



# TfL Pension Fund (Annual Members' Meeting)

22 October 2013

**Maria Antoniou  
Chair of Trustees**

# Housekeeping

- Fire alarm and exit
- Toilets
- Mobile phones/Smartphones
- Breaks
- Refreshments



# Agenda

Time	Topic	Owner
11.00	Welcome and Introduction	Maria Antoniou (Chair of Trustees)
11.10	Review of the Year	Stephen Field (Fund Secretary)
11.20	Actuarial Update over the last 12 months	Gareth Oxtoby (Towers Watson)
11.40	Investment Review of last 12 months and future outlook	Ed Francis (Towers Watson)
12.00	Legal Outlook	Ian Pittaway (Sackers & Partners)
12.15	Open Forum – Questions & Answers	Maria Antoniou (Chair of Trustees)
12.45	Refreshments and Informal Discussions	All
13.15	Close	All

# **Stephen Field Fund Secretary**

# Agenda

Item	Topic
1	Financial Report
2	Investment Report
3	Trustee Changes
4	Changes to Fund Rules
5	Fund Office Activities: <ul style="list-style-type: none"><li>• Membership</li><li>• Workload Statistics</li><li>• Pension Increase 2013</li><li>• Equitable Life Payment Scheme</li><li>• Website</li><li>• Exhibitors</li></ul>

# Financial Report



## Net movement in the Fund

Topic	2012/13 £m	2011/12 £m
Value of Fund at 31 March	6,027.0	5,699.0
Income	390.3	396.6
Expenditure	(299.4)	(287.1)
Change in market value of investments	751.8	218.5
<b>Value of Fund at 31 March</b>	<b>6,869.7</b>	<b>6,027.0</b>



## Money into the Fund

Topic	2012/13 £m	2011/12 £m
Employers' contributions	266.1	264.0
Investment income	76.8	85.2
Members' contributions	47.0	45.2
Transfers in from other schemes	0.4	2.2
<b>Total Income</b>	<b>390.3</b>	<b>396.6</b>

## Money out of the Fund

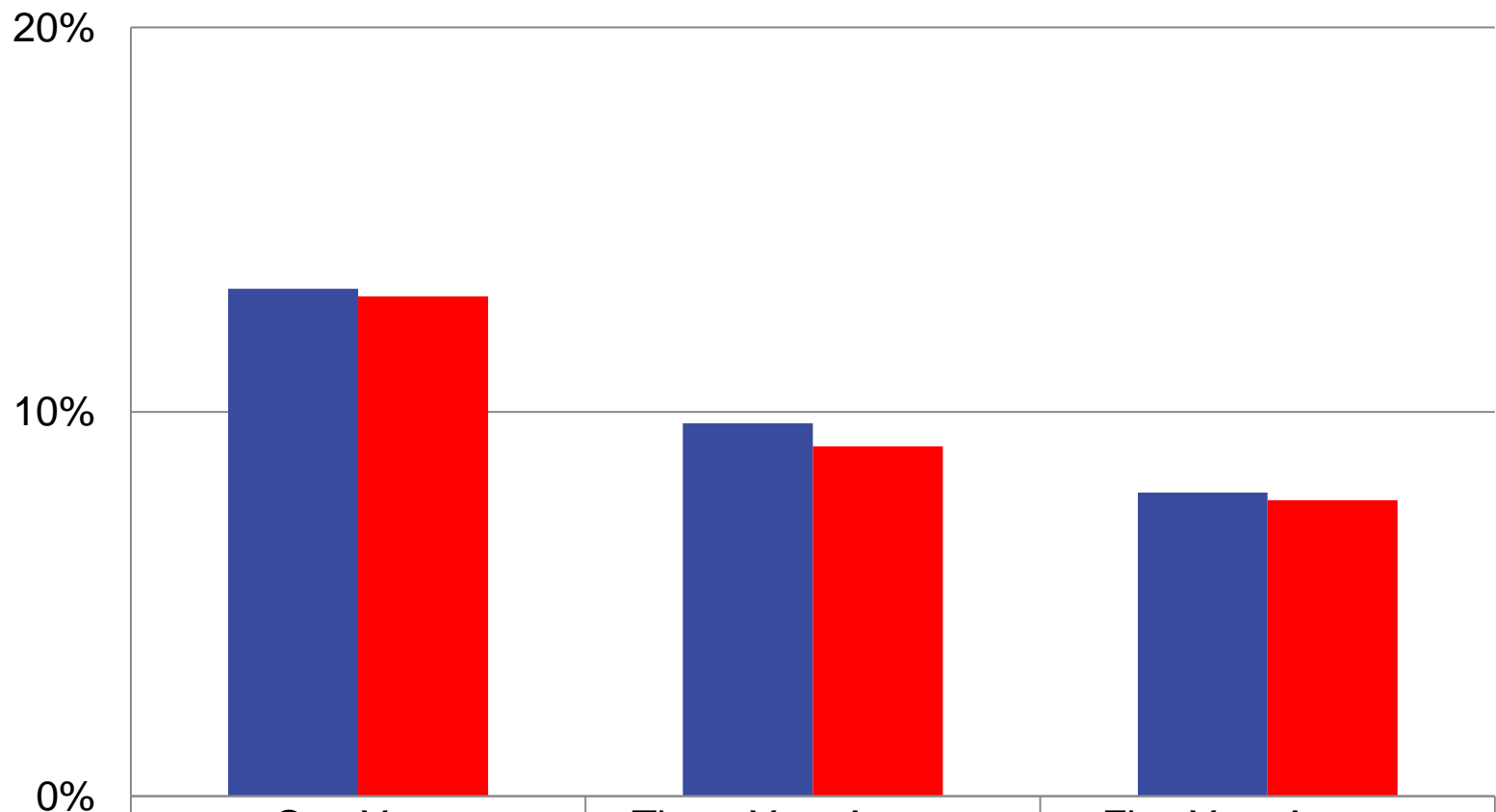
Topic	2012/13 £m	2011/12 £m
Pensions and other benefits paid	274.7	263.9
Investment management expenses	11.8	9.5
Administration expenses	3.9	3.6
Payments in respect of leavers	2.8	2.7
Pension levies	1.6	2.9
Insurance Premiums	4.6	4.5
<b>Total Outgoings</b>	<b>299.4</b>	<b>287.1</b>

# Investment Report



# Investment Review to March 2013

## Annual Return



■ Fund

■ Benchmark

13.2%

13.0%

9.7%

9.1%

7.9%

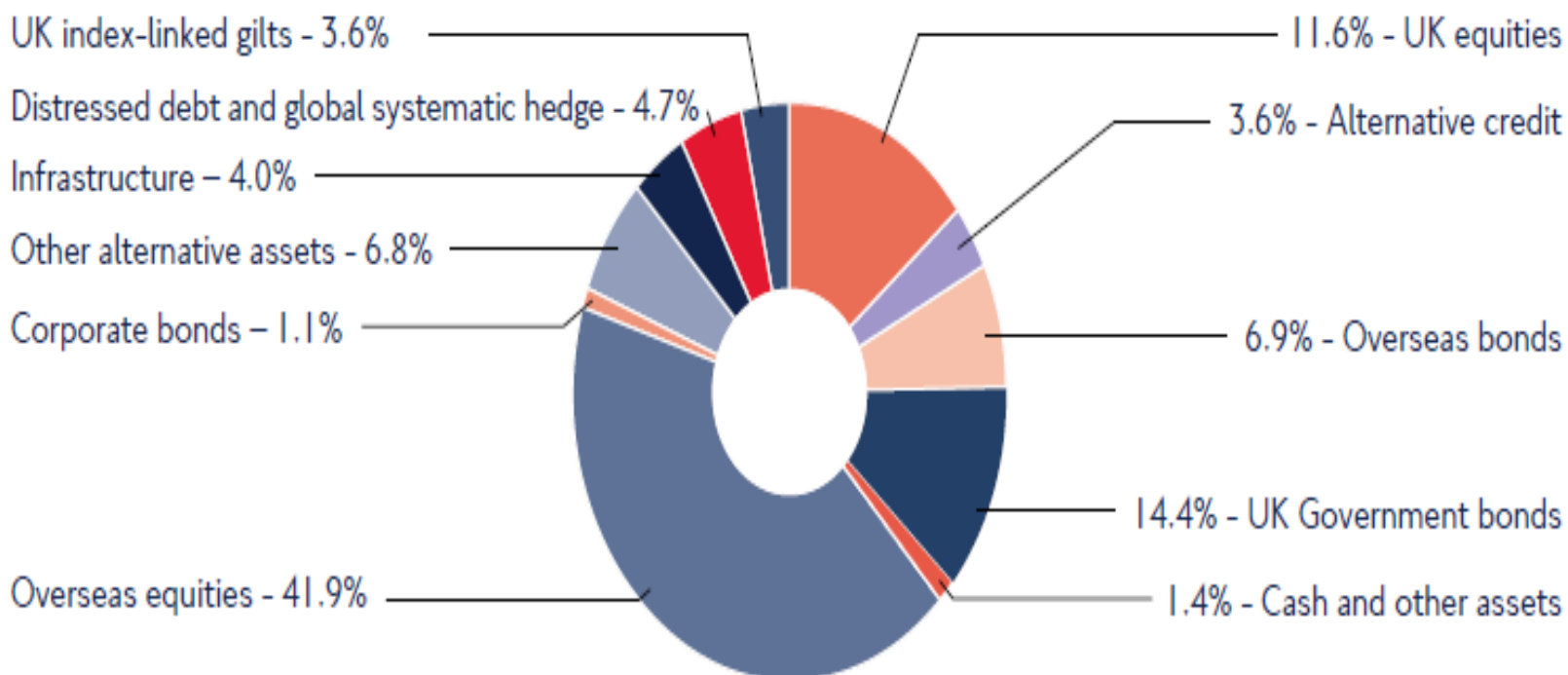
7.7%

## How the value of the Fund has changed

Year ended 31 March	Value	Change
2013	£6,869.7m	↑
2012	£6,027.0m	↑
2011	£5,699.0m	↑
2010	£5,097.8m	↑
2009	£3,829.0m	↓
2008	£4,681.6m	↑
2007	£4,660.9m	↑

# The Fund's assets as at 31 March 2013

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



# Trustee Changes

## During Fund Year ended 31 March 2013

Left Trustee Board	Joined Trustee Board
Steve Grant	<b>Graham Dean</b> Joined on 12 June 2012
Stephen Critchley	<b>Andrew Pollins</b> Joined on 25 September 2012
Pat Sikorski	<b>Stephen Hedley</b> Joined on 25 September 2012

## Subsequent to year ended 31 March 2013

Left Trustee Board	Joined Trustee Board
Howard Collins	<b>Angela Back</b> Joined on 13 June 2013
Stuart Munro	<b>Emanuela Cernoia</b> Joined on 23 September 2013
Clare Kavanagh	To be appointed

# Changes to Fund Rules

New legal obligations to automatically enrol employees into a qualifying pension scheme or offer the opportunity to join came into effect, as a result the following changes have been made:

- Extended lower age for joining to 16 and upper age to 75 to comply with these obligations
- Safeguarded those who have previously opted out to preserve their tax position by using “fixed” or “enhanced” protection, so they will not inadvertently lose this protection if automatically re-enrolled
- Provision also made for contribution arrangements following introduction of legal rights to additional paternity leave
- Where a member pays an annual allowance tax charge, in certain circumstances this can be paid by the pension scheme with the cost being deducted from their pension benefits. The rules have been amended to reflect this new legal requirement.



# Fund Office Activities



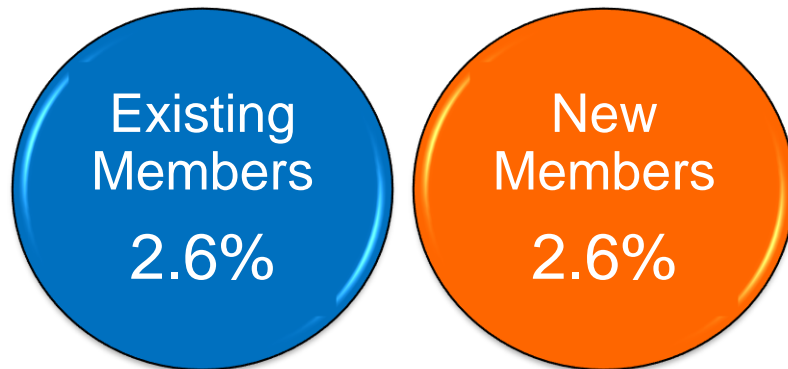
## Membership of the Fund

Topic	As at 31 March 2013	As at 31 March 2012
Contributing members	23,012	22,680
Deferred pensioners	17,812	18,292
Pensioners	31,228	31,111
Dependants and children	10,720	10,787
<b>Total</b>	<b>82,772</b>	<b>82,870</b>

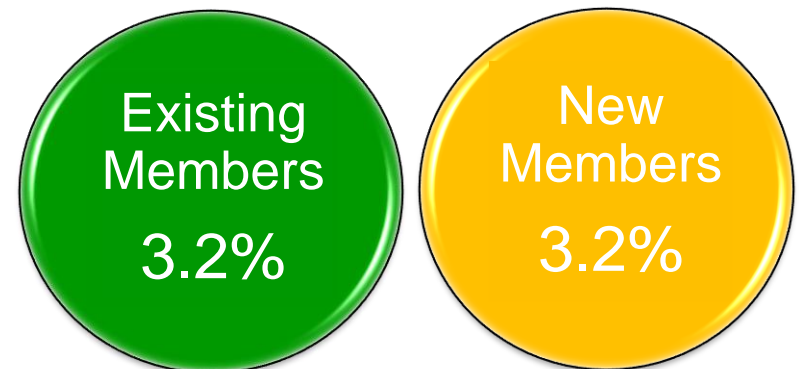
# Pension Increase 2013

Under the Rules of the Fund the April pension increase is calculated by reference to the change in the Retail Prices Index (RPI) over the period September to September.

**The increase for 2013 was:**



**The increase for 2014 will be:**



The increase for 2014 as measured by the increase in RPI over the reference period was announced on 15 October 2013.

Details will as usual be published on Pension Fund website and in OTM (Pensioner edition).

# Equitable Life Payment Scheme

National Savings & investments is administering the Scheme on behalf of HM Treasury. Atos has been engaged to trace eligible scheme members.

In April 2013, for those current and former members identified by Atos as being eligible for compensation payments, address details were provided by the Fund Office.

An update was received from Atos in June which provided the following information:

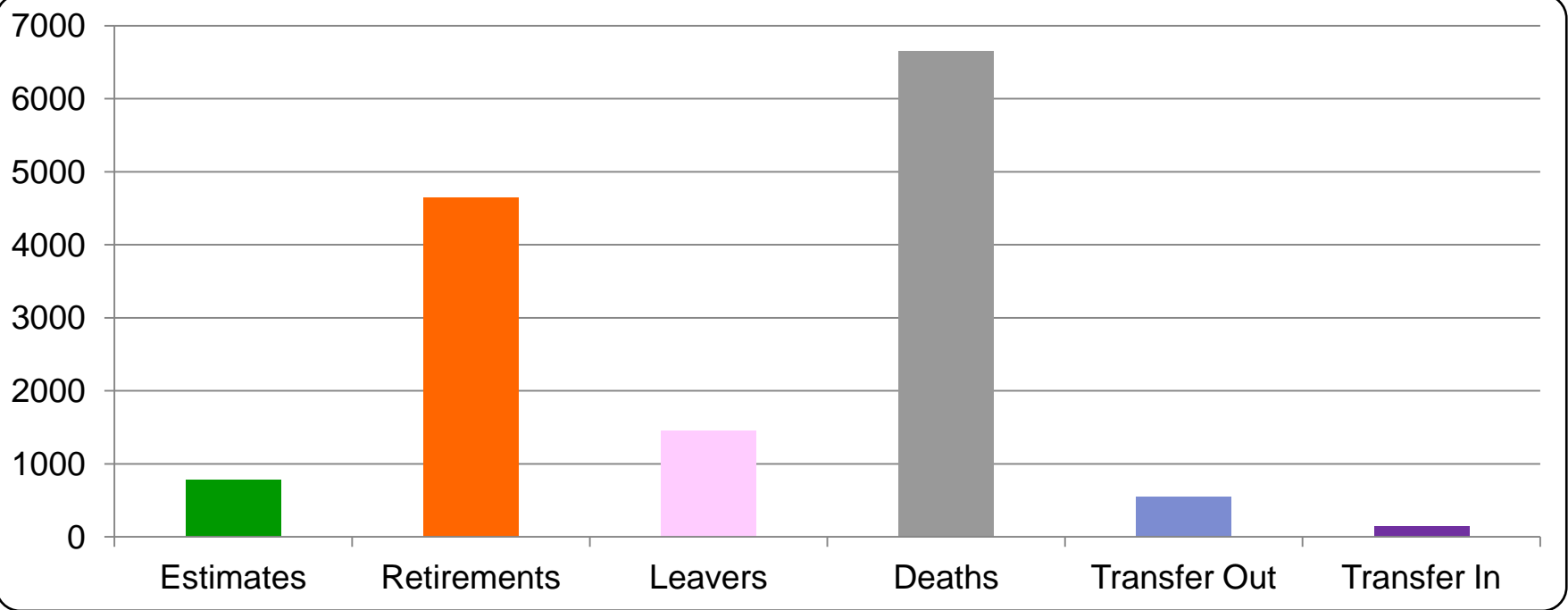
Of 2,168 members due compensation:

- 27 members paid
- 1,778 members queued for payment (to be paid)
- 45 members queued for address checking
- 318 members with address check, death claim and other issues that are being followed up

# Workload Statistics

This has been yet again a busy year for the Fund Office with workload over the period to 30 June 2013 being:-

- Over 40,900 pieces of correspondence completed
- SLA achieved in 99.99% of cases




# Website

If you have access to the internet, you can find out more or download Fund documents at our website [www.tflpensionfund.co.uk](http://www.tflpensionfund.co.uk)

## TfL Pension Fund

providing for my tomorrow


[Home](#) | [Your pension](#) | [Fund management](#) | [News and Publications](#) | [Contact](#) | [Search](#)



### Your pension

Everything you need to know about your pension.

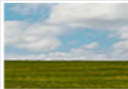
- ▶ [Contributions](#)
- ▶ [Joining the Fund](#)
- ▶ [Retirement](#)
- ▶ [Pension payments and deductions](#)



### Member self-service

View your pension details and statements, and use the pension calculator to forecast your pension.


- ▶ [Sign in](#)
- ▶ [Register](#)



### Save money and go green

View our regular communications online instead of on paper, including:


- ▶ [On the Move Jul 2013 \(PDF 2.6MB\)](#)
- ▶ [Annual Review 2013 \(PDF 1MB\)](#)
- ▶ [Newsletter Mar 2013 \(PDF 3MB\)](#)
- ▶ [Read all publications online](#)



### Additional Voluntary Contributions

Improve your future comfort by topping up

- ▶ [All about AVCs](#)



### Change your details

Moved house? New bank account?

- ▶ [Get the right form](#)

### Chairman's message

The Fund Chairman welcomes you to the TfL pensions site.

- ▶ [Read the full message](#)

### Contact us

Need more information? Have a comment or suggestion?

- ▶ [Get in touch](#)

### Staff travel

Need more information? Want to get in touch?

- ▶ [More information](#)

# Member self-service

Allows members to view information held by the Fund Office.

## Active and Deferred Members can:

- Run pension forecasts
- Look at benefit statements

## Pensioners can:

- View payslips
- View P60s

Deferred and Pension Members can update their address details; so far over 9,200 members have registered.

## In the year to 30 June 2013:

- over 26,300 retirement quotations produced
- over 5,000 pensioner payslips viewed
- over 1,400 pensioner P60s viewed
- over 6,500 benefit statements viewed



### Member self-service

View your pension details and statements, and use the pension calculator to forecast your pension.

[Sign in](#)

[Register](#)

## Other

### **Pensioner guides**

These are available from the website to existing pensioners and on written request a hard copy can be issued.

### **E-Comms**

Members can register via the website to cease receiving certain pension publications by post and instead view them online.



# Published in the last 12 months (1 of 4):

- Annual Review – issued to all members
- Pensionnews – issued to all members
- Annual Report & Accounts – available online



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 write to TfL Pension Fund, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD, or call 020 7918 3792 for your copy.

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Transport for London

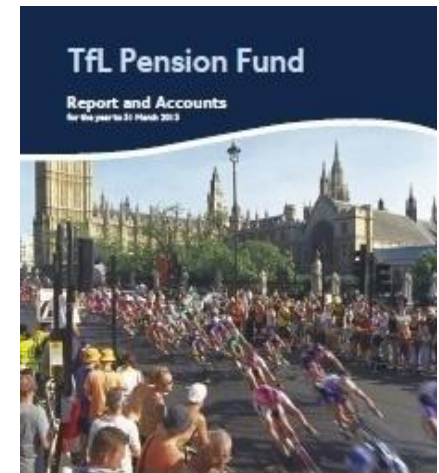


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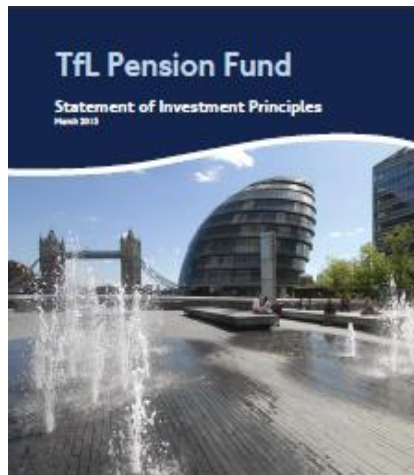
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# Published in the last 12 months (2 of 4):

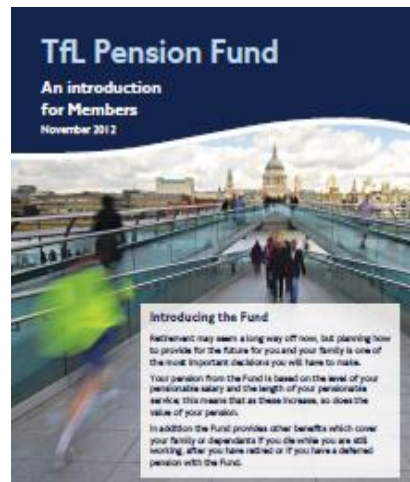
- Statement of Investment Principles – available online
- Guide for New Members – issued to all new starters
- Pensioner Guide – issued to all new pensioners



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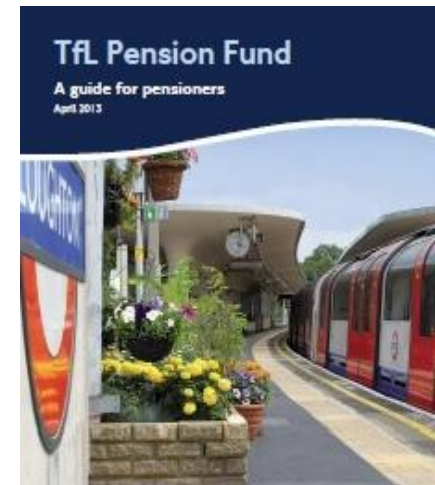
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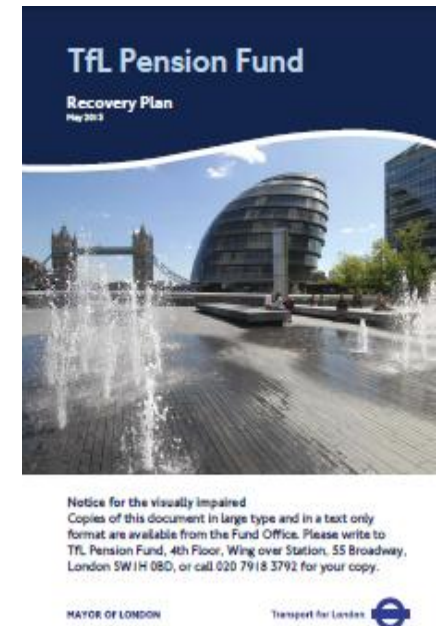
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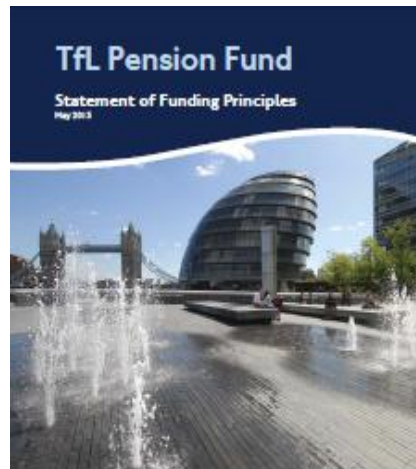
# Published in the last 12 months (3 of 4):

- Active Member Benefit Statement – issued to all Active Members
- Deferred Benefit Statement – issued to deferred members
- Recovery Plan – available online



## Published the in last 12 months (4 of 4):

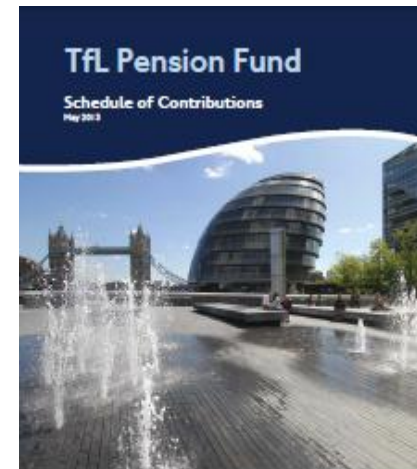
- Statement of Funding Principles – available online
- Schedule of Contributions – available online



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# Exhibitors

- TfL Pension Liaison Scheme
- TfL Pensions Consultative Council (PCC)
- The Fund Office
- LT Museum Friends
- National Federation of Occupational Pensioners
- The Pension Service (DWP)
- Transport Benevolent Fund
- Transport Friendly Society





# TfL Pension Fund

## Annual Members' Meeting

**Gareth Oxtoby**

22 October 2013

# Agenda

- **Background - developments in the UK pension scheme market**
- **The 2012 actuarial valuation of the Fund**
  - What we did
  - The results
  - The outcome
- **Financial progress of the Fund since March 2012**



# Developments in the wider UK pensions market

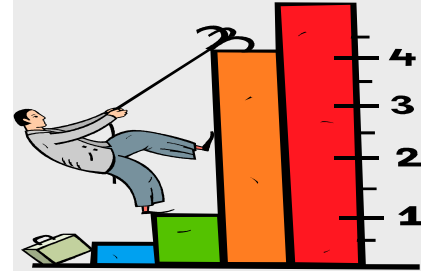
## The problems with pension provision are...



Millions not saving enough for their retirement



Life expectancy increasing but savings rate reducing



Low gilt yields increase cost of buying an annuity.



Uncertain and volatile investment returns.



Increased regulation (and costs)



Shift to DC passes all risks to members but members lack understanding



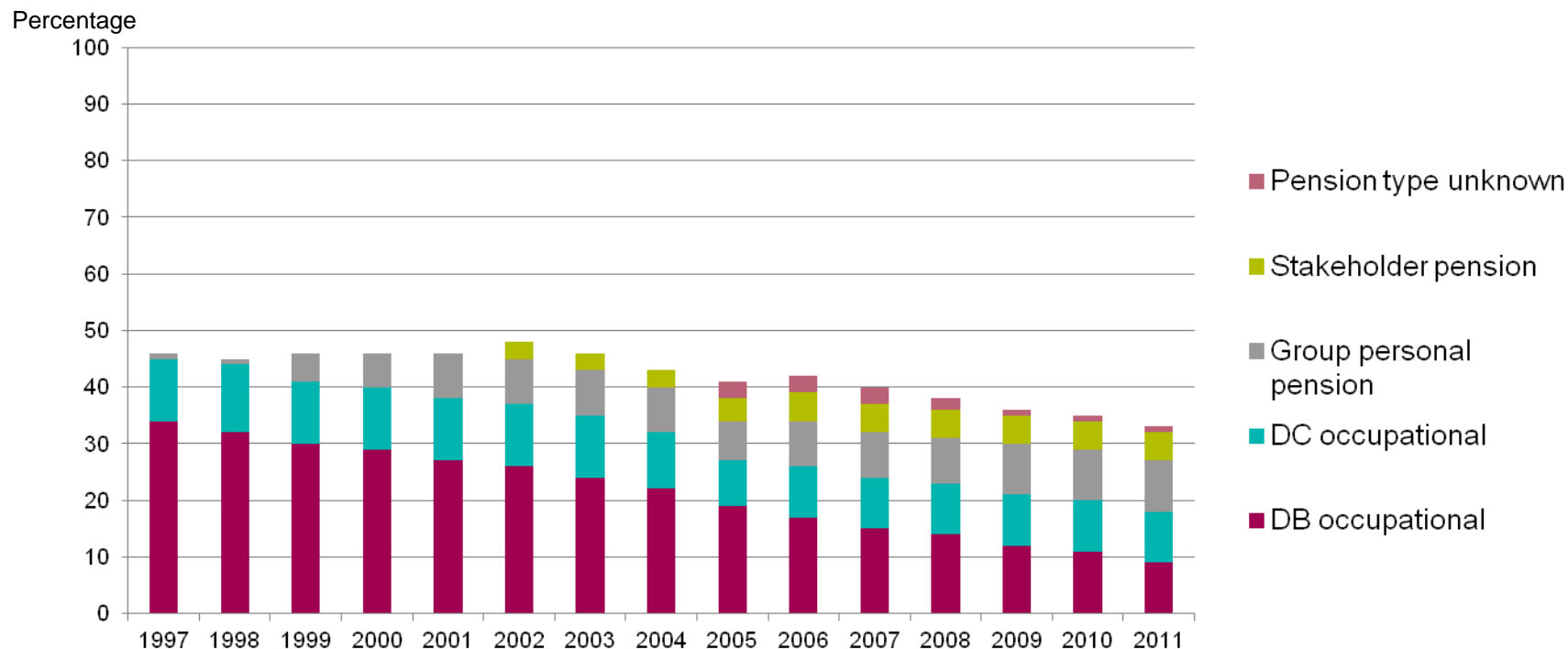
Employer closing DB schemes to current members and new joiners.



# Developments in the wider UK pensions market

## Private sector DB pension provision is reducing...

Employee membership of private sector employer sponsored pension schemes:  
by pension type, 1997 to 2011



Source: Annual Survey of Hours and Earnings, Office for National Statistics

“At the current pace of change, all FTSE100 DB schemes currently open to accrual will be closed in the next decade” [Towers Watson FTSE100 DC survey July 2013]

# Developments in the wider UK pensions market



In spite of developments elsewhere, TfL continues to offer membership of a defined benefit arrangement

...albeit under financial pressure

“Transport chiefs came under pressure today to reduce the cost of Transport for London’s ‘gold-plated’ pension scheme”

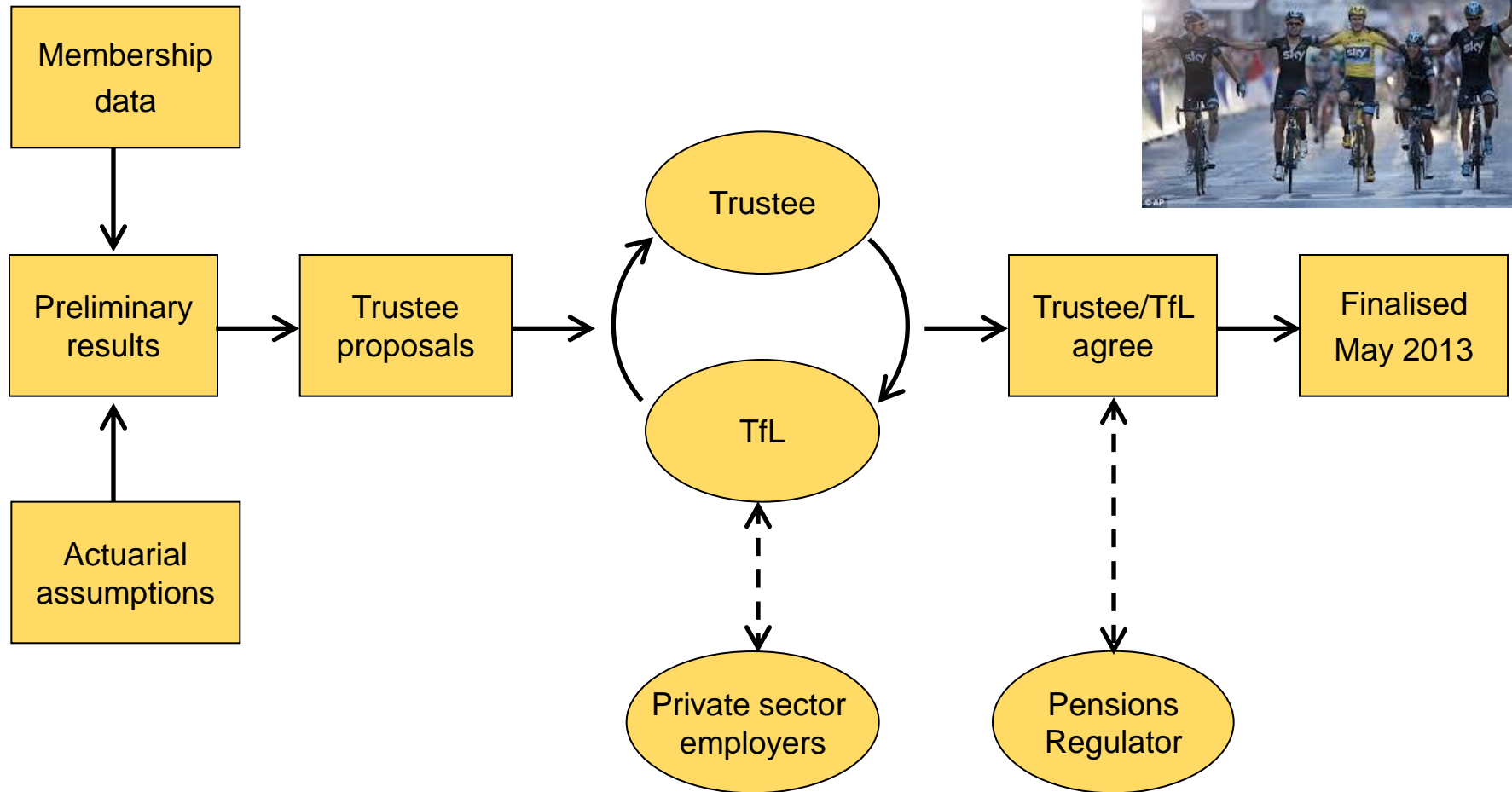
[London Evening Standard, May 2013]

“Transport for London’s grant cut by £220m in 2015-16”  
[Financial Times, June 2013]



# The 2012 actuarial valuation of the Fund

## What was the valuation process?



# How do we value the Fund's liabilities?

*“At the valuation date, what amount of assets would be needed so that accrued benefits can be paid as they fall due?”*

1

**Project future payments from the Scheme (the ‘projected liability cashflows’)**

- build a model of the Fund’s demographic and financial future

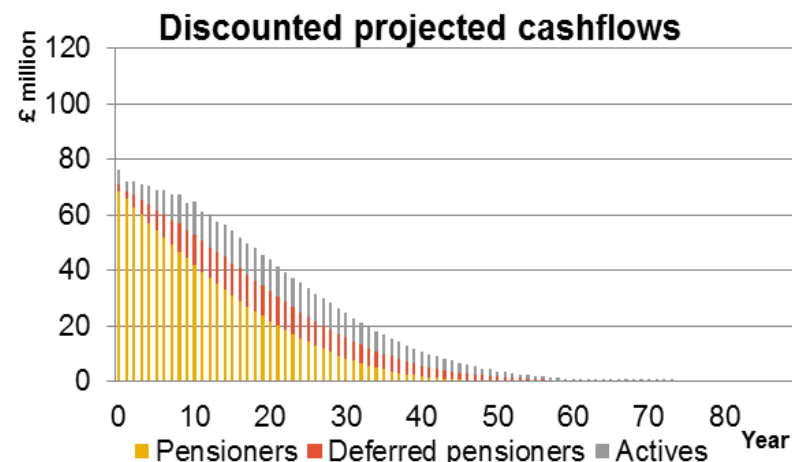
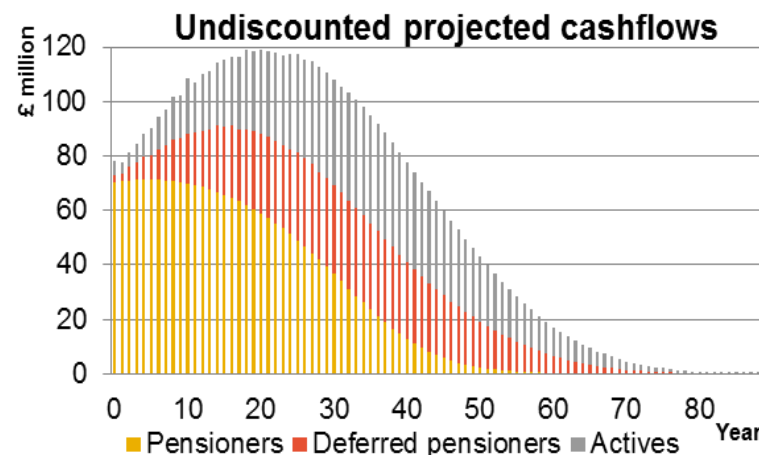
2

**Discount the projected liability cashflows to a present value at the valuation date**

- For example, if the Fund’s investments are assumed to return 5% pa then £100m due to be paid in 10 years’ time has a present value at the valuation date of £61m

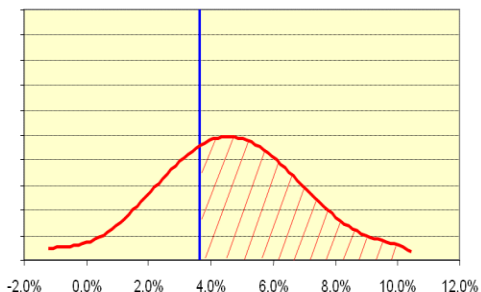
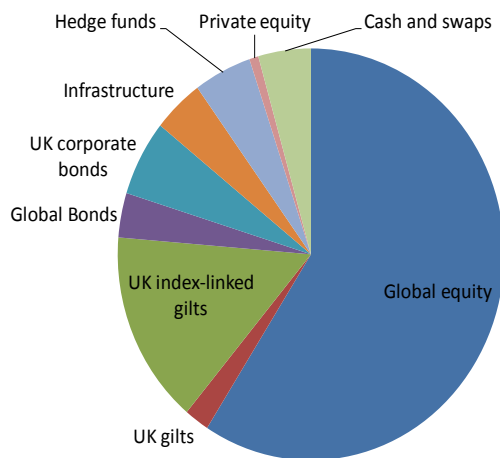
3

**Add up all of the discounted cashflow values to calculate the total accrued liabilities, to compare with the value of the Fund assets**



# How to value the liabilities?

**Key assumption: Investment return (“discount rate”)**



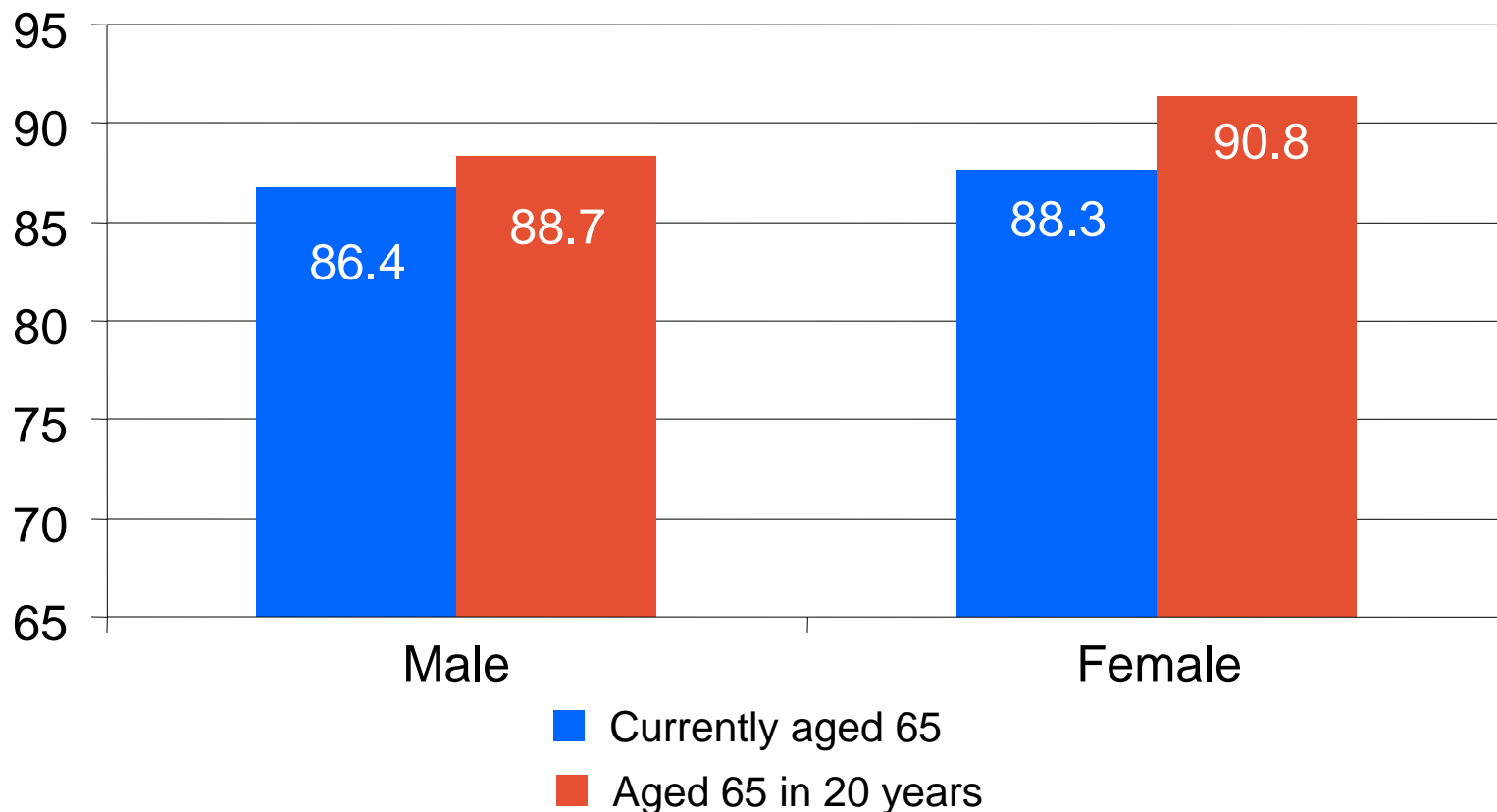
Long-term  
projected  
investment  
return on  
Fund assets



	Assumed investment strategy	Discount rate above RPI
2009	63% equities and alternatives, 37% bonds	3.6% pa
2012	72% equities and alternatives, 28% bonds	2.9% pa

## How to value the liabilities?

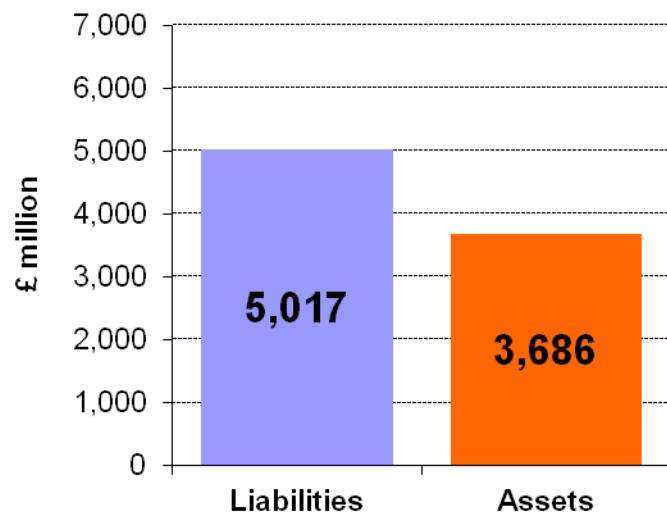
Key assumption: life expectancy (normal health pensioners)



- *Assumed life expectancies for members currently aged 65 are almost a year higher than at the previous valuation*
- *Assumed improvements in life expectancy also higher than at previous valuation – more than 1 year every decade*

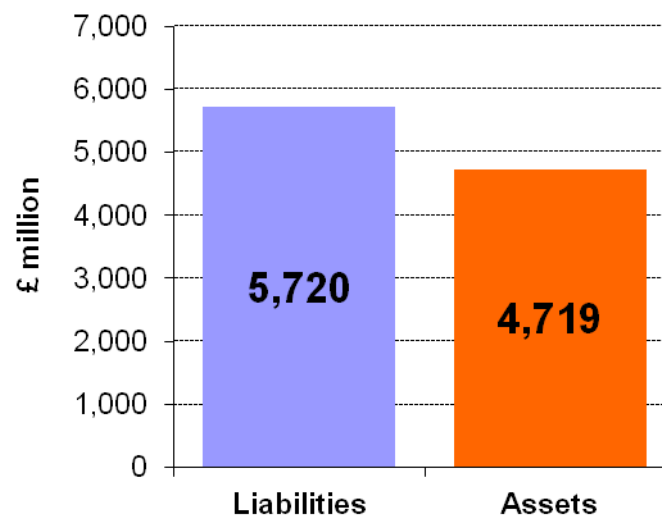
# Results – analysis of developments in funding position over 3 years to 31 March 2012 (Public Sector Section) – step 1

31 March 2009



- The previous 2009 valuation (post-merger of BVC and SSL sections) showed a deficit of £1,331m

31 March 2012

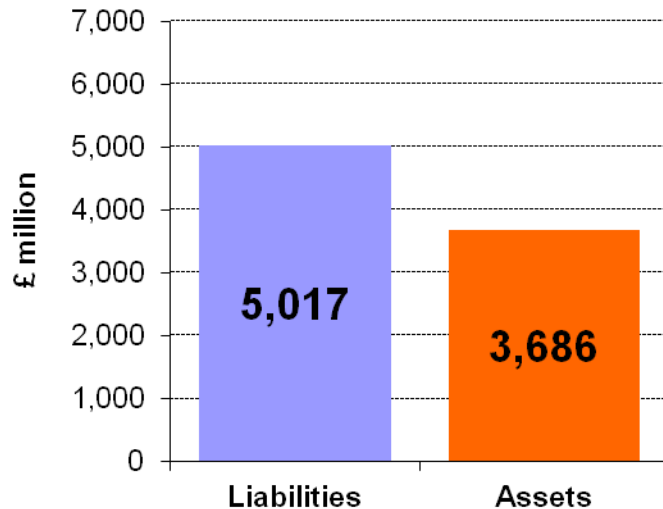


- 'New' money into the Fund over period = + £1,033 million
- Cost of new accrual and transfers in = + £703 million

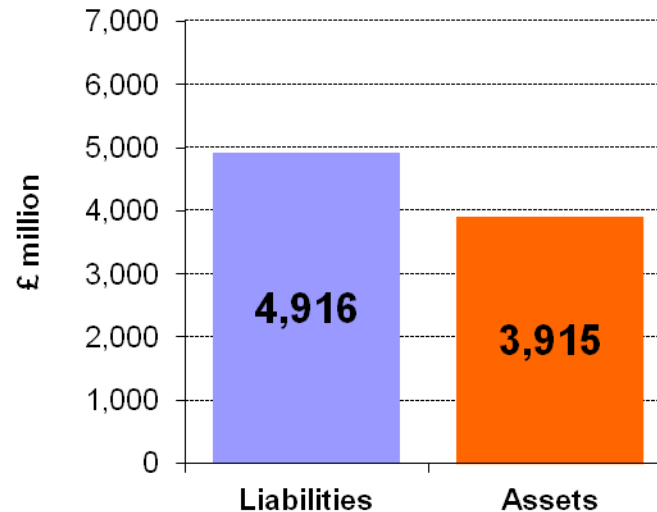
  
**Assets and liabilities UP**

## Results - analysis of developments in funding position over 3 years to 31 March 2012 (Public Sector Section) – step 2

31 March 2009



31 March 2012



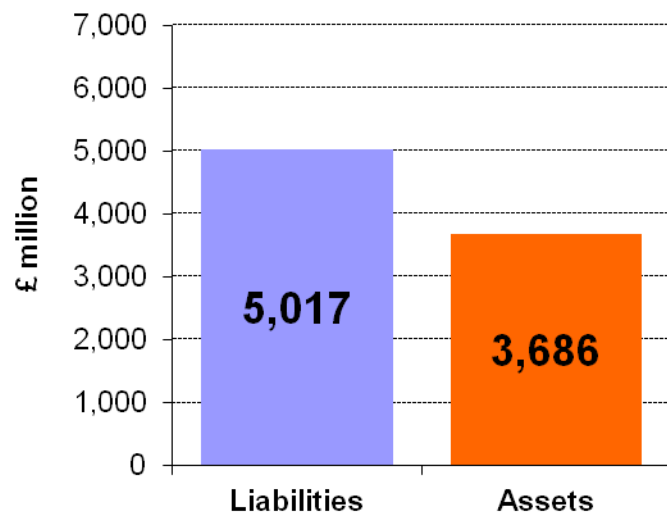
**Assets  
and  
liabilities  
DOWN**

*Benefit payments:  
£804 million*

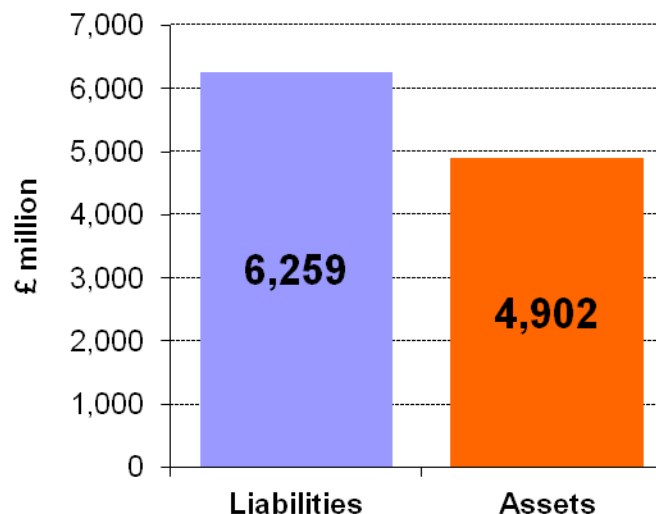


## Results - analysis of developments in funding position over 3 years to 31 March 2012 (Public Sector Section) – step 3

31 March 2009



31 March 2012

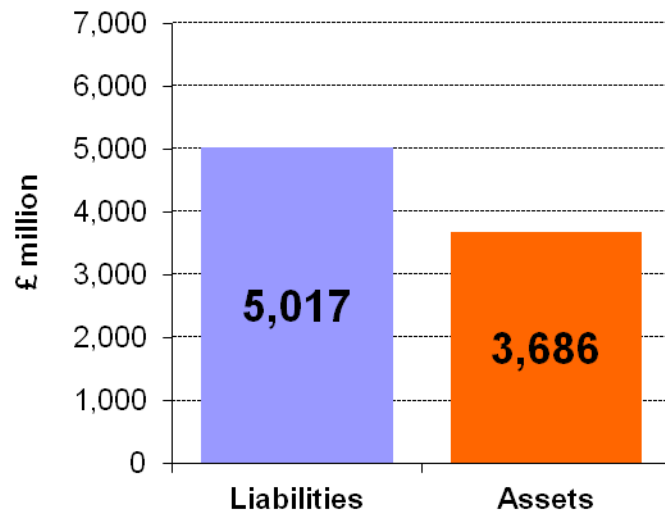


  
**Assets  
and  
liabilities  
UP**

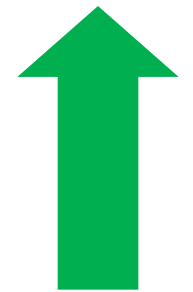
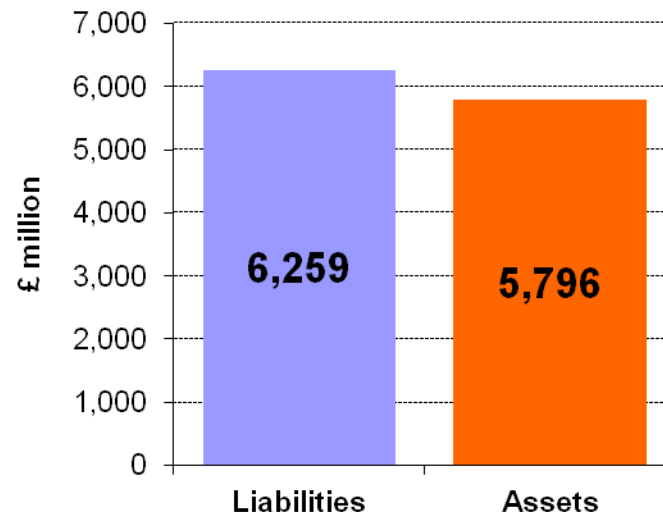
- *Interest on liabilities (at 2009 discount rate): + £1,343 million*
- *Expected 2009 investment return: + £987 million*

# Results - analysis of developments in funding position over 3 years to 31 March 2012 (Public Sector Section) – step 4

31 March 2009



31 March 2012

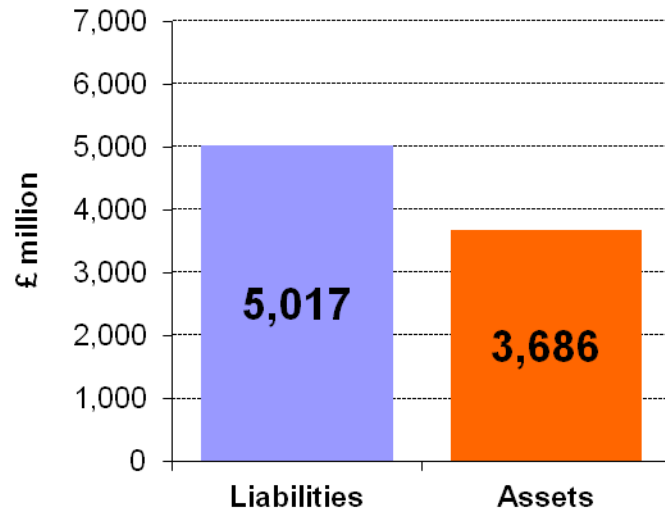


**Assets  
UP**

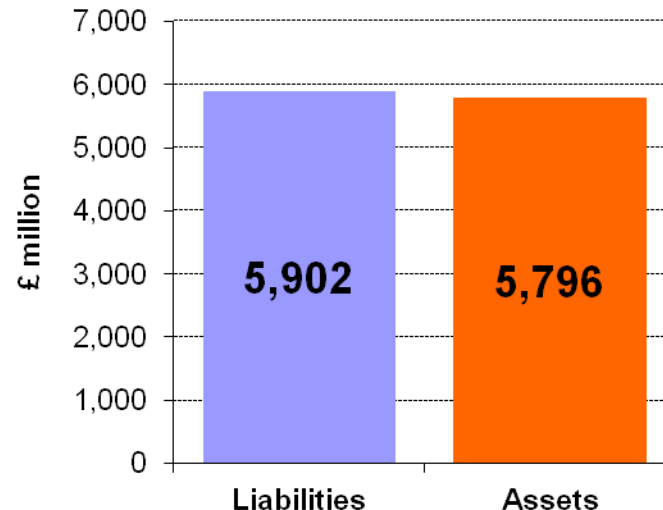
*Asset outperformance:  
+ £894 million*

# Results - analysis of developments in funding position over 3 years to 31 March 2012 (Public Sector Section) – step 5

31 March 2009



31 March 2012

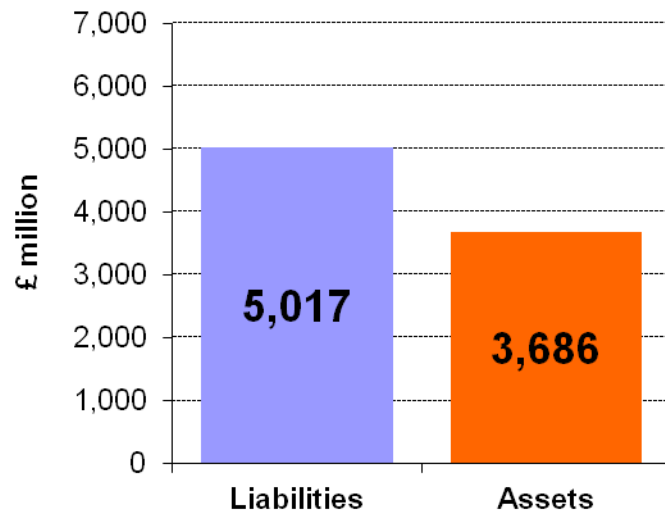


**Liabilities  
DOWN**

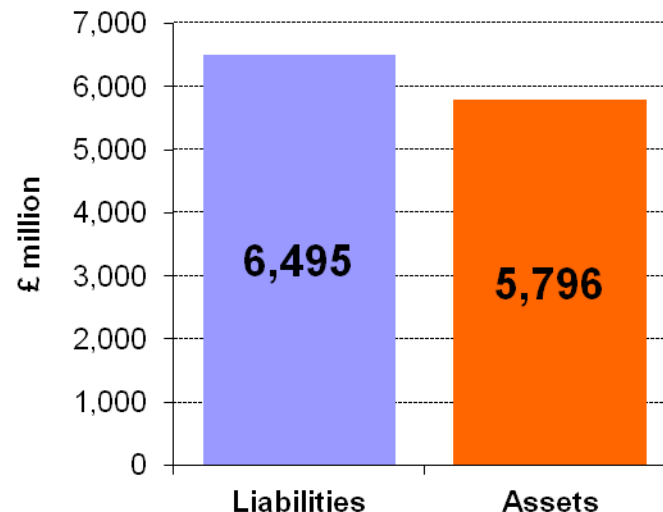
*Impact of actual Fund membership experience differing from 2009 assumptions over valuation period: - £357 million*

# Results - analysis of developments in funding position over 3 years to 31 March 2012 (Public Sector Section) – step 6

31 March 2009



31 March 2012



  
**Liabilities  
UP**

*Impact on liabilities of  
changes to financial and  
statistical assumptions:  
+ £593 million*

# Results - Funding position as at 31 March 2012

## Summary

- Funding position significantly improved compared with 2009
  - Funding deficit reduced from £1.3bn to £0.7bn
  - Funding level increased from 73% to 89%



- Cost of future accrual increased from 23.05% of pensionable salaries to 25.40% of pensionable salaries (of which employees pay 5% and TfL pays the balance)

Good asset performance and additional contributions paid by TfL since 2009 improved the position in respect of accrued benefits, despite the reduction in expected future investment returns and increased longevity – but this does not help with the cost of future accrual, which has increased.

## 2012 valuation outcome

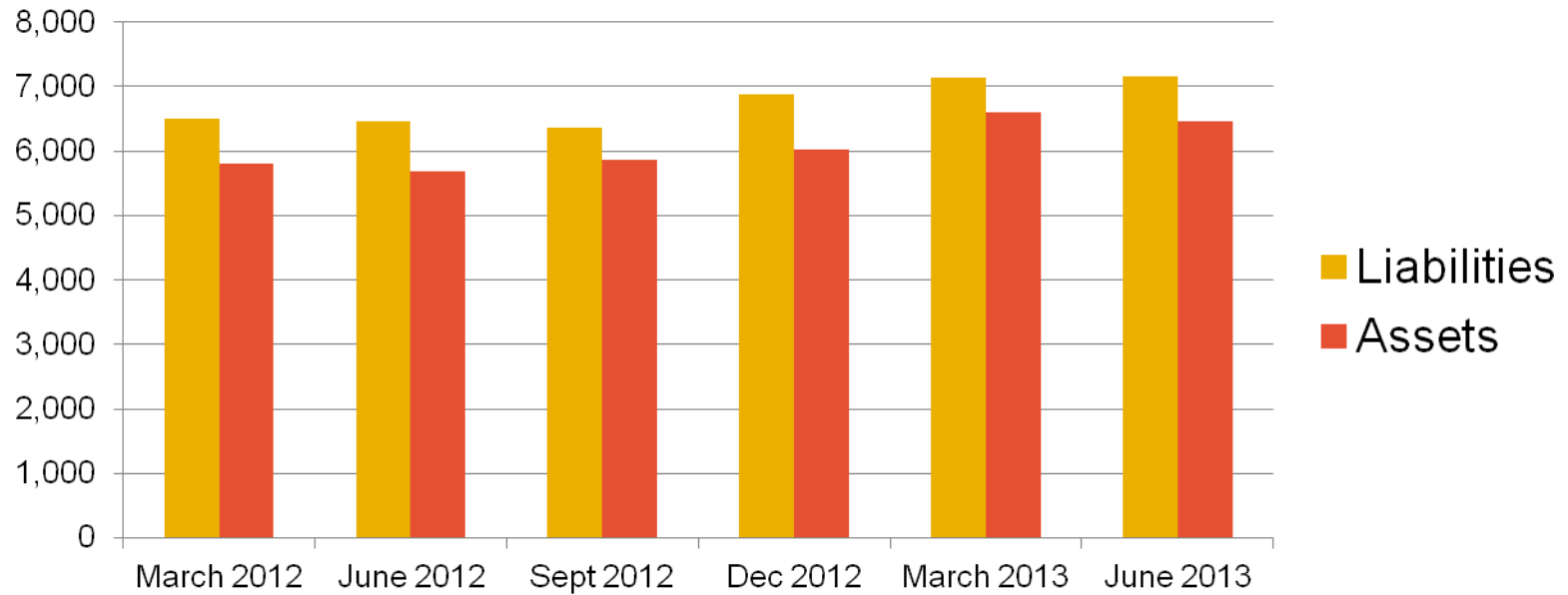
### Contributions to be paid by TfL (Public Sector Section)

Trustee and TfL agreed the following contribution rates would be paid:

TfL contributions	2009 valuation agreement	2012 valuation agreement	Overall TFL rate remains at 31%
To meet cost of regular accrual	<i>TfL: 18.05% of pensionable salaries</i>	TfL: 20.40% of pensionable salaries	
	<i>Employees: 5% of pensionable salaries</i>	Employees: 5% of pensionable salaries	
Deficit contributions linked to salary	<i>12.95% of pensionable salaries payable 1/4/2010 to 31/3/2020</i>	10.60% of pensionable salaries payable 1/4/2013 to 31/3/2020	
Additional lump sum payments	<i>Three payments of £107.4million, indexed with RPI, payable no later than 31/3/2018, 31/3/2019 and 31/3/2020 respectively</i>	One payment of £37.8million, indexed with RPI, payable no later than 31/3/2018	

*Maintains 2009 target of 100% funding by 31 March 2020*

# Progress since Spring 2012



# Limitations

- Towers Watson has prepared this presentation for the Trustee of the TfL Pension Fund as an update from the Actuary to be presented at the Annual Members' Meeting on 22 October 2013.
- It was not prepared for any other use or for use by any other party and may well not address their needs, concerns, or objectives. It is not intended to form a basis for any decisions to do or omit to do anything.
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# **TfL Pension Fund Annual Members' Meeting**

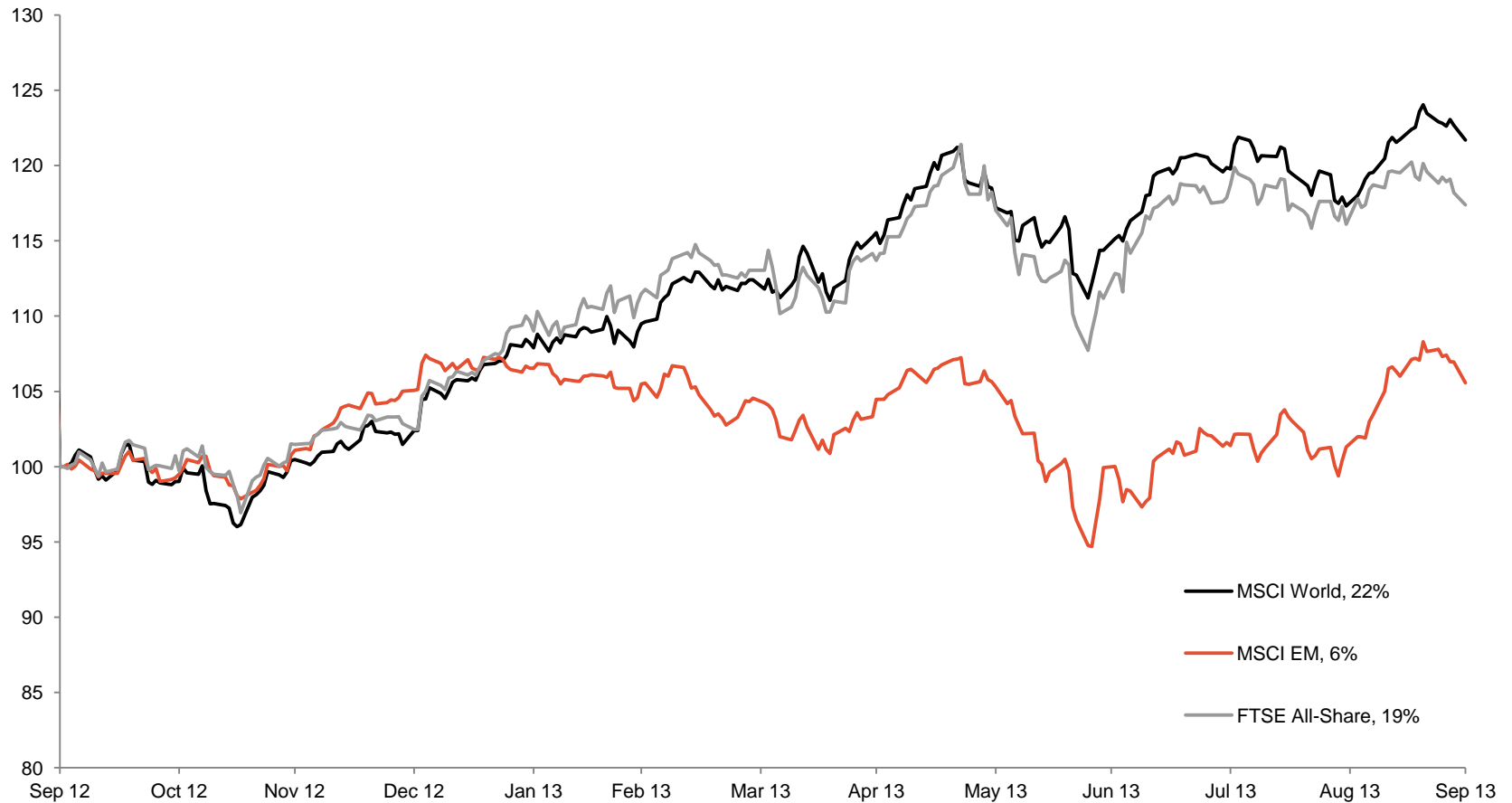
**Investment update**

**Ed Francis**

**22 October 2013**

# What has happened to equity markets this year?

## 30 September 2012 – 30 September 2013



Returns are shown in local currency

Source: Bloomberg

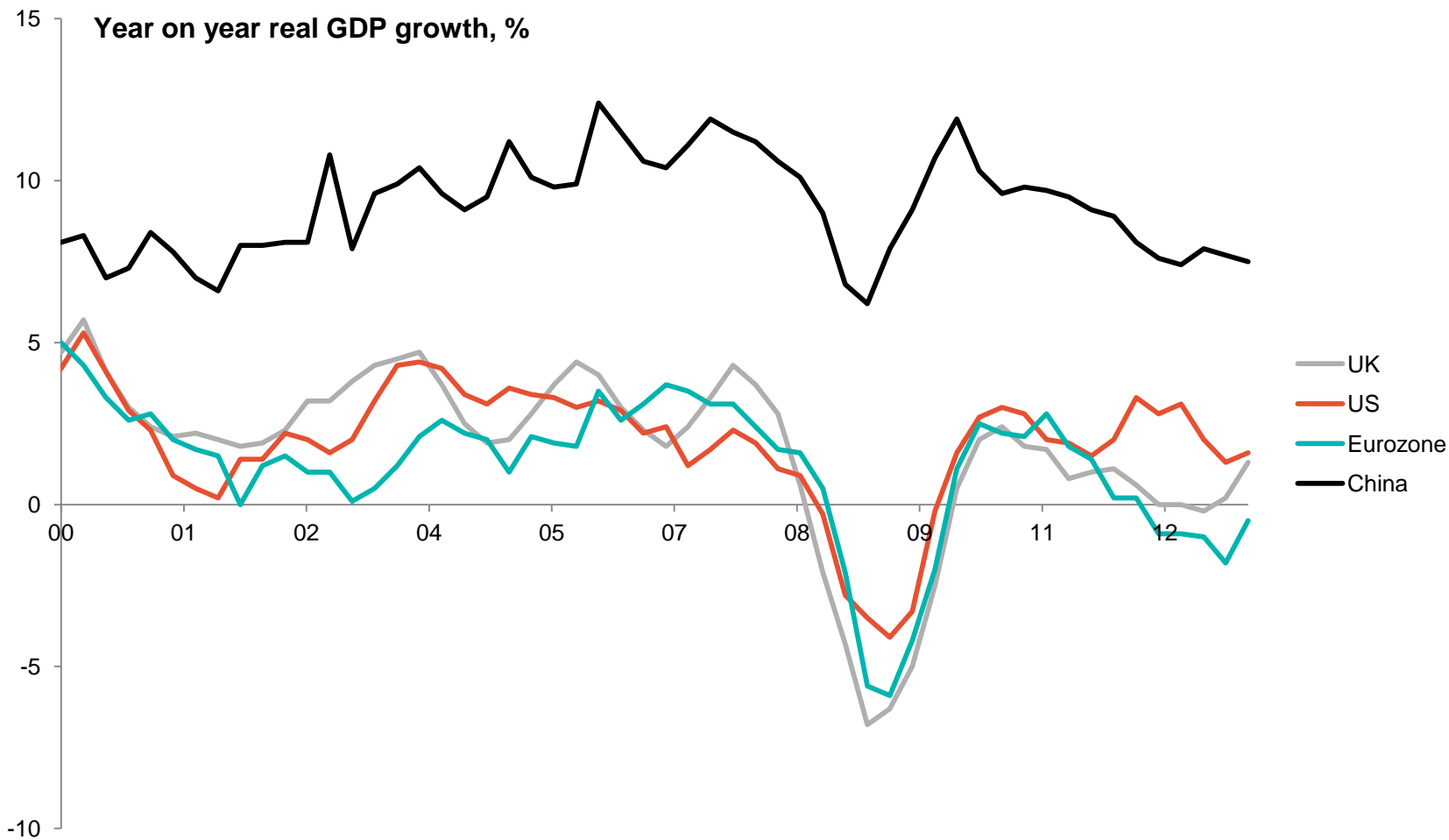
# What has happened to long gilt yields this year?

## Over 25-year nominal gilt yields, 30 September 2012 – 30 September 2013



Source: FTSE

# Growth rates have picked up in the developed world

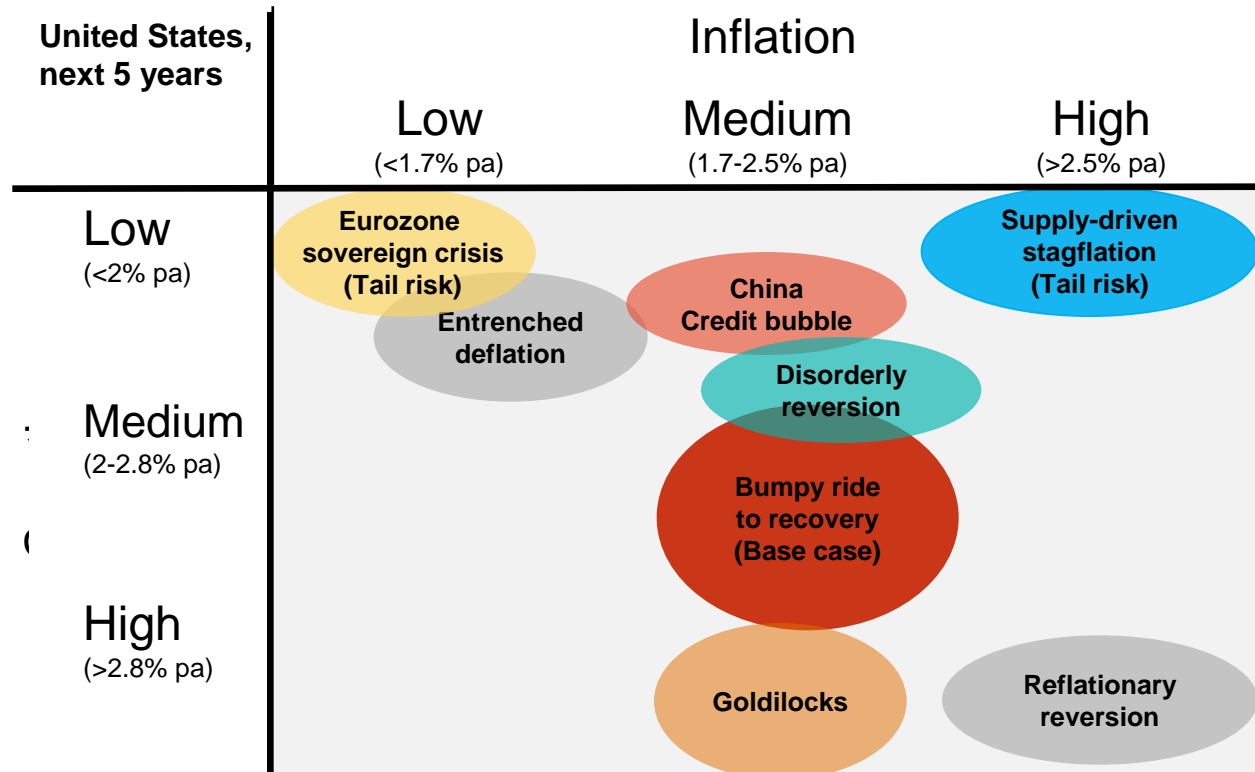


Source: Bloomberg, Towers Watson

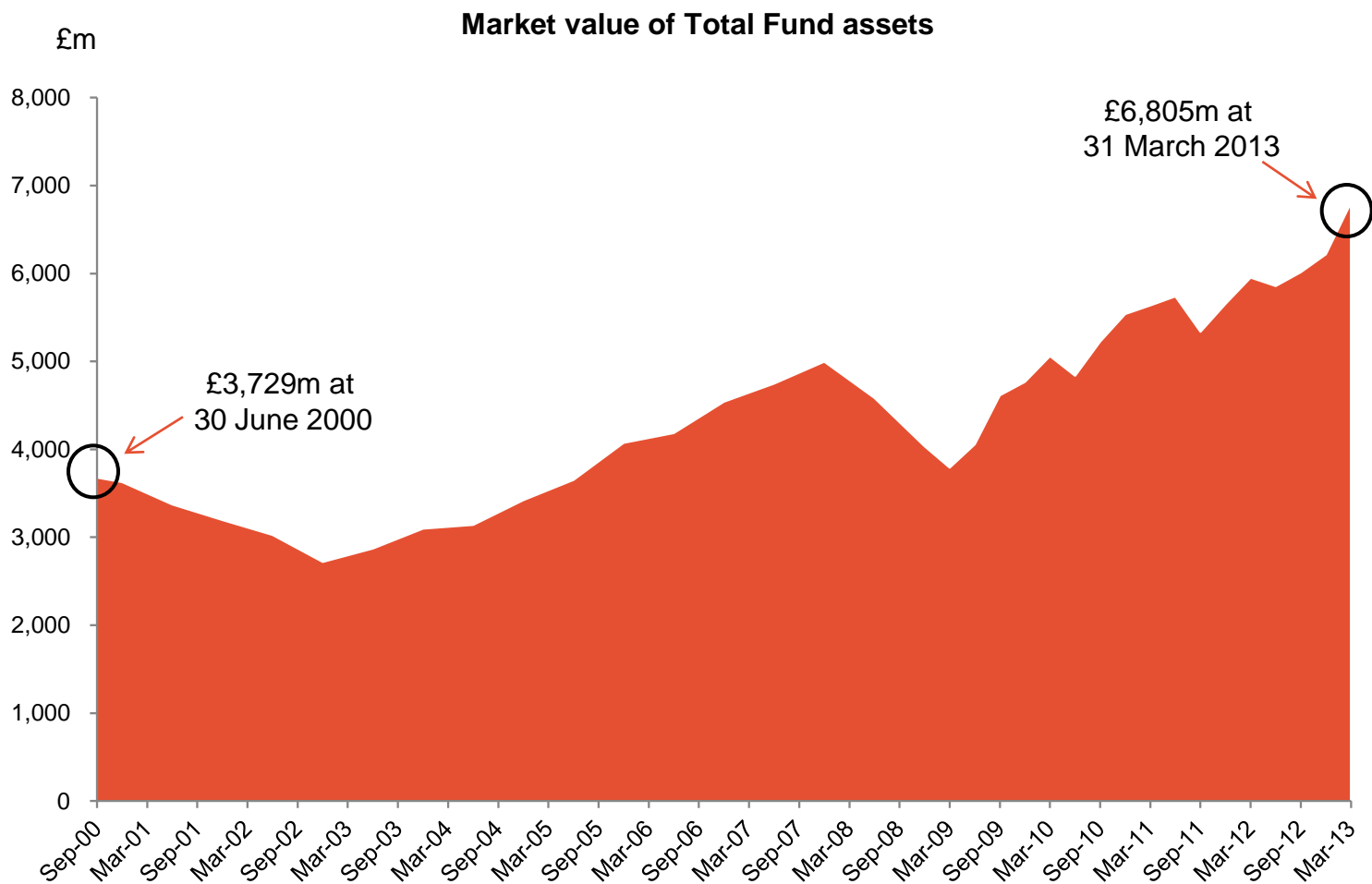
# US Federal Reserve alludes to tapering of Quantitative Easing

- Progress has been made in reducing debts relative to incomes
- This is especially true in the US, although there is still significant further deleveraging required in the Eurozone
- The US Federal Reserve is now looking for an appropriate way and time to start tightening policy
- Interest rates for the major central banks remain at historically low levels
- Accommodative monetary policy in conjunction with improving economic data has continued to support equity prices
- Long maturity government bond yields have fallen across most major markets meaning liability have also fallen

# Towers Watson's economic view of the world (economic scenarios)



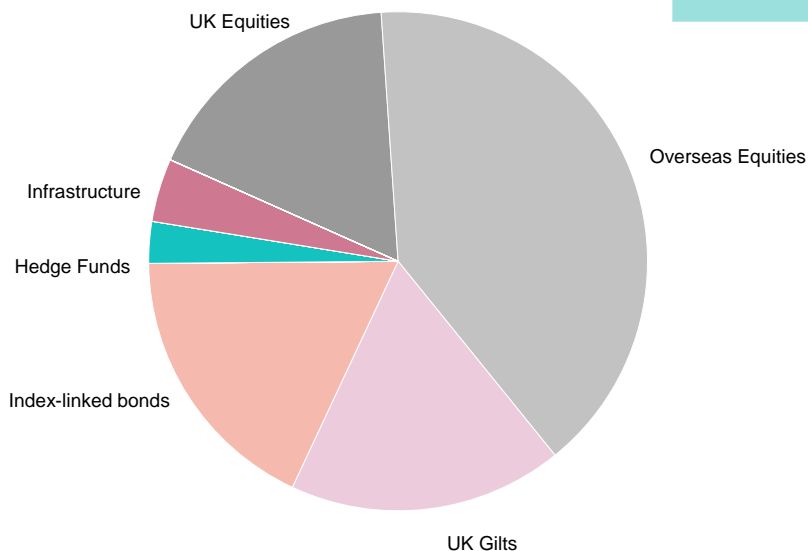
# Growth in assets



Source: BNY Mellon, JP Morgan

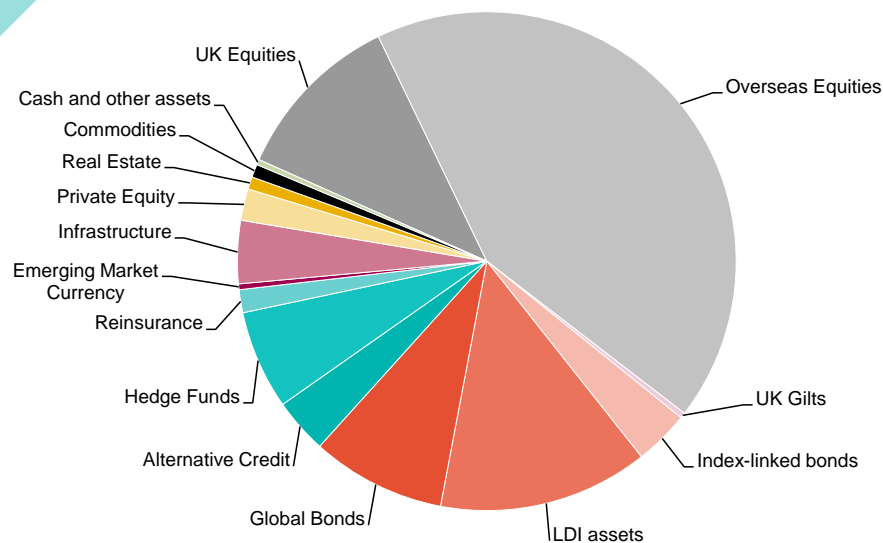
# How does the Fund allocate its assets?

31 March 2010



Diversification

31 March 2013

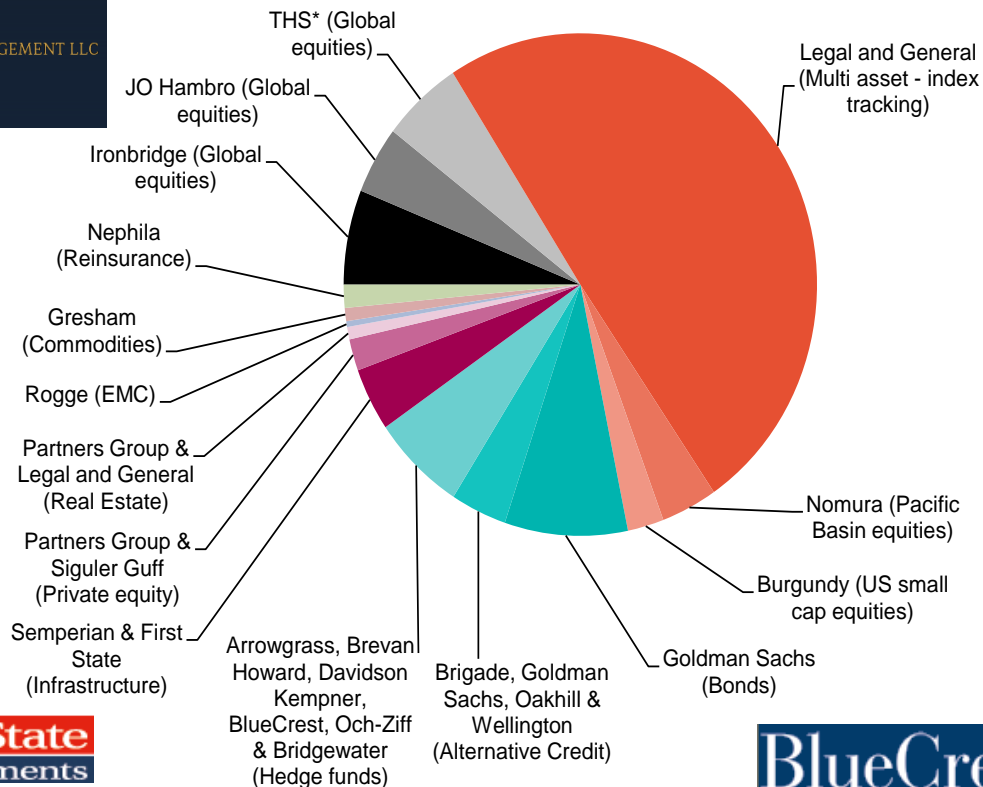


- **Current allocation reflects:**

- Long term perspective on asset classes
- Limited appetite to purchase very low yielding investments
- Desire to diversify away from simple equities and bonds



# How is the Fund invested?



Asset allocation as at 31 March 2013.

\* THS was replaced by Pzena after 31 March 2013.

## What changes have been made?

- As part of a long term goal to increase the allocation to 'alternative' assets, the Fund has made new investments in the following portfolios and has restructured the mandate with BlueCrest:

- Arrowgrass – Hedge Fund
- Brevan Howard – Hedge Fund
- Och-Ziff – Hedge Fund
- Gresham – Commodities



**BREVAN HOWARD**



**OAK HILL ADVISORS**



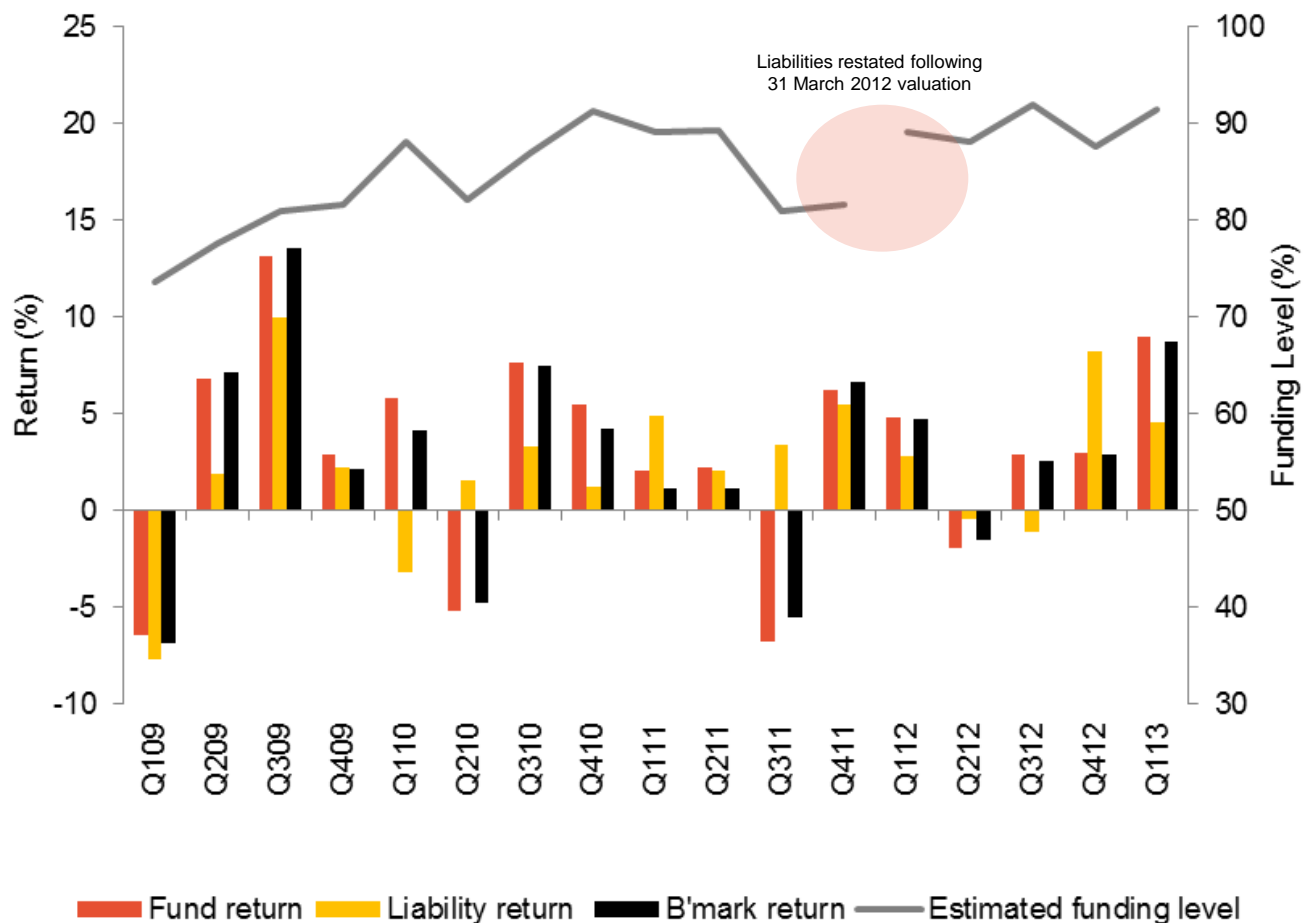
- As part of the restructure of the bond portfolio, the Fund has made the following new investments:

- Brigade – Alternative Credit
- Oak Hill – Alternative Credit
- Wellington – Alternative Credit

- Within the equity portfolio, THS has recently been replaced with Pzena



# Recent Fund performance



Over the 12 months to 31 March 2013, the Fund outperformed its liabilities by 1.6% and its benchmark by 0.1%.

Source: BNY Mellon, Scheme Actuary

# Recent manager performance

Periods to 30 June 2013

Manager	12 months (%)			3 years (% pa)			S.I. to 30 June 2013 (% pa)		
	Fund	B'mark	+/-	Fund	B'mark	+/-	Fund	B'mark	+/-
IronBridge	22.7	22.6	0.1	13.5	13.2	0.3	12.0	11.5	0.5
JO Hambro	29.1	20.5	8.6	16.3	11.8	4.5	16.1	10.8	5.3
Burgundy	30.6	28.4	2.2	-	-	-	21.2	16.8	4.4
Nomura	17.4	18.1	-0.7	7.8	7.6	0.2	9.3	9.3	0.6
L&G Passive equity and bonds	19.2	-	-	12.3	-	-	7.7	-	-
GSAM: Global Sovereign	3.3	3.1	0.2	-	-	-	3.3	3.1	0.2
GSAM: Global Corporates	4.7	3.6	1.1	-	-	-	4.7	3.6	1.1
GSAM: Asset backed	28.9	0.6	28.3	-	-	-	28.9	0.6	28.3
Nephila	13.7	6.8	6.9	-	-	-	10.7	7.1	3.6
Hedge Fund Portfolio	6.7	3.7	4.0	-	-	-	-	-	-
L&G: REITS	18.4	17.8	0.6	-	-	-	20.4	19.6	0.8
L&G: Network Rail	1.3	-	-	9.1	-	-	9.5	-	-
L&G: LDI	5.5	-	-	7.6	-	-	7.5	-	-

Source: JPMorgan, BNY Mellon, Towers Watson

All figures are net of management fees and annualised.

There are no benchmarks for the L&G passive equity and bond or liability driven investment portfolios.

No performance is shown for managers that have been funded for less than a year.

[towerswatson.com](http://towerswatson.com)

# Limitations

- The content of these slides has been prepared for the Trustee of the TfL Pension Fund in accordance with an engagement letter addressed to the Trustee dated 22 August 2002 (as amended) and our general terms and conditions of business.
- These slides are provided to the Trustee to form an update from the Investment Consultant to be presented at the Annual Members' Meeting on 22 October 2013.
- They may not be suitable for use in any other context or for any other purpose and we accept no responsibility for any such use whether by the Trustee or by any other party.
- In preparing this report we have relied upon data supplied to us by third parties. While reasonable care has been taken to gauge the reliability of this data, this report carries no guarantee of accuracy or completeness and Towers Watson cannot be held accountable for the misrepresentation of data by third parties involved.
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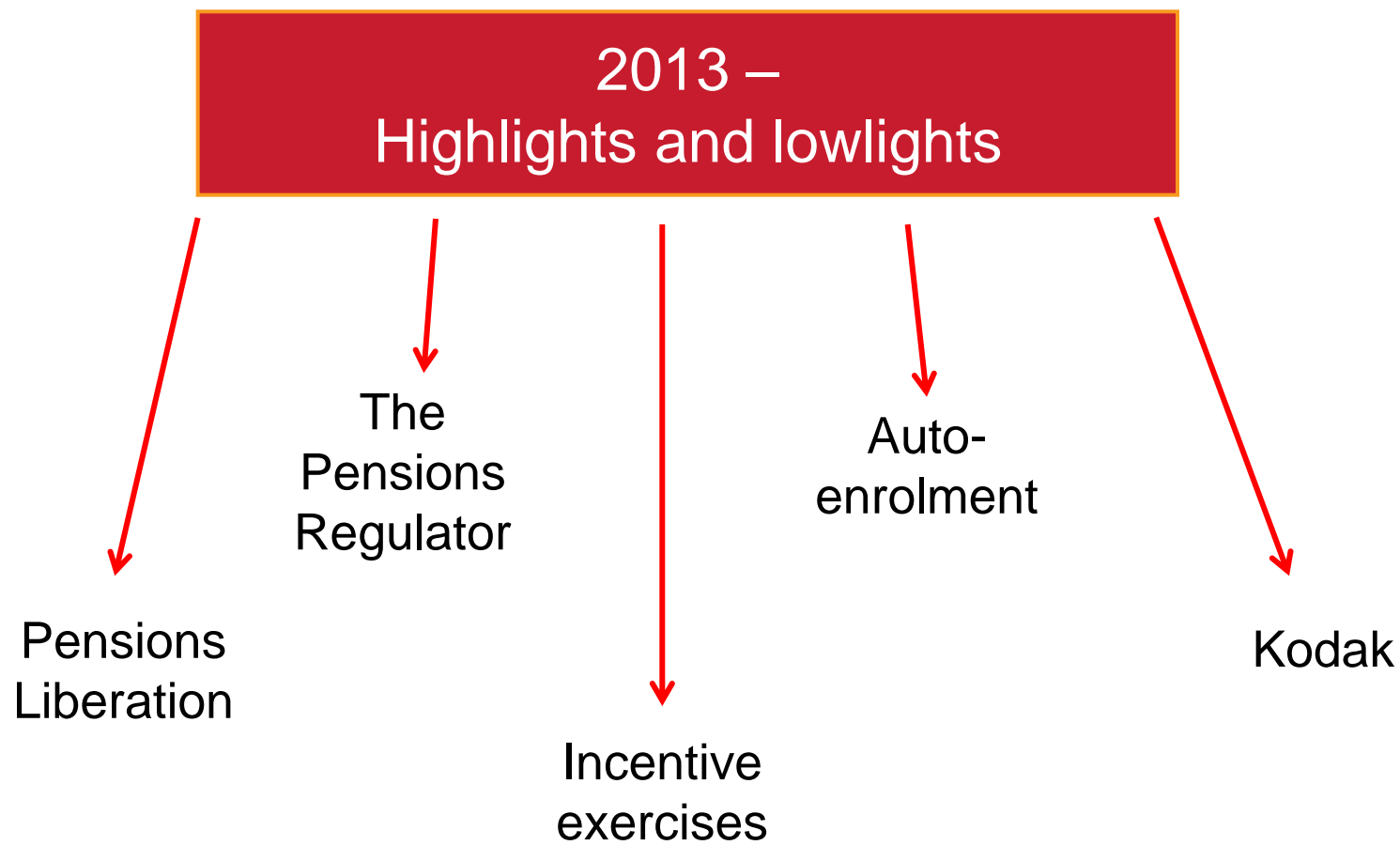
## Transport for London Pension Fund

### Legal Outlook - 2013

Ian Pittaway

22 October 2013







Pensions  
largely free of  
fraud

How does it  
work? (They  
forget to mention  
the charges / tax!)

Arrive the  
pensions  
liberators

Regulators  
putting onus on  
trustees  
to block

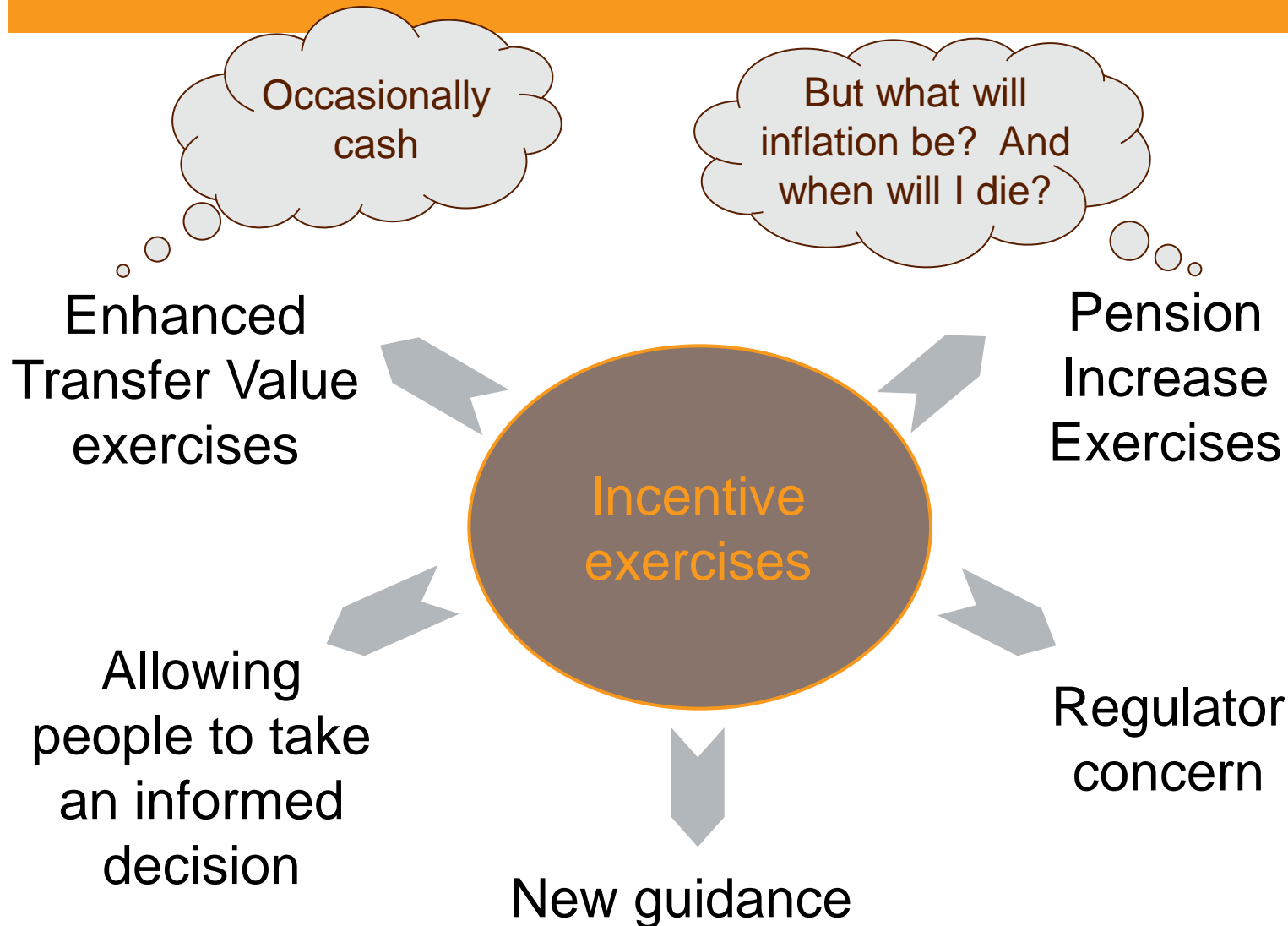
But members  
have statutory  
right

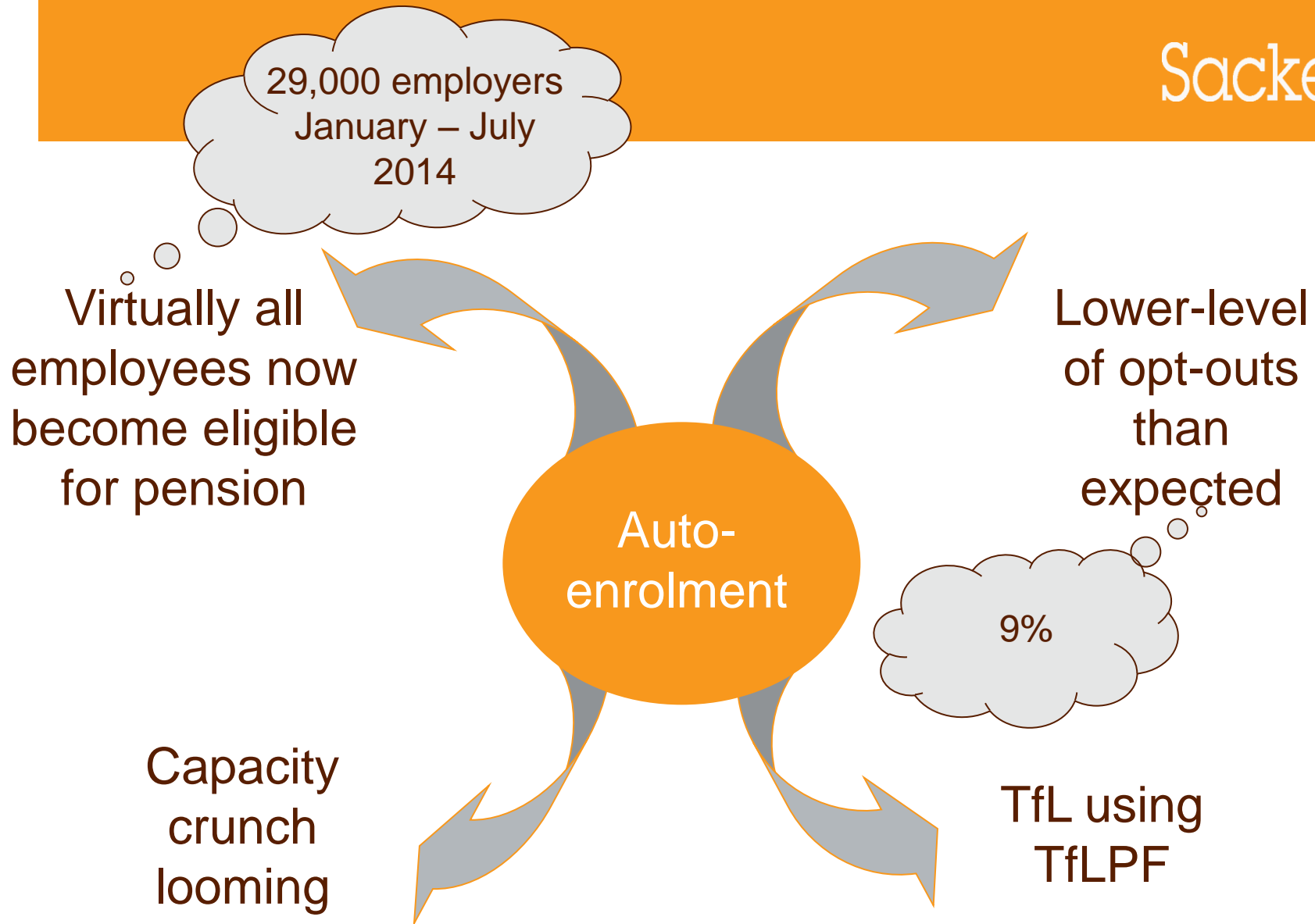
And dead easy  
to register a new  
scheme



## Pensions Regulator

- ➡ Many schemes in deficit. Gilt yields low.
- ➡ Regulator pressure on trustees to get schemes fully funded
- ➡ But CBI pressure not to fund so highly
- ➡ Pensions Regulator urges more flexibility
- ➡ New statutory objective of affordability





## KODAK

Chapter II  
Bankruptcy

Pension  
Scheme  
biggest  
worldwide  
creditor - \$1.8bn

Agreed to  
purchase two  
businesses for  
£210m

Pension scheme  
now running  
two global  
businesses



Pensions never  
stands still

More change to  
come – flat  
rate pensions

Conclusion

Trustees have  
to navigate  
changes

TfLPF – strong,  
well-governed  
plan

## Open Forum – Q&A



# Refreshments and Informal Discussions



**Thank you  
&  
See you next year**