

# TfL Pension Fund

Annual Review 2010



## 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 contact TfL Pension Fund, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD for your copy.



# From the Chairman

I am pleased to present my first review as Chairman for the year ended 31 March 2010. The financial and economic events that dominated the news last year have continued into this one with an initially more settled outlook being followed by new uncertainties. These continue to affect the pensions industry as a whole as well as the Fund as we also consider what changes a new government may bring.

Against this background the Fund successfully completed in May 2010 and ahead of the statutory deadline of 30 June, the triennial actuarial valuation as at 31 March 2009. As part of this the Trustees have secured the participating employers' agreement to funding the total deficit of £1.419bn across the nine sections of the Fund. The Actuarial Valuation Committee has played the leading role in reviewing the Actuary's valuation and carrying out the negotiations on the technical provisions and recovery plan for each of the Fund's sections with the Principal Employer, acting on behalf of all the participating employers.

We have seen a significant recovery in the value of the Fund's assets over the year, with these exceeding £5bn but the corresponding value of the Fund's liabilities has also increased almost to the same extent, bringing only a modest improvement in the overall funding and thus underlying the continued importance of employer support. At the same time the Trustees remain focused on both the Fund's asset and liability components in seeking to ensure the security of member benefits.

On investment performance, as already

mentioned, the market recovery during the year has seen the overall assets of the Fund increased over the past 12 months by £1,268.8m. This year's investment performance has also seen a recovery after last year's disappointing performance with the benchmark being exceeded by 2.4 per cent and over the longer periods of three and five years the shortfall narrowing to 0.3 per cent and 0.2 per cent respectively. More information can be found on page 7.

Mention is deserved of the work of all of the Committees (Operations, Investment, Audit, Actuarial Valuation and Appeals) and the Trustee Board itself in ensuring good governance prevails in all the Fund's activities.

Finally, on your behalf, I would like to record my thanks to all involved with the continued operations and development of the Fund: the Trustee Directors, Actuary, Investment and Legal Advisers, Investment Managers, Custodian, Auditors and not least the Fund Office and Fund Secretary for their support. I remain confident that, with these resources, we can meet the current challenges and those which lie ahead of us.

**Maria Antoniou**

Chairman of the TfL Pension Fund Trustees



## In this year's review

Membership review	3	Additional help or information	9
Year at a glance	4	Summary Funding Statement	10-11
How the Fund is invested	6	Annual Members' Meeting and Exhibition	back page
The Fund's Trustees	8		

## Membership review

The chart below compares the membership numbers between the 2009 and 2010 Fund years.

**2009 - Total members: 84,807**

	24,975	18,626	30,398	10,808
Contributing members		Deferred pensioners	Pensioners	Dependants and children
	24,430	18,456	30,708	10,844

**2010 - Total members: 84,438**

The 24,430 contributing members are spread across the Participating Employers.

	As at 31 March 2009	As at 31 March 2010
Transport for London	19,046	23,066
LUL BCV Section*	2,378	-
LUL SSL Section*	2,129	-
Tube Lines Limited**	1,233	1,183
Other employers**	189	181

\* These sections were transferred to the Public Sector Section on 30 March 2010.

\*\* These sections are closed to new members.

# Year at a glance

As at 31 March 2010, the value of the Fund was £5,097.8m. This is an increase of £1,268.8m on 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.



The Fund's accounts are audited each year by independent auditors KPMG, who have confirmed that:

- The Fund's accounts show a true and fair view of the financial transactions during the 12 months to 31 March 2010
- Contributions were paid to the Fund in accordance with the schedules of contributions in force during the year.

## News

During the year the following changes to the Trust Deed and Rules have been agreed by the Trustees with Transport for London:

- Members who join the Fund after April 2010 and leave the Fund with less than three months' pensionable service will receive a refund of their contributions and the option to defer or transfer pension rights will no longer apply.
- The Trustee may, with the consent of the Principal Employer, transfer assets and liabilities between a new section of the Scheme and the Public Sector Section. The consent of the Participating Employer of the new section will also be required.
- Following a merger of two or more sections by transferring all of the assets of one or more sections to another section or sections, the Trustee and Principal Employer may determine to wind-up the section or sections from which the assets and liabilities were transferred.

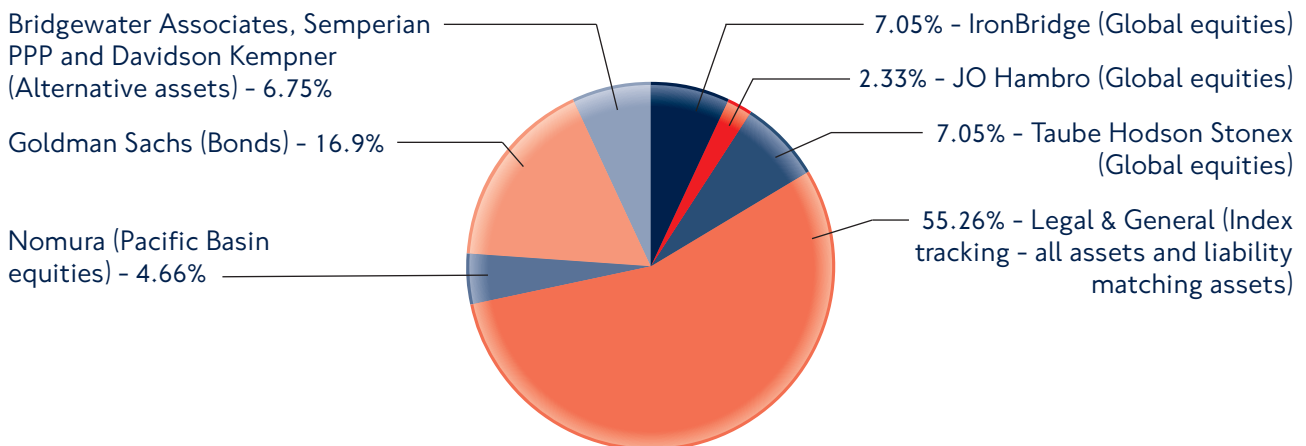
With effect from 30 March 2010 the LUL BCV and LUL SSL sections of the TfL Pension Fund were closed and the assets and liabilities of those sections transferred to the Public Sector Section.



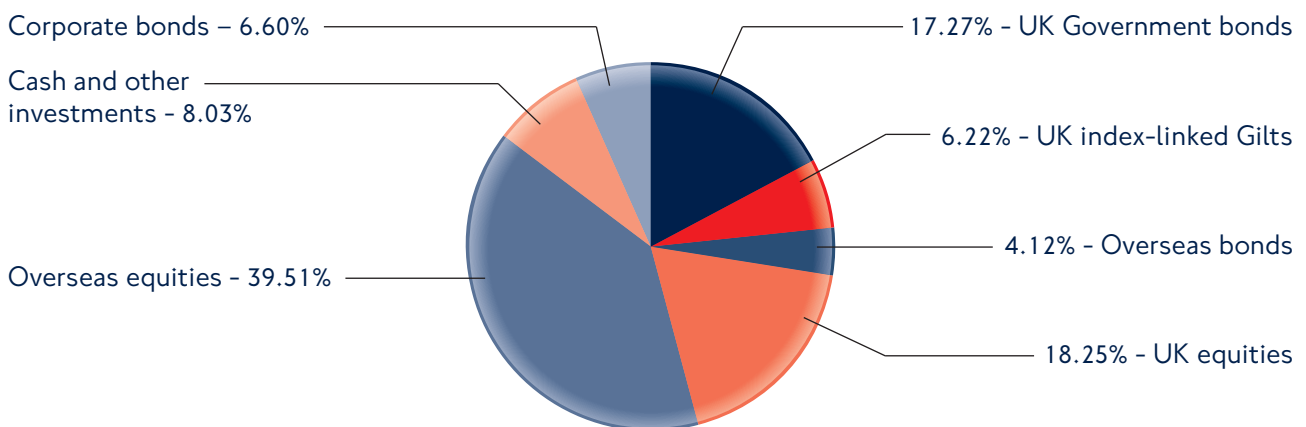
# How the Fund is invested

## Managing investments

The Trustees are ultimately responsible for deciding how to invest the money building up in the Fund in relation to members' benefits. They appoint specialised investment managers, who are given specific instructions and benchmarks to follow by the Trustees. The following pie chart shows the target allocation of the Fund's assets between investment managers.



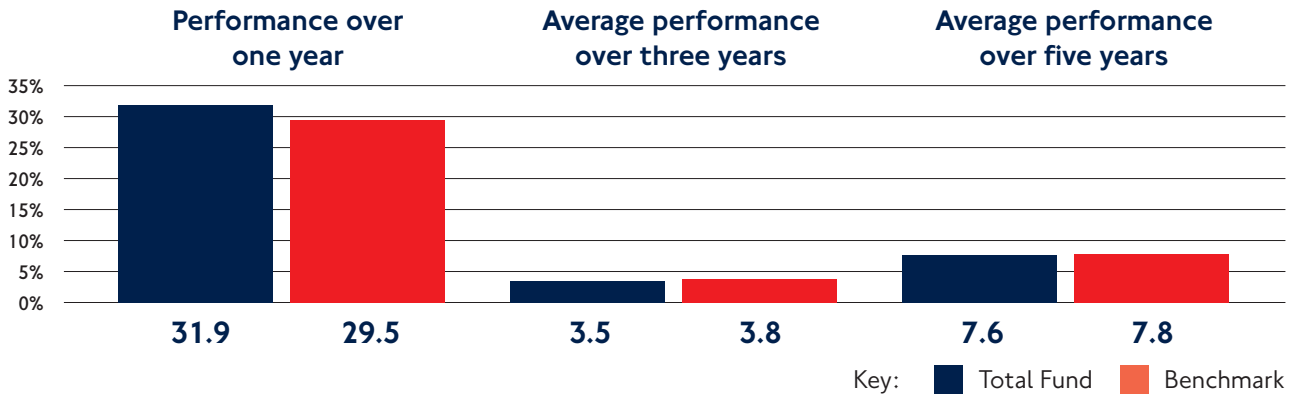
The Fund is held in a range of different investments (assets) in the UK and overseas.



Top 10 shares	Company	Market Value £m	Country
The Fund has significant holdings in shares (equities) of a number of major quoted companies. The ten largest direct holdings as at 31 March 2010 were:	Nestle	17.7	Switzerland
	Occidental Petrol	12.2	USA
	Becton Dickinson	11.8	USA
	Oracle	11.7	USA
	Union Pacific	10.5	USA
	Bayer	10.4	Germany
	United Technologies	10.2	USA
	Svenska Handelsbanken	9.5	Sweden
	Sumitomo Mitsui Financial Group	8.4	Japan
	Unilever	8.3	UK

## Investment performance

The chart below shows that the investment return was 2.4 per cent above the Fund's performance benchmark (the comparator set by the Trustees). Over the longer periods of three and five years, investment performance was 0.3 and 0.2 per cent below benchmark.



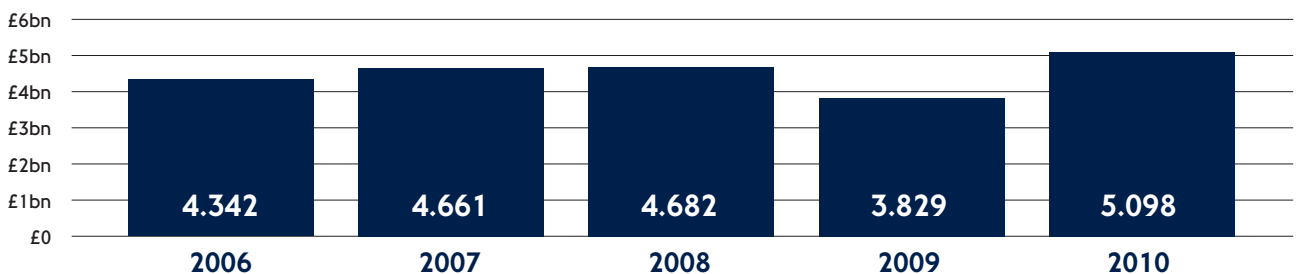
## The Fund's assets

The Fund's assets total £5,097.8m. The amount held by each section on 31 March 2010 is shown in the list below.

Section	£m	Section	£m
Public Sector	4,886.94	Composite	0.76
Tube Lines Ltd	159.67	Capgemini UK plc	0.60
EDF Energy Powerlink Limited	40.75	Thales Transport and Security Ltd	0.38
Cubic Transportation Systems Ltd	5.82	Cadbury Limited	0.24
HP Enterprise Services UK Limited	2.69		

## Value of the Fund

Over the year to 31 March 2010, the total market value of the Fund's assets increased by £1,269m to £5.098bn. The chart below shows how the Fund's assets have changed over the last five years.



# The Fund's Trustees

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

The Trustees are responsible for all aspects of Fund management, both financial and administrative. As this is a complex process for a scheme as large as the TfL Fund, there are five sub-committees: operations, investment, audit, actuarial valuation and appeals, each of which deals with a specific aspect of Fund management.

On 31 March 2010, the Trustees were as listed below, grouped by the nominating bodies.

## Transport for London

**Maria Antoniou**  
(Chairman), External  
Appointment, Transport for  
London

**Howard Collins**  
Chief Operating Officer,  
London Underground Limited

**Stephen Critchley**  
Chief Finance Officer,  
Transport for London

**Gerry Duffy**  
Director of Employee  
Relations, London  
Underground Limited

**Jane Hart**  
Senior Disputes Resolution  
Lawyer, Transport for  
London

**Clare Kavanagh**  
Director of Performance -  
Surface Transport,  
Transport for London

**Stuart Munro**  
Director of Finance -  
London Rail, Transport  
for London

**Fergus O'Connell**  
Group Financial Controller,  
Tube Lines Limited

**Peter Regan**  
Director of Corporate  
Finance, Transport for London

**Associated Society of  
Locomotive Engineers  
and Firemen**  
**Steve Grant**  
District Organiser, ASLEF

**Unite the Union (Amicus)**  
**John Timbrell**  
Project Engineer  
London Underground Limited

**National Union of Rail,  
Maritime and  
Transport Workers**  
**Patrick Sikorski**  
Assistant General  
Secretary, RMT

**Unite the Union  
vacancy**

## Transport Salaried Staffs' Association

**John Knowles**  
Station & Revenue Functional  
Council Representative,  
London Underground Limited

**TfL Pension  
Consultative  
Council**  
**Linda Arwood**  
Pensioner

**Stephen Ellaby**  
Corporate HSE Advisor,  
Transport for London

**Chris Miller**  
Pensioner

**Paul Murphy**  
Train Instructor,  
Acton Town,  
London Underground Limited



# Trustee advisers and managers

The Trustees have appointed the following professional advisers and managers to assist with the running of the Fund.

## Investment managers

Bridgewater Associates, Inc, Colonial First State Global Asset Management, Davidson Kempner, Goldman Sachs Asset Management, IronBridge Capital Management LP, JO Hambro Capital Management Ltd, Legal & General Investment Management, Nomura Asset Management UK Ltd, Semperian PPP Investment Partners Ltd, Siguler Guff & Company, Taube Hodson Stonex Partners LLP

## Custodian

JP Morgan Chase Bank

## Administration services

Transport for London

## Investment adviser

Mercer Investment Consulting

## Scheme Actuary

RV Williams, Towers Watson Limited

## Legal advisers

Sacker & Partners LLP

## Auditors

KPMG LLP

## Bankers

The Royal Bank of Scotland plc

## Communications

Hughes Communications, Talking People

## Medical adviser

Professor K Holland-Elliott

## AVC providers

Clerical Medical, Equitable Life, Standard Life

## Fund Secretary

S Field, FPMI

## Additional help or information

The financial information in this annual review is a summary of the full audited accounts.

If you would like a copy of the Annual Report and Accounts, please contact the Head of Pensions and Fund Secretary, at the following address:

4th Floor, Wing over Station  
55 Broadway  
London SW1H 0BD

### Visit the website

Whether you are a contributing member, a pensioner or have a deferred pension, you can use the website to find more information about the Fund. You can also download a full copy of the Annual Report and Accounts from our website at [www.tflpensionfund.co.uk](http://www.tflpensionfund.co.uk)

We continue to take great care to ensure that our website is helpful and easy to use. We hope that you will take the opportunity to visit the site – we always welcome your comments and ideas, which you can email to us via our website.



# Summary Funding Statement

This statement provides members entitled to benefits from the Public Sector Section (the Section) of the Fund with an update of the financial position of the Section. It is based on the 31 March 2009 valuation. Reference to Transport for London (TfL) in this document means TfL and those of its subsidiaries that are Participating Employers in this Section.

## The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2009, the funding position of the Section was as follows:

Assets	£3,369m
Amount needed to provide benefits earned to 31 March 2009	£4,575m
Shortfall	£1,206m
Funding level	74%

As a result TfL agreed to pay deficit contributions of 12.95 per cent of pensionable salary from 1 April 2010 to 31 March 2020 and, on or before each of 31 March 2018, 31 March 2019 and 31 March 2020, a lump sum of £107.4m increased in line with the increase in the Retail Prices Index (RPI) between September 2008 and the September before the payment is due in order to eliminate the shortfall by 31 March 2020. These amounts took account of contributions, benefit accruals, expenses and interest after the valuation date. These deficit payments are in addition to regular contributions (from members and the employer) which are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2010 are 18.05 per cent of pensionable salary for all members of the Section.

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2008 was estimated to be 84 per cent with a shortfall of £773m. The deterioration in the funding position between 31 March 2008 and 31 March 2009 was due primarily to poor investment returns, partly offset by contributions paid into the Section exceeding the estimated cost of new benefit accrual and by the effect of changes to the valuation assumptions.

The estimated additional amount needed on 31 March 2009 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £4,963m. This calculation assumes all benefits would be secured with an insurance company. The Trustee is required by law to provide you with this information. It does not imply that there is any intention of winding up the Section.

## Next funding valuation

The next formal valuation is as at 31 March 2012.

## Other matters

With effect from 30 March 2010 the assets, liabilities and members of the LUL SSL and LUL BCV sections have been transferred to the Public Sector Section. The total shortfall after including the shortfalls as at 31 March 2009 in the LUL BCV Section and the LUL SSL Section was £1,331m. This total shortfall amount was used as the basis for determining the deficit payments described above.

The Trustee is required to tell you by law that there has not been any payment to TfL out of the funds of TfL Pension Fund since the date of the last summary funding statement sent to you. Also that the Pensions Regulator has not exercised its statutory powers to modify the Section's benefits or to determine the outcome of the actuarial valuation or the contributions to be paid to the Section.

## How the Section operates

### How is my pension paid for?

Both the members currently employed by companies participating in the Section, and those companies themselves pay contributions to the Section, so that it can pay pensions to members when they retire. The money to pay for members' pensions is held in a common fund. It is not held separately for each individual.

### How do we calculate the amount the Section needs?

The Trustee obtains regular actuarial valuations – or financial 'health checks' – of the Section. This process involves a comparison of the market value of the assets held by the Section with the amount estimated to be needed to pay the benefits built up to date, determined using the Trustee's chosen assumptions regarding future unknown events. The Trustee, having taken the advice of the Scheme Actuary, then comes to an agreement with TfL on the level of contributions to be paid to the Section in future. (The Scheme Actuary is responsible for providing advice to the Trustee on a range of matters, including funding issues.)

### **The importance of TfL's support**

The Trustee's objective is to have enough money in the Section to pay pensions now and in the future. However, the success of the plan relies on TfL continuing to support the Section because:

- TfL will be paying the future expenses of running the Section on an annual basis
- The funding level can fluctuate and, when there is a funding shortfall, TfL will usually need to put in more money
- The target funding level may be insufficient, in which case TfL will need to put in more money

### **What would happen if the Section were to be wound up?**

We are legally required to inform you what would happen if the Section were to be wound up. If this happens you might not receive the full amount of pension you have built up, even if the Section is fully funded on an ongoing basis. However, while the Section continues to operate in its current form, even though the funding may temporarily be below target, benefits will continue to be paid in full.

If the Section were to wind up, TfL would be required to pay enough into the Section to enable members' benefits to be completely secured with an insurance company. It may be, however, that TfL would not be able to pay this full amount. If TfL was unable to pay this amount, the Pension Protection Fund might be able to take over the Section and pay compensation to members. For further information on the Pension Protection Fund see the website at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk) or write to the Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

### **Why does the funding plan not call for full solvency at all times?**

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view

of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes TfL will continue in business and support the Section.

### **What is the Section invested in?**

The contributions paid into the Section are invested by the Fund's Trustee in a variety of assets. At the current time the Trustee's long-term policy is to hold about 30 per cent of the assets in bonds and about 56 per cent in equities and 14 per cent in other types of investment.

**Important:** If you are thinking of leaving the Section for any reason, you should consult a professional adviser, before taking any action.

### **Additional documents available on request**

*The Statement of Funding Principles\**. This sets out the Section's funding plan.

*The Recovery Plan\**. This explains how the funding shortfall is being made up.

*The Statement of Investment Principles\**. This explains how the Trustee invests the Section's assets.

*The Schedule of Contributions\**. This shows the contributions being paid into the Section.

The full report on the latest *Actuarial Valuation* as at 31 March 2009.

*The TfL Pension Fund Members'\* or Pensioners' Guide\**. You should already have a copy but we can provide you with another if required.

*An Annual Benefit Statement*. If you have not received a benefit statement in the last 12 months you can ask for a statement that provides an illustration of the pension you might receive from the Section.

\*These documents are also available on the website: [www.tflpensionfund.co.uk](http://www.tflpensionfund.co.uk)

# You are invited to the Annual Members' Meeting and Exhibition

This year's TfL Pension Fund Annual Members' Meeting (AMM) will be held at 11:00 on Tuesday 12 October. The exhibition starts at 10:00 when refreshments will be available. After the success of previous events we have again decided to go back to One Great George Street, Westminster, London SW1P 3AA. The meeting and exhibition are open to all Fund members - contributing members, members in receipt of a pension (including dependants and children) and those who have left the company but have 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 the Head of Pensions & Fund Secretary, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD. You will receive a response as soon as possible after the AMM.

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

The programme for the meeting is:

- Introduction at 11:00
- Review of the year to 31 March 2010
- Results of the 2009 Valuation
- Investment review of the last 12 months and future outlook
- Legal outlook
- Open Forum – Questions & Answers
- Adjourn for refreshments and informal discussions
- Close at 13:15

For the exhibition, we have invited a number of external organisations to bring along information of interest to all our members. The exhibition will be open throughout the meeting and will also close at 13:15. If you cannot attend the whole event, please feel free to pop in and find out what's going on.

For members who have mobility considerations access to the building is via the main entrance. If you require further information please contact the Fund Office on 020 7918 2906.

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

