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Message from the chairman

Welcome to the third edition of TfL Pension Fund's Pensionews. As always there is plenty of news, both about the Fund and pensions in general. In terms of the Fund, among other things, we report on a very successful Annual Members' Meeting and provide details of this year's event so you can put the date in your diary. There are also a number of issues arising from the April 2006 simplification legislation where we can update you on developments. In addition, in advance of the new Statutory Funding Requirement, we take a look at how the Trustees invest the Fund's assets – what their objectives are and how they balance the need to seek strong investment returns and manage investment risk.

In more general terms, we look at the recent changes in the law from the Age Regulations and how they affect the Fund. We also provide an overview of the Government's recently published Pensions Bill, which outlines proposed changes to state pensions.

Finally I am pleased to introduce you to a number of new faces on the Trustee Board. As I'm sure you are aware, the Trustees dedicate a huge amount of time and effort to running our Fund.

As always we welcome your views so please do get in touch if you have any comments on this newsletter or any other aspects of the Fund.

Chairman of Trustees

New members on the Trustee Board

The 2006 Annual Review (issued in September 2006) included details of the Fund's Trustees as at 31 March 2006. Since then, the following changes have been made to the Trustee Board:

On 14 June 2006, Howard Collins was appointed, replacing Nigel Holness. This nomination was received from TfL. Howard is the Deputy Chief Operating Officer, London Underground.

On 27 September 2006, Richard Webster was appointed, replacing Marina Ainsworth.

This nomination was also from TfL. Richard is the Director of Finance, Surface Transport, TfL.

On 13 December 2006, Steve Gray was appointed, replacing Jan Hamilton. This nomination came from the TSSA. Steve is a Station Supervisor.

Also on 13 December 2006, Steve Perry was appointed, replacing Phil Worthington. This nomination was received from Metronet, on behalf of TfL. Steve is the Financial Controller – Asset Performance, Metronet SSL.

On 22 January 2007, Andrew Cleaves was appointed, replacing Nicola Belben. This nomination came from Tube Lines, on behalf of TfL. Andrew is the Director of Periodic Review, Tube Lines.

Also on 22 January 2007 the Trustee Board confirmed its agreement to the appointment of Maria Antoniou, effective from 19 February 2007. She replaces Hugh Hood. This nomination came from TfL. Maria is the Director of Group Human Resources, TfL.

Actuarial valuation

The Scheme Actuary is currently carrying out the triennial valuation of the Fund. In the 2006 Annual Review we provided information about why we need a regular valuation and what it tells us. Following presentation of the initial results by the Actuary consultations are currently taking place between the Trustees, TfL and the other employers who participate in the Fund. The aim is to secure agreement on the appropriate rates of contribution for individual employers and it is expected that these would be effective from April 2007.



Following finalisation of the valuation, which is legally required by the end of June 2007,

the Trustees will decide on the best way of communicating the results to Fund members.

Fund investment

Every year in the Fund's Annual Review, we provide you with an update on how the Fund's investments are doing. In addition, from 2006 onwards, we are required to issue an annual 'Summary Funding Statement', which shows how the Fund's invested assets compare with the liabilities to pay benefits. The Statement for 2006 was issued to members in September 2006.

With the results of the 2006 Fund valuation to be published later this year, a review will take place of how the Trustees go about investing the Fund's assets and what their objectives are.

Why invest?

In simple terms, the reason for having a funded pension arrangement is to spread and, hopefully, reduce the cost of providing pensions.

Contributions are paid each month by members and the employer and they are invested to build up a fund that is sufficient to pay out benefits as they arise in the future. There are several advantages to this approach:

- Returns on the investments such as dividends on shares, interest payments on bonds and rents on property get added to the contributions and help the fund to build up
- The Fund's assets have a market value – they can be bought and sold – and this also counts towards the amount available to pay pension benefits
- There are a number of tax reliefs that are enjoyed on pension fund investments

The principles of investment

The Fund's Trustees are required to draw up and maintain a written document setting out their key investment principles. (This is available from the Fund's website at www.tflpensionfund.co.uk.) In summary, the Trustees' investment policy pays regard to:

- The security of members' benefits
- The need to comply with statutory funding requirements
- A desire to control the cost of benefits by preserving the Fund's wealth
- A desire to keep contribution rates stable
- A willingness to embrace investment risk in a controlled fashion in order to achieve a higher rate of investment return

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In order to achieve these goals the Trustees retain the services of an investment consultant and a number of professional investment management firms. The Fund's investment consultant helps the Trustees develop their investment policy, advise on how the investments should be divided up between different classes – for example company shares, bonds, property and cash – and what proportions of these assets should be invested in the UK and overseas. They also assist the Trustees in identifying suitable investment managers, though the final decision is down to the Trustees.

The investment managers make the day-to-day decisions on what stocks and shares to buy and provide regular reports to the Trustees on investment performance. Each asset manager has a specific role to play. For example just under half of the Fund is managed by Legal and General (L&G) on an 'index tracking' or 'passive' basis. This means that L&G constructs its funds in such a way as to produce returns that closely match the makeup of the world's major stock market indices – such as the FTSE (footsie) All-Share index. This approach means that investments will go up and down in line with stock markets. However, as there are no complicated investment decisions



to be made or companies to be researched, it is a comparatively low cost investment option. It is also considered to be low risk as the managers are investing in the whole market and do not speculate on individual stocks and shares.

The other managers have been chosen to invest the assets on an 'active' basis with the objective of achieving a better rate of return than tracking an index.

When everything is put together the aim is to minimise risk by spreading the investments across a wide range of different types of asset and in markets around the world. The Trustees review the Fund's performance every quarter and a full valuation is carried out once every three years. This way the Trustees make sure that the Fund is being managed in line with their policy and to best meet their objectives.

Age discrimination

On 1 December 2006 the Government brought in regulations prohibiting pension schemes from discriminating against people on the grounds of their age. These cover discrimination against younger as well as older people. However, these provisions included a large number of exemptions that were necessary to allow pension schemes to continue to operate.

For example, in a fund such as ours, pensions are based on

years of membership as well as earnings, so in most cases older people would have a higher pension entitlement than their younger colleagues. If this approach were regarded as discriminatory on the grounds of age it would become impossible to provide a salary and service related pension. This is therefore covered by the exemptions.

Also pension funds can still reduce pensions on early retirement, in recognition that such pensions will

be paid for a longer period of time.

The Trustees have these regulations under review, in consultation with our legal adviser. If any changes are needed that will affect the running of the Fund or provision of members' benefits we will let you know.



Proposed changes to state pensions

The Government has recently set out how it proposes to improve state pensions and make the system fairer for women and carers. The key points are:

- People who reach state pension age on or after 6 April 2010 will only need to complete 30 full working years in order to be eligible for the full Basic State Pension. (Currently this is 44 years for men and 39 years for women.)

- From April 2015 state pensions will increase in line with average earnings rather than in line with prices as now. This will be phased in from 2012
- The state pension age will increase gradually to age 68 for men and women in 2046

From 2030, the State Second Pension will become a flat rate payment based on every week spent in employment (including caring).



2007 pension increase

The April 2007 pension increase will be 3.6%. This reflects the rate of retail price inflation over the 12 months ending on 30 September 2006. You might be interested to know that, although inflation has been low for a number of years, Fund pensions have increased by some 33% between April 1996 and April 2006. (NB, many members have part of their pension increase paid with their State Pension as a result of the Fund being contracted out of the State Second Pension.)

Feedback from the National Fraud Initiative (NFI)

The NFI is the Audit Commission's data matching exercise that takes data from all public bodies, analyses it and crosschecks it to detect potential fraudulent and erroneous payments from the public purse.

The Fund provided data for this in October 2004. As a direct result of participation in this exercise it was discovered that a number of pensioners for whom payments were being made had in fact died. Overpayments totalling £105,923 have been repaid to

the Fund and the ongoing annual pension payment saving amounts to £105,286 a year.

The Fund again provided data for this exercise in October 2006 and details of the results will be shared in a future edition of Pensionews.

Online access to member records

The Trustees and the Fund Office are continually looking for ways to improve service to members. Following the successful implementation of the Compendia pension administration system the possibility of allowing members access to their personal details and to be able to run some estimates of benefits themselves is being explored. More information will follow in the next edition of Pensionews.



Retiring overseas – payment arrangements

If you live abroad, your benefits can either be paid into a UK bank or building society account or into an overseas bank account using the Transcontinental Automated Payment System (TAPS). If you choose the latter, there will be a small charge for each transaction for using this service. In addition, your bank may charge a fee for conversion to local currency.

The Fund will pay increases to your pension wherever you live. In addition, if you live in a country in the European Economic Area (EEA) or a country that has a social security agreement with the UK, you will also receive increases on your Basic State Pension and possibly your Guaranteed Minimum Pension (GMP), from the UK Government.

If you live in a country where no such agreement exists your state pension and any GMP will not be increased by the UK Government.

The list of countries affected changes from time to time and can be found on the Department for Work and Pensions' website at www.dwp.gov.uk

Internal Disputes Resolution Procedure

We aim to run the Fund so that members do not have any cause for complaint. However, if you do have a problem, you should, in the first instance, raise it informally with the Fund Office.

If it is not possible to resolve your problem in this way, you may be able to use our formal Dispute Resolution Procedure, which is designed to resolve any dispute between the Trustees and members, prospective members and beneficiaries.

The procedure has recently been updated to include the following:

'Please note that it is not the Trustee's practice to reimburse members should they choose to take professional advice such as legal or financial advice, whilst making a complaint at both stages of the IDR procedure.'

Full details can be found on the Fund's website at www.tflpensionfund.co.uk



Transferring benefits into the Fund

Under the Fund rules, contributing members can apply to transfer the value of their benefits into the Fund from another registered pension arrangement. It is the Trustees' decision whether a transfer in will be accepted. However you should bear the following points in mind if you are considering a transfer in:

- Transfers will only be accepted from pension arrangements to which you no longer contribute, such as the pension scheme of

a previous employer. If you are paying into a stakeholder or personal pension arrangement at the same time as into the Fund, or if you have other employment which provides a pension, you are not eligible to transfer these benefits into the Fund

- The Trustees will not generally approve a transfer in if you have been a Fund member for less than five years and are on long-term sick leave, or are

on light duties as a result of poor health

If the transfer is approved and you decide to go ahead, your previous pension arrangement will make a payment, known as a 'transfer value' to the Fund. You will then be granted additional pensionable service in the Fund, calculated on a basis set by the Fund Actuary.

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. These lump sum death benefits are payable at the discretion of the Trustees which means that the Trustees have the final decision on who should receive them. This allows them to be paid free of inheritance tax. The Trustees will, however, take your wishes into consideration when deciding who should receive such benefits. To make sure that the Trustees are aware of your wishes, you should make



sure that your Expression of Wish is up-to-date. In particular, you should consider updating your Expression of Wish if your personal circumstances have changed – for example if you have recently formed a civil partnership, married, divorced or had children.

You can download an Expression of Wish form from the Fund's website at www.tflpensionfund.co.uk Alternatively please contact the Fund Office at the address on the back page and they will be happy to send you a form.

TfL Pension Consultative Council Elections 2006

The purpose of the TfL Pension Consultative Council (PCC) is to consider and discuss any issues relating to the operation of the Fund, and to make representations on such issues to the Trustees and other groups as appropriate.

Four of the Directors of the Trustee Board are PCC Councillors.

The PCC consists of 20 Councillors elected by and from the Fund members they represent, as follows:

Section One – eight Councillors representing pensioners, dependants and deferred pensioners

Section Two – four Councillors representing employees of TfL or its subsidiaries (excluding London Underground Limited) or contractors

Section Three – eight Councillors representing employees of London Underground Limited or its subsidiaries or contractors.

The following Councillors were elected on 1 December 2006, following postal ballots:

Section One
David Biggs (re-elected)
John Howie

Section Two
Stephen Ellaby

Section Three
Chris Carroll
Jackie Darby

For more information about the PCC, including the names of all serving Councillors and their respective sections, 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

We are pleased to report that the 2006 Annual Members' Meeting was a great success. We had a new venue – One Great George Street – which proved very popular.

The proceedings opened with a presentation from Peter Hendy, Transport Commissioner of Transport for London. He updated the audience on developments in transport projects in and around London and reiterated Transport for London's continued support for the Fund. This was followed

by a review of the Fund's report and accounts presented by the Fund Secretary, Sue Timbrell, and an update on recent legislative changes from the Fund's lawyer, Ian Pittaway from Sacker & Partners LLP. The proceedings wound up with a lively question and answer session.

As well as the presentations there was a small exhibition with stands from various organisations such as Counsel and Care, The National Trust and the Transport Benevolent Fund, alongside

representatives from the Fund Office. This opened half an hour before the meeting and continued during post-meeting refreshments.

The 2007 Annual Members' Meeting is scheduled for 11.00 am on Tuesday 2 October at the same venue so please put the date in your diary. Once again there will be an exhibition so even if you can't attend the meeting you are welcome to drop in and find out what's going on.

Your team

The staff in the Fund Office are 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 plenty of information on the Fund's website. There are also a number of on-line forms to use, for example to change address or bank details, or to submit an AVC enquiry.

Communications timetable 2007

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 2006/07

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 – will show 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 2 October at the following venue:
One Great George Street,
London SW1



Notice for the visually impaired

Copies of this newsletter in a large type 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 call 020 7918 3733 for your copy.

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