Annual Member's Meeting – 16 October 2020 - Q&As

1. **How many members have logged into today's call and how does this compare to past years?**

   We had 137 members join the meeting, 136 from the UK and one from the USA; there were 76 active members, 52 pensioners and 9 deferred members. This is lower than last year where we had approximately 200 attend, but that figure did include exhibitors, advisors and the Fund Office team.

2. **Where are this year's Benefit Statements?**

   The Fund Office have now updated their systems to enable this year's statements to be produced and the team are currently working on the statement production and will update the website with an expected dispatch date.

3. **Will the slides be available online after the meeting?**

   The slides, the Questions and Answers will be published on the Fund website, as well as the recording of the meeting for those who were unable to join the meeting; the Fund Office will also post a link on Yammer for those current members who use Yammer.

4. **Does the Fund have a geographic map of the areas our members live in?**

   We have members in 84 countries around the world and have adapted our processes and timelines to accommodate local restrictions as a result of Covid 19. As part of the valuation process we do look at where members live as this can give an indication of future life expectancy, so as an example in the 2015 valuation we found that 5.1% of our pensioners lived in the Harrow postcode.

5. **In the event that the pandemic lasts longer than expected, is it possible or likely that TfL will cease contributing to the Fund. More to the point is it likely the Fund could go bust or be wound up. If it does where does it leave pensioners?**

   TfL have continued to pay contributions in line with the Schedule of Contributions. In addition, we have a legally binding Pensions Funding Agreement in place, the first payment under this agreement of £25.6 million was paid on 30 September 2020. We have ongoing engagement with TfL as we monitor the strength of covenant and they have not asked to stop paying contributions to the Fund. We have enough to pay pensions today, but are reliant on TfL to continue to fund the scheme, TfL have a legal obligation to fund the scheme and will have to fund the scheme to the level to pay benefits promised.

6. **Has the option of increasing member contributions been discussed in order to increase the size of the Fund and do you believe this may be likely in the future?**

   The Trustees administer the Fund in accordance with the Fund Rules which set out the basis on which member contributions are calculated. The Trustees do not set the rate of member contributions, any consideration of changes to member contributions would be a matter for the employer.

7. **There is a risk that the focus on ESG may adversely affect investment performance, how is this risk managed?**

   This risk is mitigated in two broad ways, one is that when making investment decisions, the Trustees must take into account financial considerations first and the other way is through exploiting new opportunities in low carbon investments often with very attractive returns.

8. **What software do you use to administer the Fund and can the Pension Web Portal be enhanced to enable pensioners to change their bank account details online?**

   The Fund uses the Profund oPen2 administration system for all aspects of the scheme's benefit administration, so to some extent we are limited to the system providers product development roadmap when it comes to new functionality. We are looking at a number of options to add functionality to the Portal but have to consider cost versus benefit as well as any additional risks such changes could introduce.

9. **Why have the Funds liabilities grown so much over the last year and a half?**

   There are two main reasons, the first is that when working out the value of liabilities we are looking at the value today of benefits that we have to pay out in the future and the value of the liability grows as we get nearer to the point at which we have to pay the benefit. The second reason relates to our expectations of future returns on the Funds investments, if our expectations of future returns go down, we need more money today to pay the benefits in the future as we are not going to get as high a level of return on it. Over the last 18 months our expectations of future returns have come down by about ½ per cent a year and while that does not sound very much, when you consider that we are looking forward over a 20 year period, that half a per cent reduction adds up to 10 percent.

10. There was a significant drop in liabilities in the second half of 2019 with a similar increase in the first half of 2020, what was the reason for this?

We don't know for certain what returns we will achieve on our investments, so we have to make assumptions and one of the key things we look at is what actual market returns are on cash and Government Bonds over the long term. Government Bond returns in particular did spike quite sharply at the end of 2019 and that is reflected in the return assumptions used for our quarterly updates on the funding position so we were assuming higher returns that meant a lower liability value. Those Government Bond yields then dropped again by March 2020, so our liabilities are reflecting the current volatility that we are seeing in financial markets.

11. How will Brexit affect pensions paid to overseas accounts?

The Fund uses Western Union to pay pensions to overseas bank accounts; for those living overseas having their pension paid into a UK bank account, it will depend on what arrangements their bank is making to continue to operate post Brexit. Members in this situation should contact their bank to understand what, if anything they need to do to be able to continue to receive their pension payments.

12. What is the impact of any potential changes to RPI and how is that compatible with "paying the promised benefits" when members have paid in on the promise of RPI indexation to the pension?

The Fund Rules won't change, pension increases will continue to be based on RPI, RPI will still exist but its constituent parts will be different. The Trustees can't use the old RPI if it changes, they have to follow RPI, so if RPI changes and is less valuable then it will flow through to the level of increases applied to pensions under the Fund Rules.

Any changes to the constituents of RPI won't change until 2025 at the earliest and potentially as late as 2030, then if there is a change in how RPI is calculated that could mean lower increases but you will still get increases but they may not be as high as they would have been if RPI had remained unchanged.

13. The recent Government support for TfL was in part through increased borrowing to be repaid at commercial rates, how does that impact TfLs ability to support the Fund?

The Trustees monitor the strength of the employer covenant on an ongoing basis and they and their covenant advisor have regular engagement with TfL to understand the impact of things such as delays to the Elizabeth line, the pandemic and the recent Government support.

We have had no request to defer payment of employer contributions and we have a legally binging funding agreement in place with TfL

14. Some members are experiencing difficulty making telephone contact with the Fund Office, are you still operating a full telephone service for members?

As soon as the team moved to working from home all office phones were diverted to the team's personal mobile phones, we then provided company mobiles for the team and changed the divert. All contact details including mobile numbers are published on the Fund website, so please check the website to make sure that you are calling the correct number. It is business as usual and phones are working.

15. Are the Fund going to get involved in the refusal to pay back pay from the latest TfL pay negotiations?

The rules around the implementation of pay awards are set by the employer so this is a matter for the employer, not the Trustees.

16. How strong is the legal obligation on the employer to make payments for unfunded pension payments and what are the remedies if they fail to reimburse the Fund?

The Fund Office acts only as the payroll processor for TfL in respect of unfunded pensions, TfL pay the Fund the amount to be paid before it is paid out. The provision of an unfunded pension is through an individual agreement with the employer so would be a matter for TfL.

17. If a member leaves TfL before they are able to draw their pension, what can they potentially do to take the money out?

Members cannot draw on their pension benefits before their minimum pension age, however they can if they wish transfer out the value of their fund to an individual pension arrangement, this will not give them access to the funds any sooner but for some may offer greater flexibility in how they take their benefits. It is important that members understand the value of their benefits under the TfL Pension Fund and take appropriate independent financial advice before deciding to transfer their benefits out so that they understand the full implications of doing so.

Furthermore legislation requires that members transferring their benefits from a defined benefit pension scheme do take advice from an FCA registered advisor.

18. How likely is it that the final salary counting towards the pension may be reduced?

The Fund Rules set out the basis for the calculation of pensionable salary which is generally basic salary and for those who joined the Fund after 1 April 1989 this is reduced by the lower earnings limit. If you base salary falls or if it does not increase but the lower earnings limit does increase then pensionable salary will fall, however there are provisions under the Fund Rules which offer protection of benefits earned up to the point of the fall in contributory pensionable salary. We have published a helpsheet which is available on the Fund website which provides further details on how this protection works.

19. Will any possible reduction in staffing levels within TfL as a result of any continuing reduction in passenger levels and funding levels affect the Pension Fund in any way?

Any impact would likely not be significant, where it does impact this would be if more staffwere leaving earlier than had been assumed and this relates to the timing of payments more than anything else.

20. How much is TfL's contribution to the Fund, for example if I pay £100, how much does TfL pay?

You pay contributions at the rate of 5 per cent, the employer contribution is broken into two parts, future service costs where they pay 26.9 per cent and deficit reduction contributions at 6.4%. So for your £100, TfL would pay £666, made up of £538 future service contributions and £128 deficit reduction contributions.

21. When is the next triennial valuation?

The next triennial valuation will be as at 31 March 2021.