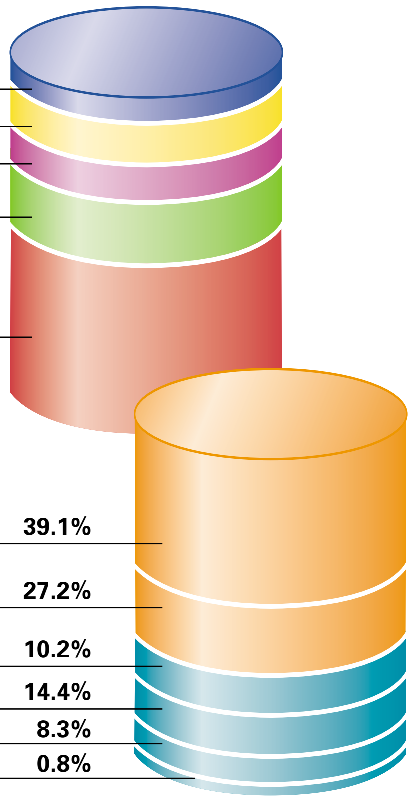
The Fund's accounts are audited each year by independent auditors, KPMG. The financial information in this Annual Review is a summary of the full audited accounts. If you would like a copy of the full Report and Accounts, please contact:
Sue Timbrell, Director of Pensions
4th Floor, Wing over Station,
55 Broadway,
London SW1H 0BD
Alternatively you can download a copy from the Fund's website at
www.lrtpensionfund.co.uk

How the Fund is invested

The Fund is held in a range of different investments (assets) in the UK and overseas. These charts show how the Fund was invested on 31 March 2004.

Who manages the Fund

Schroders	**7.1%**
Alliance Capital	**11.2%**
Baillie Gifford	**11.2%**
Hendersons	**18.7%**
Barclays Global Investors	**51.8%**



The Fund's assets

UK equities	**39.1%**
Overseas equities	**27.2%**
UK Government Bonds	**10.2%**
UK Government Index-Linked Bonds	**14.4%**
Corporate Bonds	**8.3%**
Cash	**0.8%**

TOP 10 SHARES

The Fund has significant holdings in the shares (equities) of a number of major UK companies. On 31 March 2004 the 10 largest holdings were:

1 Vodafone **£59.5m**
2 BP **£51.3m**
3 GlaxoSmithKline **£47.7m**
4 Royal Bank of Scotland **£41.1m**
5 HSBC **£34.3m**
6 Barclays Bank **£33.4m**
7 Diageo **£20.0m**
8 Imperial Tobacco **£16.2m**
9 British American Tobacco **£15.0m**
10 Lloyds TSB Group **£13.0m**

TRUSTEES' MANAGERS AND ADVISERS AT 31 MARCH 2004

Investment Managers
Alliance Capital Limited
Baillie Gifford & Co
Barclays Global Investors Limited (BGI)
Henderson Investors Limited
Schroder Investment Management International Limited
LaSalle Investment Management
Jones Lang LaSalle Limited
CB Richard Ellis Limited

Custodian
JP Morgan Chase Bank

Administration Services
TfL

Investment Adviser
Mercer Investment Consulting

Scheme Actuary
RV Williams, Watson Wyatt LLP

Legal Advisers
Mayer, Brown, Rowe & Maw LLP
Eversheds

Auditors
KPMG LLP

Bankers
The Royal Bank of Scotland plc

Communications Adviser
GR Communications

Medical Adviser
Dr Kevin Holland-Elliott

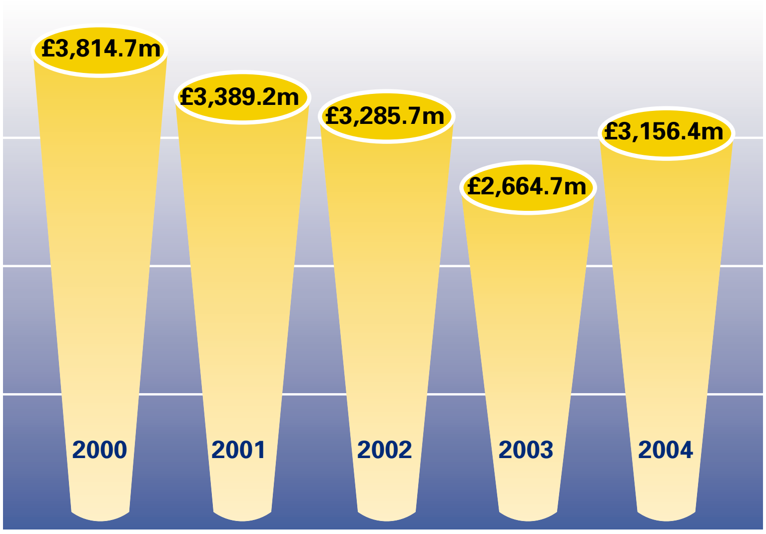
Investment review

The Trustees carry out an ongoing review of the Fund's performance and that of its appointed managers. During the year the Trustees decided to move the pan-European active equity portfolio from Gartmore and the US active equity portfolio from J P Morgan. The UK element of Gartmore's portfolio was split between Baillie Gifford and Alliance Capital, while the continental European element was 'parked' with BGI for index-tracking. A similar temporary arrangement was adopted for the US portfolio, pending the finalisation of a revised investment strategy. This will follow from consideration of a recently completed Asset Liability Modelling Study.

As the table shows, the Fund started to recover during 2003/04 from three years of negative investment returns. The average return over the three years to 31 March 2004, as shown opposite, was slightly ahead of the target the Trustees set themselves. This was, in turn, more than 1%pa better than the average achieved by UK pension funds which invest on a similar basis to us.

	Performance over one year		Average performance over three years	
	Total Fund	Benchmark	Total Fund	Benchmark
Annual return	21.1%	21.9%	0.0%pa	-0.2%pa

How the value of the Fund has changed



Web News

By now you should all know about the Fund's website which can be found at www.lrtpensionfund.co.uk. There is plenty of information there about the Fund, whether you are a contributing member, a pensioner or have a deferred pension. We have 'Latest News' and 'Important Messages' sections which provide you with up-to-date information. There is also a new page that posts the pensioners' edition of 'on the move'.

You can download our new 'Members' Guide', which has replaced the green and blue 'understanding your pension' booklets. There are also a number of online forms you can use, for example, to notify the Fund Office of change of address and bank, or to submit an AVC Enquiry.

We will soon be launching an interactive modeller which will allow you to see:

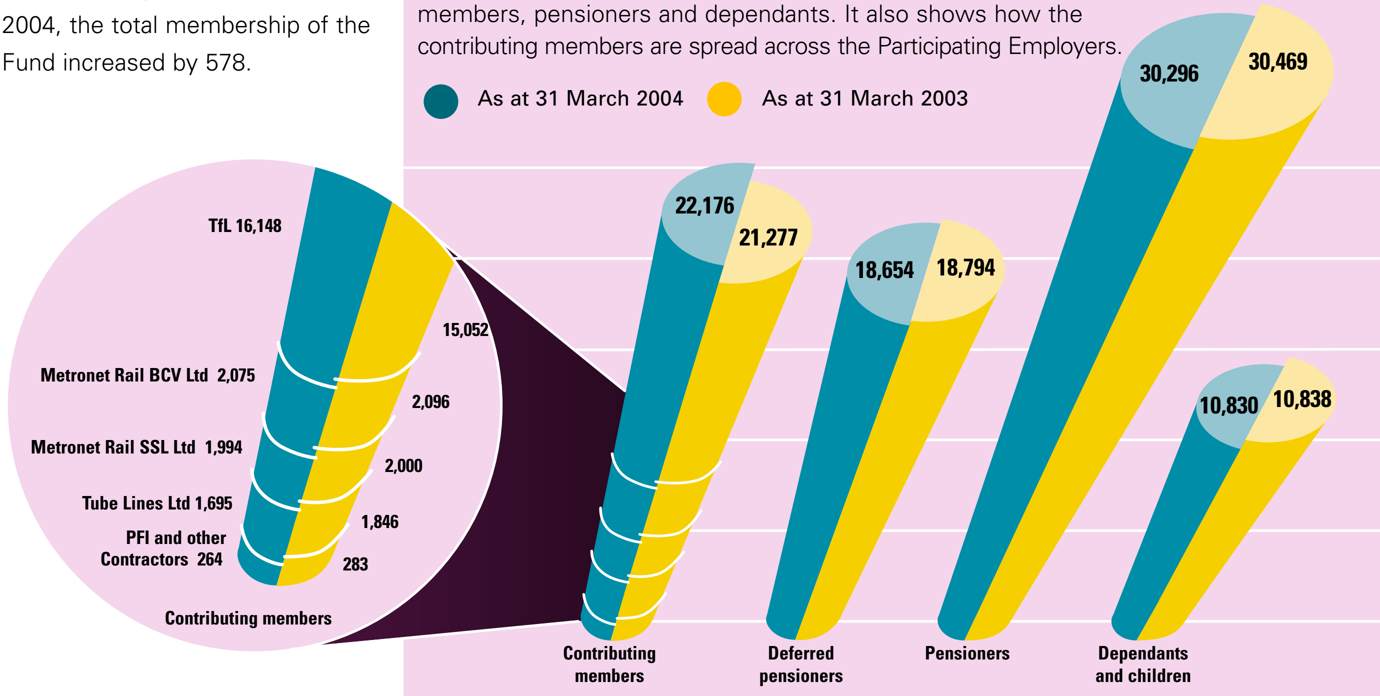
- If you are a contributing member - how much you could increase your benefits by payings AVCs
- If you have a deferred pension - how much pension your current AVC fund value might buy you
- How much tax-free lump sum you can expect at retirement
- How your pension would be affected if you took early retirement

We hope that you will take the opportunity to visit the site - we always welcome your comments and ideas, which you can send to us by filling in the online feedback form.

Membership review

Between 1 April 2003 and 31 March 2004, the total membership of the Fund increased by 578.

The chart shows how the membership is split between contributing members, deferred members, pensioners and dependants. It also shows how the contributing members are spread across the Participating Employers.



We are very pleased that TfL continues to demonstrate its support for the Fund by offering membership to new employees. As you can see, membership among TfL employees increased by nearly 1,100 over the year under review. This is good news for the Fund as a steady flow of new members maintains the balance between those who are paying into the Fund and those who are drawing benefits. On 31 March 2004, the Fund's membership was drawn from TfL and its subsidiaries plus a total of 11 other Participating Employers.

Why pay AVCs?

As a member of the LRT Pension Fund you belong to one of the most desirable types of scheme - a 'final salary' or 'defined benefit' scheme. This provides you with a proportion of your earnings at retirement for each year you are a member.

Why then, you may ask, should you think about paying more towards your pension? Well there are a number of reasons.

- Unless, when you retire, you will have been a member of this, or a similar scheme for most of your working life, there will probably be scope to boost your retirement income
- If you have changed jobs several times, any pension you left behind will probably have increased at a slower rate than your earnings and may have lost 'buying power'
- If you have gaps in your employment - perhaps to look after children or other relatives - your LRT pension may not be enough to retire on
- If you want to take your pension before your normal retirement date, it might be reduced for early payment in which case you may wish to pay more now to boost your retirement income

The LRT Additional Voluntary Contribution (AVC) arrangement is a tax-efficient way to save more towards your retirement. What's more, the charges you pay are lower than if you took out an individual arrangement, so more of your money is invested. If you would like to find our more about AVCs, please contact the Fund Office on tel: 020 7918 3733.

The Government's plans for pensions

The Government is making sweeping changes to UK pensions law. The main aims of the changes are to improve the security of pension schemes and to make it easier for people to make their own pension provision. Most of the changes will come into effect between now and April 2006.

In this article we pick out a few of the key points and look at how they might affect members of the LRT Pension Fund. It is worth bearing in mind that the details are still being finalised, so some things may change.

Protecting members' benefits

In recent years, many members have lost their pension rights when their schemes were wound up and there was not enough money to provide all the promised benefits. This problem is being addressed in the following ways:

- Companies that are still in business can no longer just 'walk away' from their pension schemes but must pay to make up any deficit.
- Where the employer becomes insolvent, a new Pension Protection Fund (PPF) will step in to protect members' benefits. The PPF will be paid for by a levy on pension schemes and is expected to be up and running in April 2005.

PPF benefits will not necessarily be as generous as those from the original pension scheme, but members will no longer face the threat of losing all their pension. The PPF will not apply to public sector schemes (as these effectively have a government guarantee) but, at the moment, it is unclear how the LRT Pension Fund will be classified.

Ongoing defined benefit schemes will be required to pass a new funding test. This should help to make sure that fewer schemes run into difficulties. There will also be a new Pensions Regulator. One of its responsibilities will be to make sure that claims against the PPF are valid.

Simplifying the rules

One of the main advantages of saving for retirement through a pension scheme is the tax relief on contributions and investment returns. At the moment, however, there are different rules for different types of pensions in terms of how much you can pay in and how much you can take out. From April 2006, there will be just one set of rules for all types of pension - employer schemes (both defined benefit and defined contribution), personal and stakeholder. Individuals will be able to pay into as many different pension arrangements as they like.

Instead of the current complicated Inland Revenue limits, there will be a single annual allowance governing how much the value of a pension can increase by each year. There will also be a lifetime allowance applied to the total amount of tax-favoured pension savings an individual can build up. This will start at £1.5 million in 2006. Any benefits over and above the lifetime allowance will be subject to a special tax, which will cancel out the tax relief already granted.

Pension schemes will be able to allow members to take 25% of the value of their pension benefits, up to the lifetime allowance, as a tax-free lump sum on retirement. For many this will represent an increase in the amount of tax-free cash available to them.

Other proposed changes include:

- Employers to provide general financial advice to help employees plan for their retirement.
- Schemes to include information about State pensions on member benefit statements. The Trustees of the LRT Pension Fund are already preparing to do this for 2005.
- Financial incentives for individuals who delay receiving their State pension.
- An increase in the minimum early retirement age to 55, rather than age 50 as now. This comes into force from 2010. Ill-health retirement will still be permitted at any age.
- Members allowed to draw retirement benefits while continuing to work for and receive a salary from the same employer.
- Schemes can choose not to offer AVC facilities for the future. Members are able to choose from stakeholder and personal pensions instead. The LRT Pension Fund Trustees will consider carefully before deciding whether to make any change to the current arrangements.
- The minimum level of guaranteed pension increases may be reduced, though pension schemes will be allowed to continue to provide higher levels of increase.
- Employers may be required to consult with members over certain scheme changes.
- Pension schemes will be able to pay death in service lump sum up to the level of the lifetime allowance.

As you can see, there is a lot going on. Once all the details are known we will tell you how they will affect you personally, if at all.

The Fund's Trustees

The Fund is run by a board of directors, known as the Trustees. Individual Trustees are nominated by TfL (as Principal Employer), the trade unions and the Pensions Consultative Council (PCC), which is itself elected by the membership.

On 31 March 2004, the Trustees were as listed below. The nominating bodies are shown in brackets.

Stephen Critchley (Chairman) Chief Finance Officer, Transport for London (TfL)
Marina Ainsworth Business Planning & Review Manager, London Bus Services Limited (TfL)
Steve Allen Director of Corporate Finance, Transport for London (TfL)
Alexandra Barnes Pensioner (PCC)
Liz Barrett Director of Group Human Resources, Transport for London (TfL)
Glenn Belton Support Manager, Train Operations Standards, London Underground Limited (PCC)
Mike Gardiner Head of Employee Relations, London Underground Limited (TfL)
Chris Godbold Director, Transport Benevolent Fund (PCC)
Andy Good Director of Human Resources, Tube Lines (TfL)
Steve Grant District Secretary, ASLEF (ASLEF)
John Ingleton Pensioner (PCC)
Sarah Phelan Director of Human Resources, Metronet Rail SSL (TfL)
James Pownall Property Solicitor, Transport for London (TfL)
Tom Scanlon Regional Industrial Organiser, T&GWU (T&GWU)
Patrick Sikorski Assistant General Secretary, RMT (RMT)
Alan Taylor District Line Duty Station Manager, London Underground Limited (TSSA)
John Timbrell Project Engineer, Metronet SRA Limited (LTJTC)
Sue Timbrell Director of Pensions, Transport for London (TfL)

As a result of changes to nominations, there have been a number of Trustee changes since 31 March. Full details are available on the Fund's website at www.lrtpensionfund.co.uk

Annual Members' Meeting

This year's LRT Pension Fund Annual Members' Meeting (AMM) will be at 11.00am on Thursday 30 September, in the Conference and Banqueting Centre, Church House, Dean's Yard, Westminster, London SW1. The meeting is open to any Fund member - contributing members, members in receipt of a pension (including dependants and children) and those who have left with a deferred pension.

You will be able to ask questions on the day, but if you cannot attend you can submit a question to the Trustees by writing to Sue Timbrell, Director of Pensions, 4th Floor, Wing Over Station, 55 Broadway, London SW1H 0BD. She will respond as soon as possible after the AMM.

Please remember, we can only answer general questions about the Fund, not those relating to your own benefits.

The programme for the day is:

- Introduction by the Chairman
- Review of the year to 31 March 2004
- Presentation by the Scheme Actuary on the valuation
- Trustee presentations
- Questions and answers

NEW THIS YEAR. Follow the signs for the web demonstration to find out about the new interactive pensions modeller. We have also invited a number of external organisations to bring along information of interest to all our members.

Please note that, for security reasons, you may be asked for some form of identification on arrival.