

TfL Pension Consultative Council (PCC)
Summary of minutes of meeting number 67 held on 14 July 2011

Casual Vacancy – Section Three

Section Three confirmed their nominee for the vacancy as Eddie Darroch and this was confirmed by the PCC.

Report of the Trustee Board Meetings held on 8 June and 6 July 2011

The meeting held on 8 June considered minutes from the following committee meetings:

- Investment Committee Meeting 95 – May 18, 2011
- Alternatives and Liability Hedging Committee Meeting 3 – March 22, 2011
- Alternatives and Liability Hedging Committee Meeting 4 – April 18, 2011
- Alternatives and Liability Hedging Committee Meeting 5 – May 23, 2011
- Operations Committee Meeting 58 – May 11, 2011
- Actuarial Valuation Committee Meeting 18 – May 23, 2011
- Audit Committee Meeting 51 – March 9, 2011

It addressed Governance and Legal matters and concluded with a training session.

Investment Committee Meeting 95

The following investment highlights were noted:

- Quarter (ending March 31) saw a decrease in funding to 89% but the Fund remains ahead of its target funding level
- Towers Watson noted that 100% funding would be achieved ahead of schedule on a technical funded basis
- Fund assets stood at £5.6 billion – the highest year-end asset value to date
- Transfers-in had supplied an additional £40 million over the previous year.

Alternatives and Liability Hedging Committee Meeting 3

The following Alternatives and Liability Hedging Committee (ALHC) highlights were noted:

- Towers Watson (TW) introduced its new team
- TW presented an Investment Strategy paper and its ratings on the Fund's current investments.

Alternatives and Liability Hedging Committee Meeting 4

The following ALHC highlights were noted:

- The Fund secretary confirmed that the Trustees were looking to increase the alternatives assets from 14.5% to 25% of Fund assets and were reviewing current market opportunities
- TW presented a paper on Liability Driven Investments (LDI)
- TW presented a paper on investment strategy and manager ratings
- The Fund Secretary confirmed that the Trustee Board would review Mercer's Executive Summary for the quarter ended March 31 and TW's report for the quarter ended June 30 at its September meeting
- TW confirmed that it would undertake some further analysis on risk and return.

Alternatives and Liability Hedging Committee Meeting 5

The following ALHC highlights were noted:

- The meeting heard presentations from First State and Partners Group
- The meeting confirmed its view that liability hedging represented a type of insurance against inflation and re-investment risk and whilst the Fund currently operated a liability hedging programme, currently, it was decided that further liability hedging would not be undertaken.

Operations Committee Meeting 58

The Meeting considered the Administration Report (Quarter ended March 31, 2011) and a paper on Change to State Pension Age and effect on Variable Pension Option. The Meeting reviewed a number of other issues including Project Horizon, AVCs, interest bearing accounts for eligible children and impacts upon the Fund arising from changes in paternity leave and Annual Allowance.

Administration Report for Quarter Ended March 31, 2011

The Committee confirmed that the Fund Office was in discussions with the principal employer on improving the interface between Payroll and Fund Office. It was confirmed that members were not able to use self-service to run quotations in respect to ill-health pensions.

The Committee expressed its thanks to the Fund Office for its excellent work during the quarter and approved the report for submission to the Trustee Board.

Project Horizon

The Committee noted that the impact of Project Horizon on staffing levels would trigger a significant increase in requests for retirement quotations and information on pension benefits. Fund Office management was engaging with HRS work streams to help to remove duplication in such areas as calculation of retrospective pay increases. A lot of work was anticipated during the later part of 2011 and early part of 2012.

AVCs

Both the rules of the Fund and wider tax law permit active members to maximise their AVCs potentially to reduce tax liabilities. The meeting agreed that members should continue to be free to exercise their right to divert termination payments into AVCs. It was also agreed that to assist in the smooth running of the Fund, additional requirements be placed upon members to confirm in writing no later than two weeks before their termination date the amount of AVC they wish to make. It was confirmed that Fund benefits would not be settled until all AVC payments had been received. Members would be informed of this at the point of joining the AVC as well as when illustration of benefits were provided.

Interest bearing accounts for eligible children

The Committee reviewed possible approaches to optimise interest payable on interest bearing accounts for eligible children. It was agreed that better rates on interest could be obtained if such accounts were aggregated and the Fund Secretary confirmed such aggregation would still ensure that the account would be separated out by member. It was further agreed that a paper on the matter would be submitted to the September meeting.

State Pension Age changes

The Committee agreed that members impacted by the changes in State Pension Age (understood to be between 30 and 40) had the opportunity to extend their variable pension option (VPO). A further update would be provided to the September meeting on the legal position of offering an extension for the VPO, albeit on a cost neutral basis.

Paternity leave

The Committee considered a paper on changes in paternity leave. Following a change in law (under which paternity leave would be treated consistently with maternity leave), it was confirmed that TfL was in the process of updating its HR processes. Sackers (the Fund's legal advisers) would incorporate the necessary changes in relation to Additional Paternity Leave and its treatment within the annual Deed of Amendment. The Committee confirmed that the Fund Office should apply the procedure, as set out in the paper, with immediate effect.

Annual Allowance

Following new legislation in respect of Annual Allowance, the Committee agreed that Trustees would need to make available to those members affected a mechanism to reduce their tax payments through the pension schemes, free of charge.

The Committee noted that the Fund would be required to operate a 'scheme pays' facility specifically to members whose pension savings exceed the Annual Allowance in the TfL Pension Fund and in respect of those savings only. No administrative costs would be charged for operating the facility.

Actuarial Valuation Committee Meeting 18

The Meeting considered items relating to Catastrophe Insurance, risks allocated to the Actuarial Valuation Committee (AVC), implications for the Fund arising from the reduced Annual Allowance and timetable for the production of the 2011 Annual Actuarial Report.

Catastrophe Insurance

The Fund Secretary confirmed that insurance covered physical number of deaths as well as catastrophic events and/or pandemics.

The Chair noted that the first quarter of 2011 had seen the lowest recorded number of deaths since 2006/07 but expected the number of deaths to normalise going forward.

Risks allocated to the AVC

The Committee agreed that the Risk Register and the mitigation strategies addressed risks as allocated to the AVC.

The Fund Secretary confirmed from an employer standpoint, there were two elements when reviewing the risks to make employer contributions – ability to pay and willingness to pay. No employers within the Fund were identified currently as presenting with issues on either question.

The Fund Secretary confirmed the TfL MD Finance had been invited to the September 29 2011 Trustee Board and would attend meetings at least annually thereafter.

Audit Committee

The Committee received an update on the Internal Audit Plan 2011-12 and agreed the Plan as proposed. Under the Plan, the focus would be on the financial controls over payments to pensioners and IT controls within Compendia (Claybrook pensions administration system).

In considering the TfL Pensions Strategic Risk Register, The Fund Secretary stated that there had been no new risks identified following the Committee Chairman meeting on November 3 2010.

Governance/Legal

The Meeting received an update on pension developments over the preceding three months. This covered:

- Pensions Bill 2011
- Green Paper on State Benefit System
- Bringing into law default retirement age legislation
- Next steps for the Equitable Life Payments Scheme
- Treasury approach on early access to pension saving
- Revised Pension Protection Fund (PPF) levy framework

A training session, that addressed roles and responsibilities of Trustees and the Fund Secretary, concluded the meeting.

The meeting on 5 July considered the following:

KPMG Highlights Memorandum for the Year Ended 31 March 2011

Richard Hinton from KPMG attended to present their Audit Highlights Memorandum and advised that they were issuing an unqualified audit opinion on the Fund's financial statements. He confirmed that no significant issues arose during the audit. The Board reviewed and noted the Memorandum, which had already been reviewed in detail and approved by the Audit Committee.

Fund Annual Report and Accounts for the Year Ended 31 March 2011

The final draft Annual Report and Accounts, which had been issued in advance for comments, was considered and approved for signature, and will be published on the Electronic Trustee Bible and the Fund's Website. The Trustees noted in particular that the value of the Fund as at 31st March 2011 stood at £5,699m.

Accounts of TfL Trustee Company Limited for the Year Ended 31 March 2011

The draft Report and Accounts were approved for signature.

Annual Members' Meeting 2011

The Board approved the programme for the Annual Members' Meeting to be held on 18th October 2011.

Project Horizon

Stephen Critchley advised the Board that a selection process for appointments under the new TfL Organisational structure, which included the combined role of Head of Reward and Pensions was in process and was due to be completed before January 2012. He said that, in the meantime, Stephen Field had been appointed Interim Head of Reward in addition to his position as Head of Pensions and Secretary to the Trustee Board, with effect from 1st July 2011. It was emphasised by the Trustees that, should there be any change to the role of Secretary, they would need to be consulted.

TfL Administration Report for the quarter ended 31 March 2011

The PCC noted the service provider's report to the Trustees of the TfL Pension Fund.

AMM Planning

The PCC agreed to produce update their existing presentation and to produce a suitable handout for members. Mr Howie advised that he had been successful in procuring free badges for Councillors.

Notes of Pensioners' Forum meeting held on 4 May 2011

These were noted.

Notes of PWG meeting held on 26 January 2011

These were noted.

Agenda of the PWG meeting held on 23 June 2011

The agenda was noted.