Pensionews

TfL Pension Fund

March 2013
Issue 9

Contents

MAYOR OF LONDON
Transport for London

Chairman's message

Welcome to the ninth edition of Pensionews. Once again this has been a busy year in the world of pensions, and for the TfL Pension Fund in particular, with the impact of legislation changes, the introduction of auto enrolment, changes to the Fund's investments as well as day-to-day operations. On top of this the Olympics came to London with many of your Trustees and members of the Fund Office team taking time out to volunteer and take in the atmosphere of the Games with no disruption to our service.

This edition brings you the latest news on issues currently facing the Fund, including:

- Auto Enrolment
- Fund's Investments
- AVCs
- Government Announcements
- Pension Increases
- PCC Election Results
- National Fraud Initiative
- Trustee update

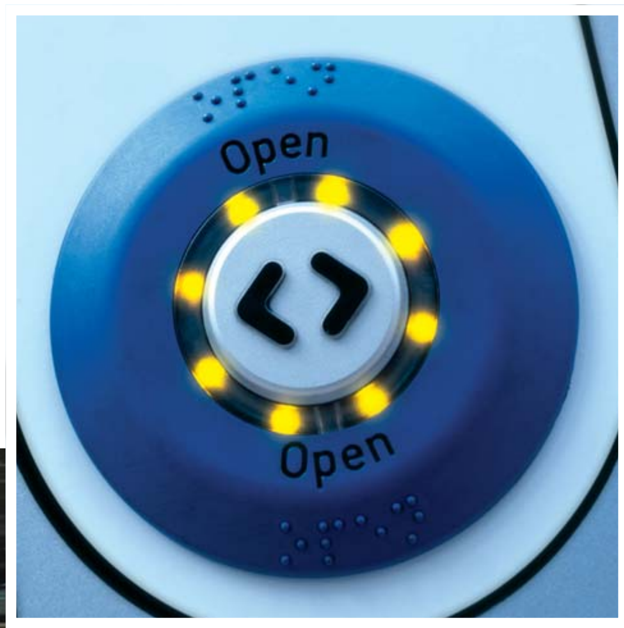
Over the past year there have been a number of changes in membership of the various Trustee Board sub-committees. (see page 12)

I am pleased to announce that the Fund won the award for the "best use of IT" in the 2012 UK Pension Scheme of the Year Awards. This is the third time in four years that the Fund has won this award, and is a fantastic achievement and a reflection of the hard work of members of the Fund Office in delivering improved service through making effective use of technology resources available. It also reflects how our members are interacting with the Fund Office.

As usual we provide a communications timetable for 2013 which includes the details of this year's Annual Members' Meeting for your diary.

If you have any comments about this issue of Pensionews or any other Fund publication, we always welcome your feedback and you can let us know by contacting the Fund Office at the address on the back page.

Maria Antoniou
Chairman of the TfL Pension Fund Trustees



Annual Members' Meeting

The Annual Members' Meeting held at One Great George Street on 9 October 2012 was another well attended event. The meeting began with an introduction from the Chairman of Trustees, Maria Antoniou, and was followed by a review of the year by the Fund Secretary, Stephen Field. He showed performance statistics on the work carried out by the Fund Office, the income, expenditure and investment returns of the Fund, and provided an update on Equitable Life. He also referred to the member self-service facility on the Fund's website.

There were three guest speakers on the day. Richard Williams, Scheme Actuary, Towers Watson, gave an overview of how the Pension Fund operates and the triennial valuation process; he explained the financial and statistical assumptions required, the impact of mortality improvements and how this impacts on the funding position of the Fund. Ed Francis, from Towers Watson, the Fund's investment adviser, then provided an investment update. Ed reported on the Fund's investment managers' performance as at 31 March 2012. He also spoke of the changes made to the Fund's investment portfolio and the increased number of alternative investments as well as providing detail about what has happened to world financial market during 2011/12. Finally, Ian Pittaway, from Sackers, the Fund's legal adviser, gave an overview of legislation in relation to the Pension Fund and the changes proposed by the Government.

Members also had the opportunity to engage with a variety of exhibitors, including the National Trust, The Friends of the London Transport Museum, the Transport Benevolent Fund, The Pensions Consultative Council, the Pensioner Liaison Scheme and the Transport Friendly Society. Representatives from the Fund Office were also present.

The meeting concluded with a question and answer session details of which can be found on the Fund's website at **www.tflpensionfund.co.uk**

The 2013 Annual Members' Meeting will take place on Tuesday 22 October at 11:00 in the Telford Theatre, One Great George Street. There will again be an exhibition in the Great Hall, so if you are unable to attend the meeting, you are welcome to drop in at the exhibition, which will be open from 10:30 to 12:45. Once the meeting has formally concluded in the Telford Theatre, there is an opportunity to meet the Trustees and their advisers. Fund Office Staff will also be present and refreshments will be provided.

National Fraud Initiative (NFI)

The Audit Commission has developed a data matching exercise which detects and helps to prevent fraudulent and erroneous payments from being made from the public purse. The NFI analyses and cross checks electronic data from audited public bodies participating in the exercise, which is run every two years. The Fund has participated since 2004 and has again submitted data for the 2012 exercise.

The results of the 2012 NFI exercise are expected shortly and an update will be provided in the next issue of Pensionews.

Auto Enrolment

Following the Pensions Act 2008 and modifications included in the Pensions Act 2011, there are to be new duties for employers in providing pension arrangements for their employees where these currently do not exist. Also a duty to automatically enrol all eligible workers into a qualifying workplace pension scheme.

These duties have been phased in starting from 1 October 2012 with the largest employers. TfL had to implement these changes from 1 March 2013.

TfL already has pension arrangements and auto-enrols almost all new employees into TfL Pension Fund, so much of the new legislation will not affect it or its employees.

TfL has designated the TfL Pension Fund as its auto-enrolment scheme for the majority of permanent staff in order to meet its new legal obligations.

TfL has decided to take advantage of the transitional arrangements allowed by the Department of Work and Pensions and will not auto-enrol employees who have previously opted out of TfL Pension Fund until 1 October 2017.

For those TfL Pension Fund members who are also employees, under the new law TfL is required to provide you with the following information:

- The TfL Pension Fund is a qualifying pension scheme which means it meets or exceeds the government's new standards;
- TfL must continue to maintain your membership of the TfL Pension Fund (unless you personally choose to opt out of membership) and must ensure the scheme continues to meet certain government standards; and
- If your membership of the TfL Pension Fund ends (and it is not because of something you do or fail to do), TfL would, if you are aged under 75 and earn more than £5,564, immediately have to put you into another scheme that meets those government requirements.

Government Announcements

The last issue of Pensionews featured a number of government announcements and here is a recap and update of these.

Pension Tax changes were introduced from April 2011 when the Annual Allowance (maximum amount of tax exempt pension savings that can be built up in one tax year) was reduced from £255,000 a year to £50,000 a year. This allowance can be carried forward so that if an individual exceeds this in one year, then any unused amounts can be utilised from the previous three years, starting with tax years 2008/9, 2009/10 and 2010/11. In the Chancellor's 2012 autumn statement a reduction in the Annual Allowance to £40,000 was announced to take effect from April 2014.

The value of the increase in a defined benefit pension over the year will not be measured by contributions but be 16 times the increase in the accrued pension, after allowing for indexing the pension at the start of year in line with inflation. So an increase in pension accrued by £1,000 will be worth £16,000 for annual allowance purposes. Any additional voluntary contributions paid would be added to this figure. Information is provided to active members on the value of their Fund accrued benefit for annual allowance purposes in their annual benefit statement.

Any annual allowance tax charge payable would be at the individual's marginal rate. In certain circumstances the tax can be paid by the individual's pension scheme and their pension reduced instead.

Pension benefits for former employees (so-called deferred pensioners) are effectively exempt from the annual allowance regime.

The Lifetime Allowance (overall maximum capital amount of tax exempt pension savings that an individual can build up in all their pension arrangements over their lifetime) was reduced from £1.8m to £1.5m from April 2012. In the Chancellor's 2012 autumn statement a reduction in the Lifetime Allowance to £1.25m was announced to take effect from April 2014. For defined benefits the factor for valuing the lifetime allowance remains at 20, so an annual pension of over £62,500 would be required before the allowance was exceeded from that date. Transitional protection of the £1.5 million amount is to be offered, but details are awaited.

The annual member pension benefit statements show how much of the Lifetime Allowance has been used.

These pension tax changes do not have any impact on the pension lump sum which continues to be payable in full without tax as currently, although this figure is restricted to 25 per cent of the Lifetime Allowance.

Single Tier State Pension

The Department for Work and Pensions has published a white paper on pension reform. The centrepiece of this is the introduction of a higher flat-rate pension, replacing the Basic State Pension and earnings-related State Second Pension, with the objective of achieving both increased simplicity and greater equality. The new pension will apply only to those who reach State Pension Age after the implementation date, which will be no earlier than April 2017.

The proposals include the ending of "contracting out", which would affect schemes such as TfL Pension Fund and mean higher National Insurance contributions. The implementation date for the abolition of contracting out has yet to be set and will be based on discussions with the pensions industry. As contracting out involved the provision of an equivalent benefit as part of overall Fund benefits instead of through the State Second Pension, this means that members will not qualify for credits towards the higher flat-rate pension, except for any period during which they were not contracted out.

The proposals in the white paper have yet to be finalised and enacted and the transitional provisions towards reaching the "simplicity" of the new system are likely to be complex. The Trustees and their advisers will be monitoring the white paper's progress and provide updates to members as the details are finalised.

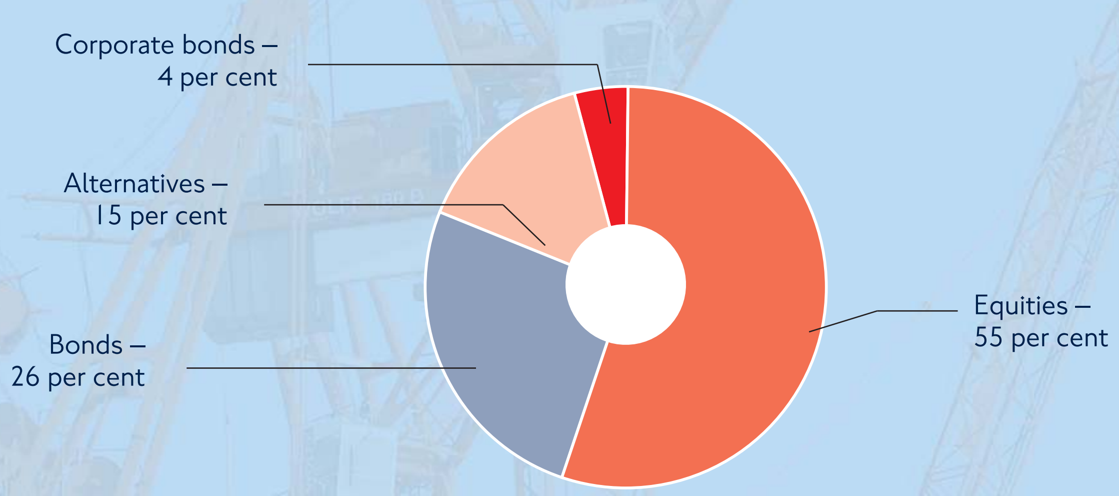
Investments

Valuation at 31 March 2012

The TfL Pension Fund has assets of over £6bn and one of the Trustee's key responsibilities is the investment of the Fund's assets. The key objective is that existing assets together with future contributions from both employees and the employer will be sufficient to cover the cost of the benefits that will be paid under the Fund both now and in the future.

The liabilities, that is the benefits due to be paid under the Fund are spread a long way into the future and to a large extent can only be estimated as they depend on inflation, life expectancy, salary growth and future legislation. In order to meet the investment objective and also to protect against some of the risks related to the size of future benefit payments, the Trustee invest the Fund's assets in a wide range of asset classes, namely equities, bonds, currency, infrastructure, hedge funds, private equity, commodities and real estate.

Physical exposure of the Fund by major asset classes



Every asset class has its unique attributes and the Trustee appoints specialist investment managers to manage it. Each manager has a target return to achieve, which is determined by the Trustee and consistent with the underlying risks, and gets rewarded through fixed management and variable performance fees, based on the success of delivering returns in excess of the target. As we are only too aware the value of investments can go down as well as go up, so the Fund's assets are invested across a wide range of asset classes, companies and countries in order to minimise the impact of particular individual investments under performing.

55 per cent of the Fund's assets are currently invested in equities. These are shares in companies in both the UK and overseas, with the Fund holding shares in many household names such as Nestle, Google, Adidas, Apple Computers to name just a few. Equities can return value in two ways, firstly through dividends which companies pay based on their profits and secondly through the increase in the value of the equity which is determined by stock markets based on supply and demand for shares in particular companies. If investors think a company is going to perform well and pay good dividends then often the demand for and the price of the shares in the company increase in value. The skill of the investment managers the Trustee appoints is to buy or sell companies that can be expected to do well or poorly at the right time and right price. A large proportion of the Fund's equity holdings are also in very low cost passive funds that hold the market benchmarks, thereby automatically buying and selling shares in line with market activity.

26 per cent of the Fund's assets are invested in bonds. These are in effect loans to governments and companies where the rate of interest payable

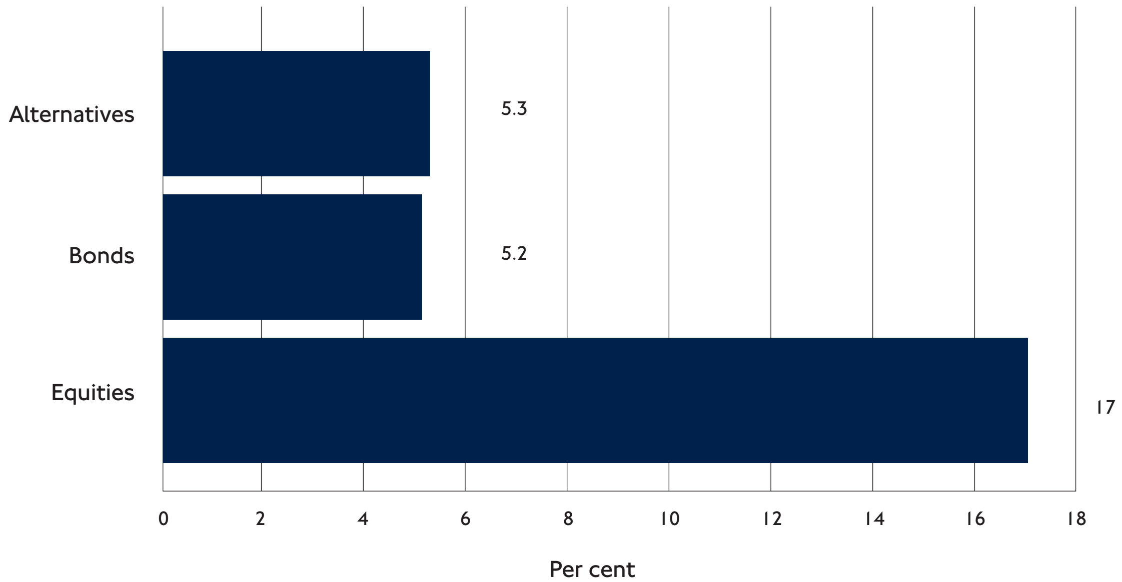
is determined by the level of risk and their maturity. Where companies or governments are perceived to have higher risk of default, the higher the rate of interest. Likewise, the rates are also higher for longer maturities The Fund generally invests in companies and governments where the returns are the highest for every unit of risk borne by the Fund. Bonds give a steady stream of income over the period to maturity and this income helps to meet the ongoing cashflow requirements of the Fund to pay benefits. In some cases the bond income is inflation linked, which provides a good match for the pensions we pay and helps to protect against the impact of inflation on the Fund's cashflow requirements.

Around 15 per cent of the Fund's assets are physically invested in alternatives, an extremely interesting but quite a complicated part of our investments. However, total committed investments in alternatives is around 19 per cent of the Fund, as investments in private equity are drawn down over a period of up to 5 year from the date of commitment. There is a wide variation in the underlying investments. Infrastructure and real estate investments, for example, deliver long-term stable and inflation linked returns. One of the companies the Fund is invested in is Anglian Water Group, serving around six million customers in the east of England and Hartlepool. Our hedge fund managers invest in strategies ranging from commodities, structured and distressed credit to emerging market currencies, reinsurance and global macro trends - by far the most complex and varied of all the asset classes. Our private equity managers invest in unlisted UK and overseas companies, looking to sell them at profits after significantly improving their operations.

Risk management is fundamental to the investment process. The Fund runs a very large foreign exchange overlay programme to hedge currency risks in the equities portfolio and Liability Management Programme to hedge interest rate and inflation risks in the Liability. Managing the Fund's risks is a key part of the overall investment strategy of the Fund.

During 2012 the Fund achieved a return of 12.3 per cent on its investments, and as is to be expected, some investments performed better than others. The table below shows the performance of the various asset classes in 2012.

2012 Investment returns by major asset classes



Pension Increases for Pensioners

The April 2013 pension increase is based on the rise in the Retail Prices Index (RPI) over the 12 months to September 2012.

The full year increase is 2.6 per cent, and will be paid to all eligible pensioners on 22 April 2013.

If you have been receiving your pension for less than a year you may receive a pro rata increase and details can be found on the TfL Pension Fund website at **www.tflpensionfund.co.uk**

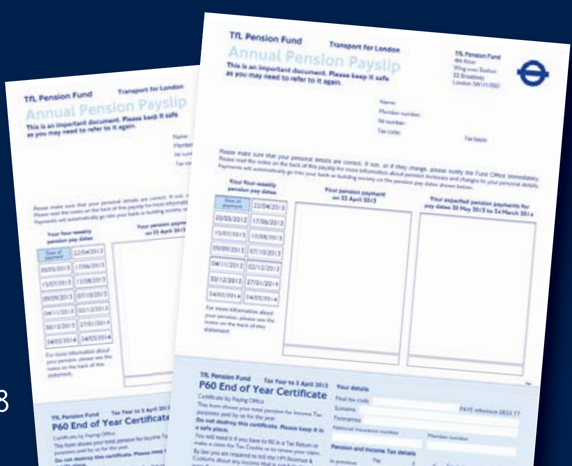
Depending on the period of membership of the TfL Pension Fund, your pension may comprise various components, some of which are not increased by the Fund at the above rate, but may be increased by the State. All the components of your pension are shown on your payslips.

Annual payslips

Your annual payslip, which will include your P60 for the 2012/2013 tax year, is due to be issued on 26 April 2013.

We understand that you may need confirmation of your pension before this date in relation to claiming State benefits, and benefits agencies may accept other forms of confirmation, such as bank statements. If you experience any problems, please contact the Fund Office for help.

Remember that if you have registered for self service you will be able to view your P60 details online from 6 April.



Member Self-Service

If you want to take more interest and control of your pension planning, why not register for Member self-service today, via the Fund's website **www.tflpensionfund.co.uk** then you too can make use of the Member self-service facilities:

- Interactive online access to personal pensions information for Fund Members including Pensioners and Deferred Members (former employees with benefits under the Fund)
- The ability to forecast pensions via an interactive pensions and AVC modeller
- The ability to view your last annual Benefit Statement
- For Pensioners the ability to view payslips and P60s
- For Pensioners and Deferred Members the ability to maintain their address details

To register you will need the following details to hand:

- **Your Member number** (this can be found on previous correspondence you have received from the Fund such as your annual Benefit Statement)
- **Your Date of Birth** (must be entered in the format DD/MM/YYYY)
- **Your National Insurance number**

Once registered, you will be issued with a username and password under separate cover.

If you experience difficulties registering, please email **helpdesk@tflpensionfund.co.uk** including your contact details and Member number.

Real Time Information

Changes by Her Majesty's Revenue and Customs (HMRC) are being brought in to ensure that the right amount of tax is paid at the right time.

HMRC is introducing real time information (RTI) into the Pay as You Earn system (PAYE). This means that, by October 2013, all employers and payrolls will be required to report certain information about tax, National Insurance Contributions (NIC) and other deductions to HMRC every time a payment is made to you. This will replace the current system of reporting details of earnings and deductions at the end of the tax year.

The changes will reduce the need for end-of-year reconciliations, and the processing and collection of under and overpayments of tax.

There will be no change to the underlying rules or payment dates for PAYE, simply a change in the way we report PAYE information to HMRC. This change should not be visible to you as the payee, however it represents a major change in PAYE systems and processes as far as employers like TfL are concerned.

RTI will also support the implementation of the new Universal Credit System, which is due to be introduced in October 2013. This will rely on HMRC informing the Department of Work and Pensions how much claimants of the Universal Credit have earned, and when, to ensure claimants receive the appropriate credit on a timely basis.

Due to the size of our payroll, we will be migrating to RTI during March / April 2013, in good time to meet the HMRC deadline. This enables us to ensure that we are fully compliant with HMRC's new regulations, and the payroll can be run smoothly.

Communications Timetable

April	Annual payslips and P60s sent to pensioners. These will show the payment dates for the forthcoming tax year, as well as showing total pension and tax information for 2012/2013
May/June	AVC statements to all members of the AVC Plan
June	Benefit statements to all contributing members (with at least one year's membership of the Fund)
September	Annual Review – the Trustees' summary of the Report and Accounts incorporating the Summary Funding Statement – how the Fund's invested assets compare with the liabilities to pay benefits
	Benefit statements to all deferred members
October	Annual Members' Meeting – a forum for all members to meet the Trustees and discuss the Fund – details will be included in the Annual Review

As well as the documents listed above, which are issued to various categories of Members, the following documents will also be published on the Fund's website where you can view or download them.

April	Statement of Investment Principles – this is the Trustee statement of the principles governing investment decisions
July	Public Sector Section – Valuation Report for the 2012 Valuation – this includes details of the assumptions used and the assets and liabilities of the Fund at 31 March 2012
July	Public Sector Section – Schedule of Contributions – this details the contributions agreed between TfL and the Trustee
July	Public Sector Section – Recovery Plan – this details how the funding shortfall identified by the valuation will be made good
August	Annual Report & Accounts at 31 March 2012– the Annual Review which is issued in September is a summary version of the full Report & Accounts

Pension Consultative Council (PCC)

The PCC discusses any issues relating to the operation of the TfL Pension Fund (but not individual entitlements). PCC members are elected from three sections representing pensioners and deferred pensioners, employees of London Underground, and TfL employees other than LU. The PCC has a role in nominating Trustees to the Pension Fund to represent these groups. The PCC constitution is on the Fund's website at **www.tflpensionfund.co.uk**

Election results 2012

The longest serving quarter of the TfL Pension Consultative Council (PCC) retired from office as usual on 30 November 2012. The term of office for the new appointments, detailed below, started on 1 December 2012 and will end on 30 November 2016.

In Section One (pensioners and deferred pensioners) Christopher Miller and Michael Swiggs retired. Chris Miller and Paul Kilius-Smith were the only nominees for the vacancies and were therefore elected.

In Section Two (TfL and its subsidiaries or contractors, excluding London Underground Limited) Luke Howard retired and David George resigned. Luke Howard and Ralph Pidsley were the only nominees. With his agreement Ralph Pidsley will fill the vacancy created by David George's resignation and his term of office will run until 30 November 2013, Luke Howard was elected to take the four year position.

In Section Three (London Underground Limited and its subsidiaries) Eddie Darroch and Richard Head retired. Eddie Darroch and Richard Head were the only nominees for the vacancies and were therefore elected.

For more information about the PCC please visit the TfL Pension Fund website at **www.tflpensionfund.co.uk** or contact Julian Collins, PCC Secretary, on 020 7918 3789 or by email to **juliancollins@tflpensionfund.co.uk**

Trustee Update

The Trustee Board decides all policy matters; however the Trustee Board has established six committees to supervise different aspects of the Fund and report back to the full Trustee Board.

There have been a few changes to the Trustee Board and the Committees on which the Trustees sit.
Since we issued the Annual Review last September, the changes are:

Stephen Hedley, nominated by the RMT, was appointed on 25 September 2012 to replace Pat Sikorski who retired as a Trustee on 3 September 2012

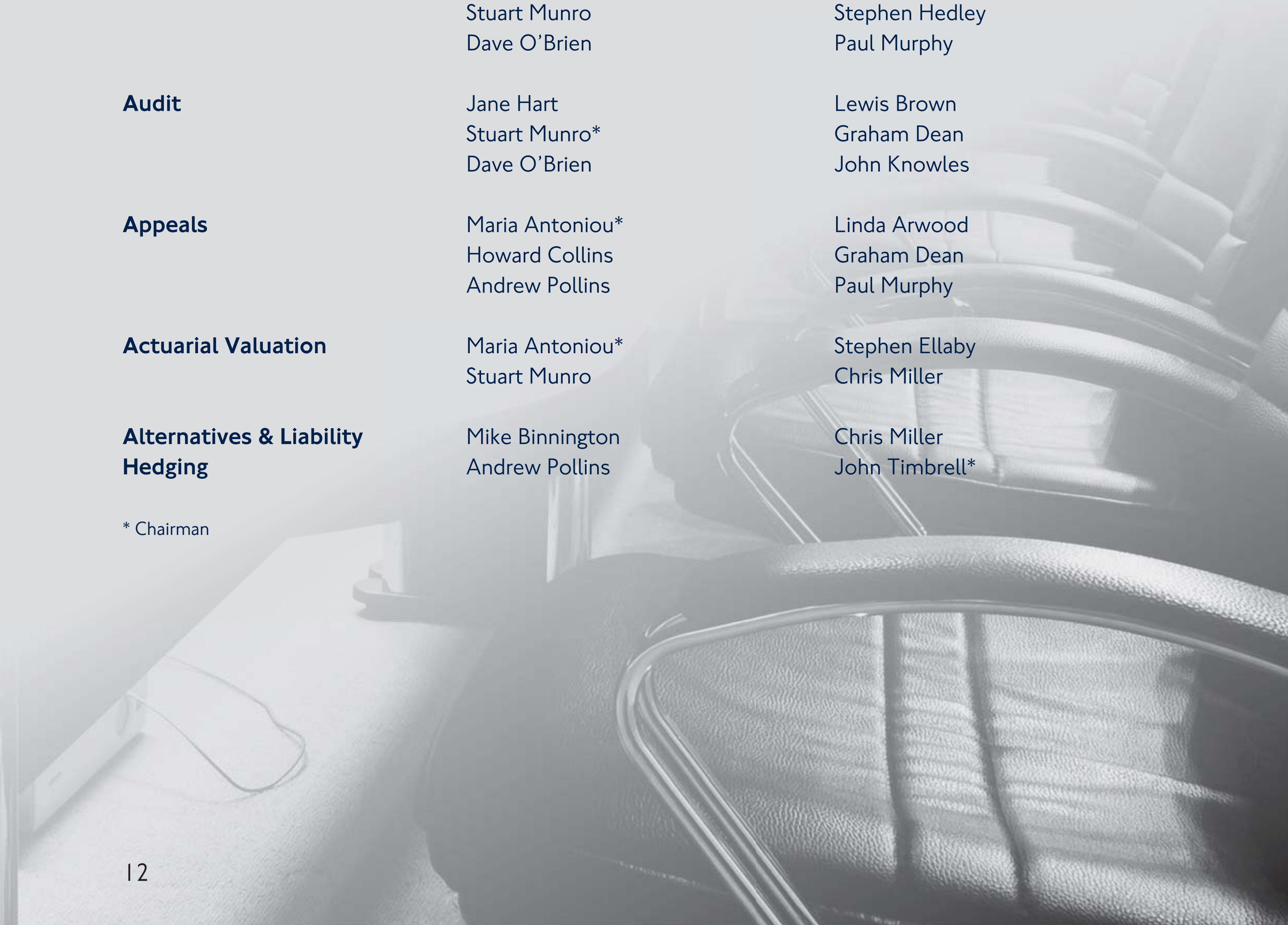
Andrew Pollins, nominated by TfL, was appointed on 25 September 2012 to replace Stephen Critchley who retired as a Trustee on 31 July 2012

Lewis Brown joined the Operations Committee with effect from November 2012 in place of Chris Miller

The current membership of the committees is shown below:

Committee	TfL nominated	Non TfL nominated
Investment	Mike Binnington Howard Collins Gerry Duffy Andrew Pollins	Lewis Brown Chris Miller Paul Murphy John Timbrell*
Operations	Jane Hart Clare Kavanagh Stuart Munro Dave O'Brien	Linda Arwood* Lewis Brown Stephen Hedley Paul Murphy
Audit	Jane Hart Stuart Munro* Dave O'Brien	Lewis Brown Graham Dean John Knowles
Appeals	Maria Antoniou* Howard Collins Andrew Pollins	Linda Arwood Graham Dean Paul Murphy
Actuarial Valuation	Maria Antoniou* Stuart Munro	Stephen Ellaby Chris Miller
Alternatives & Liability Hedging	Mike Binnington Andrew Pollins	Chris Miller John Timbrell*

* Chairman



Additional Voluntary Contributions

EQUITABLE LIFE With Profits Fund

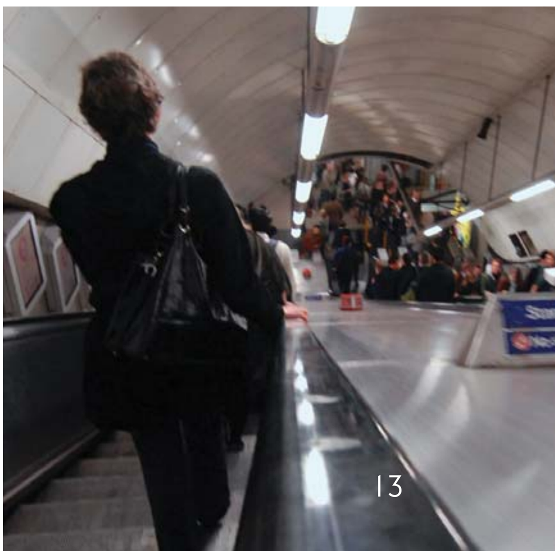
An information sharing agreement has been signed with National Savings & Investment ("NSI") who are administering the Equitable Life Payment Scheme ("the Scheme").

This will allow member data such as addresses to be provided under legal safeguards to Atos, who are carrying out the work for NSI on the Equitable Life compensation.

Atos have been developing a secure portal to facilitate the exchange of data with schemes and we have now been provided with member names for whom addresses are sought. Following our supplying these addresses, Atos will write individually to the members affected regarding any compensation due.

To be eligible, policyholders would have needed to invested at some time between 1 January 1993 and 31 December 2000. The Government has previously stated that eligible policyholders should receive 22.4 per cent of their relative loss.

The Trustees and their advisers continue to monitor developments and will communicate with members after further information has been received.



Other Fund Matters

Valuation at 31 March 2012

The whole valuation process must be completed within fifteen months of the valuation date of 31 March 2012 so for the current valuation this deadline is 30 June 2013, although both the Trustees and TfL are keen to ensure that any agreed contributions are paid from 1 April 2013.

Progress on the valuation to date has been in accordance with the timetable and it is expected that the Technical Provisions and Recovery Plan will be agreed together with the other documentation in advance of the 30 June deadline. Further information will be provided at the Annual Members' Meeting and in other publications issued by the Trustees to keep members informed.

Once the valuation process is completed the Recovery Plan, Schedule of Contributions and the valuation results must be sent to the Pensions Regulator who will then review the appropriateness of the agreed funding plan.

Ill-health pensions in payment

If you are in receipt of an ill-health pension, the Fund requires you to tell us if the total of your current earnings (if any) when added to your pension exceeds the greater of 150 per cent of your current pension or £31,650. This latter figure is increased annually by earnings inflation.

Expression of Wish Forms

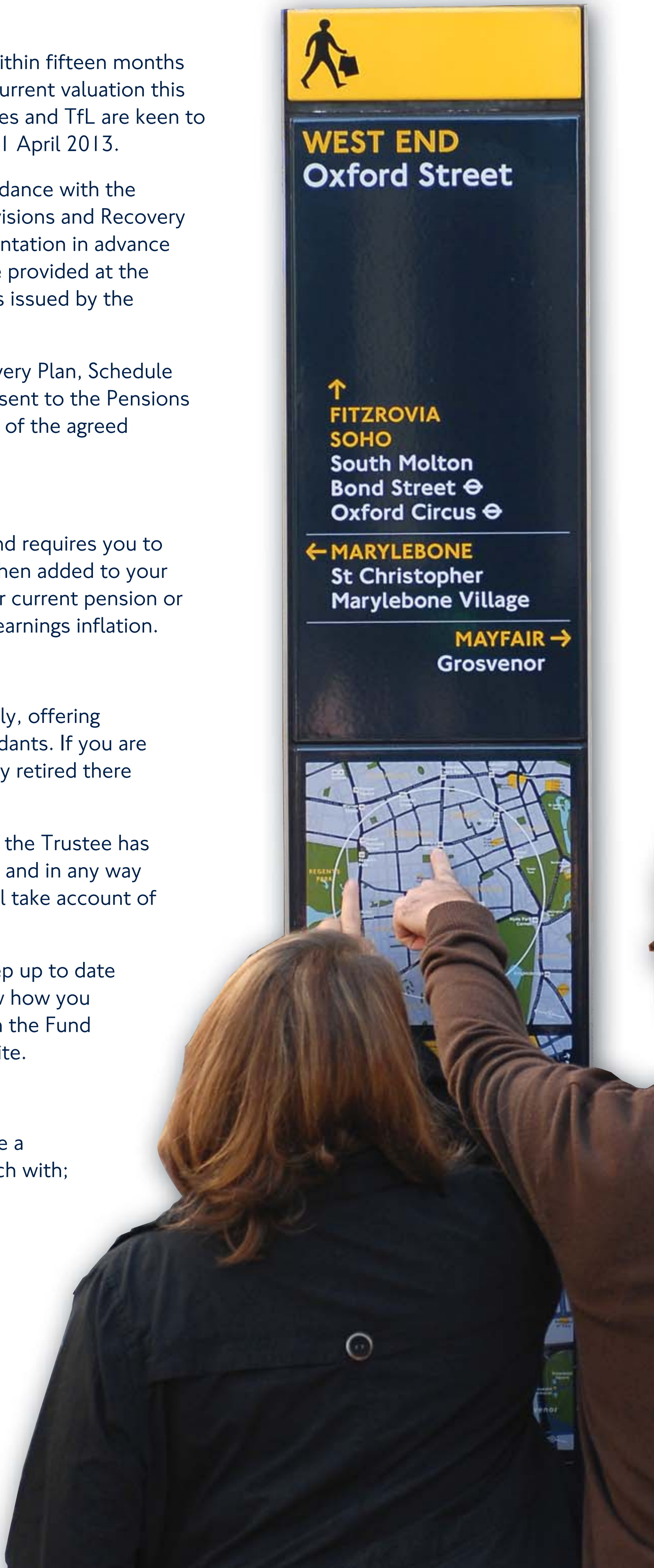
The Fund provides important benefits for your family, offering security and peace of mind for you and your dependants. If you are an Active or Deferred member, or have very recently retired there may be a lump sum payable on death.

Where a lump sum is payable following your death, the Trustee has absolute discretion to pay it to one person or more and in any way they decide is appropriate, however the Trustee will take account of your wishes.

It is therefore important that you complete and keep up to date an Expression of Wish form to let the Trustee know how you would like this to be paid. Forms are available from the Fund Office or can be downloaded from the Funds website.

Keeping us up to date

The Fund Office has undertaken an exercise to trace a number of deferred Members who we had lost touch with; this is a time consuming and costly exercise. We encourage you to ensure that you notify us if you change address; this ensures that we can provide you with updates as well as settle your benefits when they become due. You can notify the Fund Office either in writing or over the telephone (subject to some security checks) or if you prefer you can use self service.




UNDERGROUND
Sir John Cass
Sixth Form College
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We cannot give financial advice or deal with tax matters, but will be able to advise you who to contact for the help you need.

Contacting us

The staff in the Fund Office are always pleased to help with any enquiries you may have. Contact details depend on your surname and the nature of your enquiry.

If you are looking to start, change or stop Additional Voluntary Contributions, contact

Your surname begins with	Telephone number
A to K	020 7918 3026
L to Z	020 7918 3027

For all other enquiries, contact

Your surname begins with	Telephone number
A or D	020 7918 4697
B or E	020 7918 4895
C or F	020 7918 4784
G, J or L	020 7918 4720
H or K	020 7918 4864
I, M or N	020 7918 4897
O, S, U, V, X, Y or Z	020 7918 3797
P, Q or T	020 7918 4828
R or W	020 7918 3322

We cannot give financial advice or deal with tax matters, but will be able to advise you who you need to contact for the help you need.

Our postal and email addresses are:

TfL Pension Fund, 4th Floor, Wing over Station, 55 Broadway, London, SW1H 0BD Email at: helpdesk@tflpensionfund.co.uk

Fund Office Appointments

If you need to visit the Fund Office to talk to a member of the team, please call in advance to arrange an appointment. This will save you having to wait and also means that we can be prepared to deal with your enquiry.

You can also access Member self-service and find lots of information, including forms and Fund documents, on our website at **www.tflpensionfund.co.uk**

Notice for the visually impaired

Copies of this newsletter 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, or email the Fund Office at helpdesk@tflpensionfund.co.uk