Transport for London
Independent Pensions Review

28 October 2021

Andy Byford
Commissioner of Transport for London
Transport for London

By email

Dear Commissioner

TfL Pensions Review

TfL's funding agreement with HM Government of June 1 required that TfL conduct a review of the TfL Pension Scheme and reform options with the explicit aim of moving TfL's pensions arrangements into a financially sustainable position.

In July I agreed to independently lead and facilitate this Review, with the support of pensions expert, Joanne Segars. The Terms of Reference for the review require me, by the end of October, to identify options under consideration. This letter, and its accompanying documents, provide that first progress report.

I made very clear at the outset of this work that I would intend to seek the full involvement of all relevant stakeholders. To this end we issued a first call for evidence to all key stakeholders in the scheme and a copy of this is attached as **Appendix 1**. A copy of the responses to this Call for Evidence are also attached as **Appendix 2** (where permission has been granted to share the responses).

An early meeting was held with the Scheme's trustee body on September 24.

I have also established a Pensions Review Contact Group with representation from all TfL's recognised trade unions. A first meeting of this group was held on August 13 and fortnightly meetings are now taking place.

I fully recognise from all my experience the importance rightly attached by trade unions, and their members, to the long-term security, sustainability, and quality of occupational pensions provision. This has been clearly evident in their detailed and thoughtful responses to the first Call for Evidence. Their full involvement in this important process is essential.

At this early stage of the review, we have already begun to consider how we understand the objectives of fairness; affordability; and sustainability for scheme members, farepayers and taxpayers and TfL as well as how risk should be shared between all key stakeholders. These are issues which will inform our consideration of any potential reforms.

The process is still, at this point, at a very early stage in evaluating options for reform. The Independent Review is yet to conduct a considered assessment and no conclusions have been reached at this point. Our analysis will include an assessment on the impact of any potential reforms on TfL's financial position as well as the impact on members' future benefits.

We are, of course, very aware of the huge range of reforms that have been made across the pensions landscape in both the private and the public sectors. These have included:

- moves in some cases from defined benefit (DB) to defined contribution (DC) arrangements;
- moves from DB provision based on final salary to provision based on career average re-valued earnings; and
- changes to accrual rates, contribution arrangements, scheme benefit structures and indexation.

We are of course aware that while these reforms have reduced the costs to employers of their pension arrangements, in many cases they have also reduced the value of pensions provision for scheme members – in some cases very significantly, with long-term consequences on the adequacy of provision.

We note, too, that the changes implemented elsewhere reflect the specificities of the sponsoring employer and their labour markets. These are important factors in considering the design of any pension arrangements. We have therefore commissioned analysis from TfL on the structure of its labour market to ensure we can understand the potential impacts of any potential reforms more fully.

Appendix 3 illustrates the range of reform options seen elsewhere which are under review.

One further specificity in relation to the TfL pension scheme is the status of the Scheme itself. TfL is a statutory, *public sector,* body – indeed, this is a leading factor behind the current 'Strong' covenant assessment; TfL is a public sector body and its status as a statutory corporation under the Greater London Authority Act 1999 and regulation under

Local Government Finance rules provide a statutory protection/financial underpin and TfL cannot be wound up without an Act of Parliament. However, the scheme is regulated as a *private sector,* scheme. Whilst these arrangements may be appropriate for the private sector, they may not be appropriate for TfL's pension arrangements.

We also note that the catalyst for many of the pension reforms elsewhere has been a funding crisis in the pension scheme itself. In the course of the Review's investigations so far, we have been struck by the fact that the TfL pension scheme is an extremely well-governed and well-managed Scheme which has exercised a highly successful and sophisticated investment strategy over the last decade. Indeed, latest indications from the Trustee, which is currently undertaking its triennial actuarial review, is that the Scheme is estimated to be fully funded – an improvement on the position at its 2018 valuation.

Absolutely critical to assessing the scheme and its funding position, however, is the strength of the employer covenant. This will be a key factor in concluding the current valuation which is not anticipated to be finalised until next year, with a statutory deadline of June 2022. We note that in this context, the covenant assessment is one of the biggest uncertainties in relation to the Scheme's funding position. The covenant is currently assessed as 'Strong', but a short-term funding arrangement from Government could lead to a weakening of the covenant assessment, with adverse consequences for the investment strategy and the funding position with an increased requirement for sponsor support.

Taking all these factors into account, we will be giving consideration to the full range of reforms undertaken elsewhere but will centre our attention on the specific considerations within TfL, the significant value attached by scheme members to this provision, and the costs arising in TfL for maintaining the sustainability of this provision.

We will also need to consider carefully the impact of any future changes on the past service liabilities and whether any options for reform could give rise to a significant maturing of the scheme. As has been seen elsewhere, this has prompted trustees to adopt a more conservative, more risk-averse, investment strategy with associated lower returns reflecting the shorter duration of the scheme. This has the potential to increase funding pressures on the Scheme and the demand for higher employer contributions.

In accordance with the Review's Terms of Reference, we are also clear that any potential reforms will protect members' benefits built up to date.

I intend to move to a more detailed assessment of reform options, taking full account of the Purpose and Scope of the review in order to deliver the interim report required by December 11.

Yours sincerely,

Brendan Barber

Sir Brendan Barber
Lead
Independent Review

Attachments:
Appendix 1 – Call for Evidence
Appendix 2 – Responses to the Call for Evidence
Appendix 3 – Illustration of the range of pension reform options

Appendix 1

Pensions Review

Stage 1 Call for Evidence

August 2021

Table of Contents

Introduction by Sir Brendan Barber

Under the terms of the Transport for London (TfL) Funding Agreement dated June 1 2021 HM Government required that TfL conduct a review (the Review) of the TfL Pension Fund (the Scheme) and reform options with the explicit aim of ensuring that the TfL's pension arrangements are sustainable and affordable in the long term, fair to employees, farepayers and taxpayers, and consistent with TFL's financial challenges ahead, while protecting members' benefits built up to date. These objectives are reflected in the Terms of Reference for the review attached as Appendix 1. I have asked TfL to set out a summary of their financial challenges and information in relation to its pension arrangements and this is attached at Appendix 2 and 3, respectively.

In considering how the Review should be taken forward TfL decided that, rather than simply conducting an internal review of the Scheme, it would be appropriate for the Review to be conducted by an independent person. I accepted TfL's invitation to lead the Review and also secured the participation of Joanne Segars whose expertise in the pensions world is unparalleled and highly respected. I also secured the support of George Boyce, a Senior Adviser at ACAS. Detailed TfL involvement with the Review will of course be essential but this Review will be independently conducted and any recommendations emerging will be the responsibility of Joanne and me.

In accepting TfL's invitation, I made it clear that I would intend to involve stakeholders throughout the Review process. I recognise how hugely important the sustainability, security and quality of pensions provision is to working people. I have formed a Contact Group with nominated union representatives with whom I will meet regularly during the Review process. Similarly, I will seek to arrange to meet with the Trustee and the Fund Office.

I am also now inviting written submissions of representations and evidence from:

- The Contact Group;
- The Trustee;
- The Fund Office;
- The Pensions Working Group;
- The Pensioners' Forum;
- Company Councils; and
- The Pensions Consultative Council.

I may approach various relevant external organisations with experience of managing similar pensions arrangements, and/or pensions reform, who may be able to offer lessons learned to the review as well as relevant authorities, such as The Pensions Regulator, who will have an interest in the outcome of the Review.

In due course it will be appropriate to examine all aspects of the Scheme, but, in the first instance, I intend to conduct this first round of engagement with all the relevant stakeholders about the core challenges to be considered.

Attached as Appendix 4 is my Stage 1 Call for Evidence, on which written responses are invited.

Appendix 1: Terms of Reference

Transport for London Pensions Review (the Review)

Terms of Reference

1. **Purpose of the Review**

Under the terms of the TfL funding agreement dated 1 June 2021, HM Government required that TfL conduct a review of the TfL Pension Fund (the **Scheme**) and reform options, with the explicit aim of moving TfL's pension arrangements into a financially sustainable position.

The purpose of the Review, therefore, is to conduct an assessment of the Scheme and to make recommendations in relation to TfL's pension arrangements generally that are sustainable and affordable in the long term, fair to employees, farepayers and taxpayers and consistent with TfL's financial challenges ahead, while protecting members' benefits built up to date (the **Purpose**).

2. **Scheme Coverage**

The Review shall relate to all sections of the Scheme.

3. **Scope of the Review**

The Review shall have regard to and consider the following matters (the **Scope**):

A. the need to ensure that future pension provision is fair across TfL's employees, including protecting members' benefits built up to date;

B. the needs of TfL in ensuring generally that TfL's future pensions provision is affordable and sustainable in the long term for TfL, farepayers and taxpayers (including taking into account the volatility and risk associated with TfL's contributions to the Scheme);

C. the circumstances of the Scheme in terms of its employer covenant, member contributions, benefits, funding position on the bases required under Part 3 of the Pensions Act 2004, section 179 of the Pensions Act 2004 and section 75 of the Pensions Act 1995, investment strategy, legal status and legal constraints on making changes under its trust documentation and how this compares to other public and private sector schemes; and based on these circumstances, produce an analysis of the funding and legal issues faced by TfL in relation to the Scheme;

D. how risk should be shared between farepayers, taxpayers, employees and members;

E. wider policy considerations such as provision of choices for, and promoting adequate saving for, retirement and longer working lives;

F. the needs of TfL as an employer in terms of recruitment and retention including matters such as the overall reward package being offered; and

G. potential implementation and transitional arrangements for any recommendations.

Based on the Purpose and Scope set out above, the Review shall consider all options for reforming TfL's pension arrangements, with nothing ruled in and nothing ruled out (the **Options**).

4. Review Scope Exclusions

It is recognised that TfL will be required by law to inform and consult with affected members and their union representatives about any proposals for reform which may arise as a consequence of the Review and to follow any required legislative processes. These matters are therefore excluded from the Scope.

5. Review Independent Lead

The Review shall be independently led and facilitated by Sir Brendan Barber (the **Independent Lead**) who will be joined by Joanne Segars OBE, who will provide independent expert pensions advice.

The Independent Lead will have access to the knowledge and full co-operation of TfL, including the provision of a secretariat function.

The Independent Lead shall also have access to professional external advice in relation to legal, actuarial and technical modelling matters.

The Independent Lead will conduct the Review in accordance with these terms of reference, including the matters set out in section 6 below.

6. Reporting Deliverables

The Review will:

- identify and clearly set out the potential pros and cons of Options that would meet the Purpose and Scope; and
- set out a recommended approach (including an explanation of why the other Options considered are not being recommended) that would meet the Purpose and Scope.

These matters shall be reported as follows (the **Deliverables**):

- by 31 October 2021, the Independent Lead shall provide a final list of Options under consideration; setting out high level, general assessments on how they could meet the matters set out in the Purpose and the Scope;
- by 11 December 2021, the Independent Lead shall provide an Interim Report which shall explain the Options that are being considered in further detail and

clearly describe in further detail how they meet the matters set out in the Purpose and the Scope; and

- by 31 March 2022, having considered all of the evidence and representations received, the Independent Lead shall provide a Final Report, setting out a full analysis of the Options and a recommended approach along with an implementation plan.

The Independent Lead shall meet regularly with TfL during the course of the Review period in order to discuss and report on progress and other matters pertaining to the completion of the Deliverables set out above.

7. Engagement, Evidence Gathering and Representations

The Independent Lead of the Review shall offer interested parties (including but not limited to trade unions, the Trustee of the Scheme, HM Government, other public and private sector organisations with relevant pension arrangements) a reasonable period of time to engage with and submit evidence and representations to the Review. This will be taken account of at all stages of the Review.

The Independent Lead shall decide how this engagement shall be organised considering the period of time available to conduct the Review; for example, via written correspondence and/or meetings.

The Independent Lead shall decide upon the general views and/or specific questions to be posed in the engagement, in consideration of the matters set out in the Purpose and Scope.

Appendix 2: TfL's Financial Context

1. Executive Summary

1.1. TfL's finances have been decimated by the pandemic, with significant reductions to revenue and other existing funding streams resulting in emergency financial support being provided by HM Government and requirements to deliver significant additional savings on top of existing ambitious efficiency plans.

1.2. TfL is currently facing a substantial average annual funding shortfall of around £1.6bn even after assumed savings are delivered and an additional source of revenue of at least £500m net has been found. This is exacerbated by the uncertainty that exists in the future in relation to the recovery of passenger demand for TfL's services.

1.3. As a result of the ongoing financial challenges, TfL must review every aspect of its organisation to see how it can work differently, save money and increase income, while continuing to maintain the safety of colleagues and customers. This includes, but is not limited to, the affordability of TfL's current pensions provision.

2. Background

2.1. TfL's finances have developed in the 20 years since it was created as an integrated transport authority.

2.2. TfL's financial position was relatively strong in its first decade with low debt, strong revenue growth and affordable long-term plans. From 2007-2009 TfL received:

2.2.1. A 10-year funding settlement covering the 2012 Olympic Games, investment in London Overground and Crossrail 1 construction;

2.2.2. Significant borrowing programme for TfL and Greater London Authority (GLA), with proceeds funding its investment programme;

2.2.3. Agreement on two hypothecated taxes, Business Rates Supplement and Mayoral Community Infrastructure Levy.

2.3. From 2010 onwards, several factors have led to changes in TfL's financial position. These include:

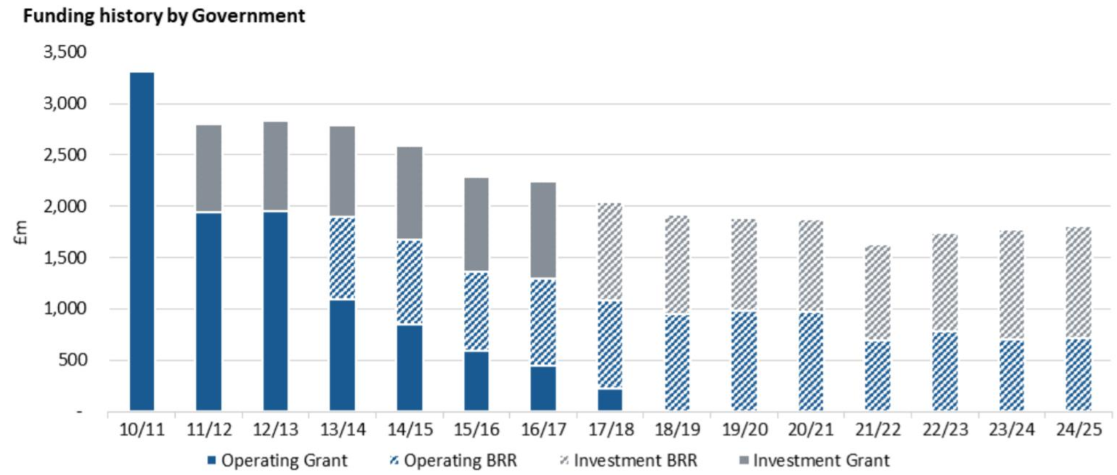
2.3.1. Reductions in Operating Grant of £1bn per annum since 2015;

2.3.2. Delays in opening Crossrail 1 leading to lower than anticipated revenues and TfL and the GLA bearing a significant portion of additional capital costs;

2.3.3. Growing levels of debt reducing TfL's fiscal headroom.

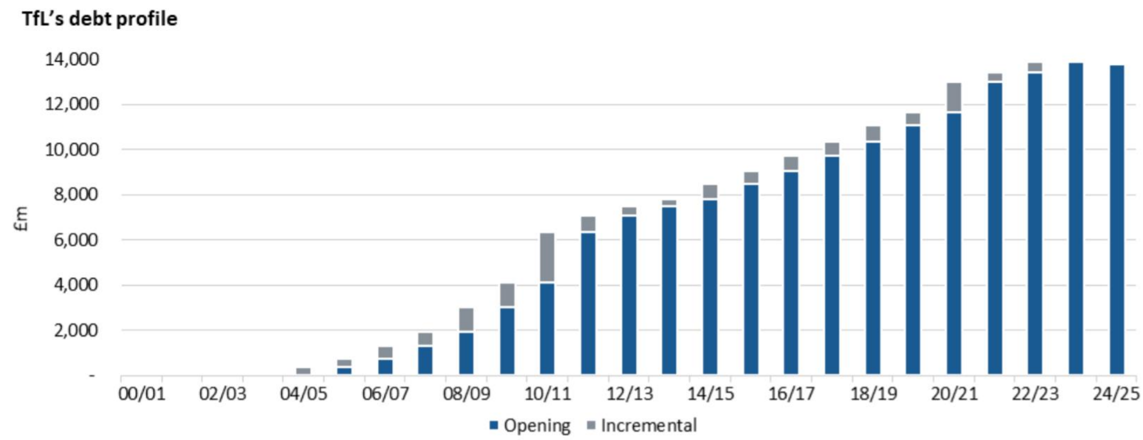
2.4. TfL's operating and capital grants from Central Government were swapped in three stages for allocations of London's rates under the Business Rates Retention scheme. This is demonstrated in Chart 1.

Appendix 2 Chart 1 – Government Funding History



2.5. Chart 2 shows how TfL's debt grew to around £13bn by financial year 2020/21, reaching the limit of affordability against its revenue base. This means that TfL can no longer borrow significantly into the future without increases in revenue or other recurring funding streams.

Appendix 2 Chart 2 – TfL's Debt Profile



Source: Previous annual reports

2.6. Recognising the importance of managing costs, TfL's financial plans include a wide ranging and ambitious efficiency programme. From financial year 2016/17 to 2019/20 TfL made almost £1bn of annualised recurring savings across the organisation. A significant proportion of these savings were achieved in reducing back office costs and reducing like-for-like costs by £170m compared with financial year 2015/16. In addition to the savings already delivered, an additional £730m of efficiencies are planned to be delivered over financial years 2019/20 to 2024/25.

Pre-pandemic TfL were on track to deliver an operating surplus

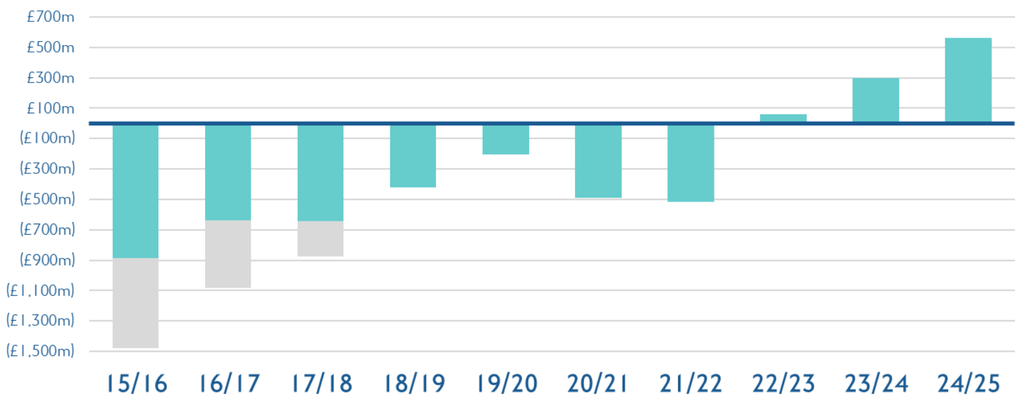
2.7. TfL's efficiency programme meant it was on a path to breakeven the cost of operations, maintenance, financing costs and core renewals, with TfL having taken almost £1bn out of its net operating costs over the past four years. London Underground alone were forecast to achieve a £1bn surplus. Despite this, TfL still required external support for capital investment. Grant levels prior to 2012 demonstrate that the capital's transport has always needed national support.

2.8. In addition, TfL has also made significant progress in the generation of new commercial income streams. TfL has in recent years increased the income it raises from property development, management of its media and advertising estate, and leveraging its expertise and intellectual property in markets in the UK and overseas.

2.9. Finally, the opening of stage 3 of Crossrail (now forecast to take place in the first half of calendar year 2022) is also expected to contribute significantly to financial sustainability as the line is expected to generate a net operating surplus.

2.10. As recently as March 2020, TfL was on track to reduce its like-for-like operating deficit for the fourth consecutive year, with a firm plan to turn this into an operating surplus during financial year 2022/23. This is illustrated in Chart 3 below.

Appendix 2 Chart 3 – TfL's Net Cost of Operations – 2019 Business Plan



But there was a requirement for additional funding for the capital programme

2.11. Despite the operating account approaching break even, and before the coronavirus pandemic, the funding challenge on the capital account was forcing the deferral of some asset renewals and threatening TfL's ability to achieve its future objectives. TfL was showing a projected shortfall in affording the 2019 capital plan of around £1bn per annum.

3. Impact of the COVID-19 pandemic

The pandemic has decimated TfL's finances

3.1. At the peak of the COVID-19 pandemic TfL's overall passenger demand was reduced by more than 90 per cent, with Tube journeys falling by over 95 per cent. This resulted in TfL's income falling by 90 per cent in the first six weeks of the pandemic, while TfL's cash balances dropped by £200m in the final two weeks of financial year 2019/20. Although passenger demand has recovered since, total passenger journeys are still only at 54 per cent of pre-pandemic levels.

3.2. Passenger income for the financial year 2020/21 dropped to £3bn, a decrease of 66 per cent compared with financial year 2019/20, while TfL spent £144m in operating costs directly related to the pandemic. TfL also spent 35 per cent less on capital investment during 2020/21. As restrictions lifted, car use rebounded more rapidly than the use of public transport.

Overreliance on fares revenue exposed TfL to financial shocks

3.3. The pandemic exposed the current funding model (in place since 2015, following the withdrawal of the operating grant for the delivery of transport services) to be overly reliant on fare revenues (this dependence being much higher than other major public transport operators internationally). Due to the high fixed cost nature of transport infrastructure, reducing operating costs in line with reductions in demand has proved impossible in the short to medium term. TfL's significant exposure to changes in demand due to its high fixed costs and dependence on fares revenue mean that it is particularly susceptible to potential future recessions. Running fewer services would not have delivered significant savings and it was right that TfL played a vital role in keeping London moving for key workers.

Emergency Government support was required to keep London moving

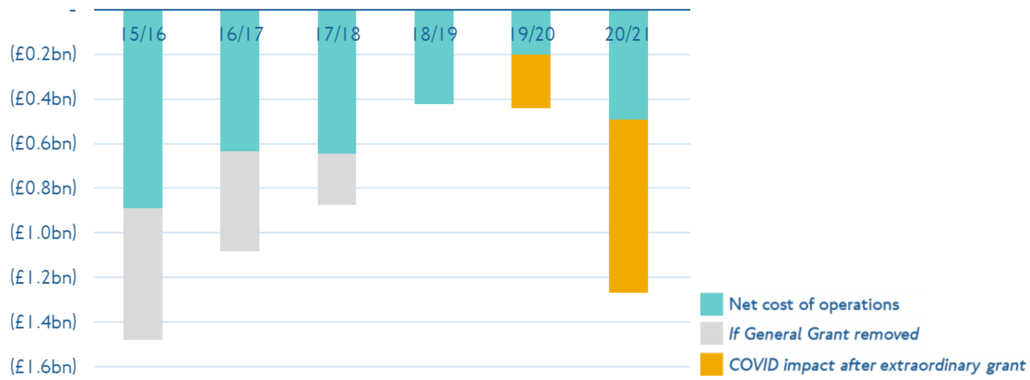
3.4. This meant that emergency financial support from Government was and continues to be required in the short term. TfL has entered into three substantive funding agreements with Government. On 14 May 2020, the Secretary of State for Transport confirmed that £1.6bn of funding would be made available to TfL over the period from 1 April to 17 October 2020. This included around £1.1 bn of grant funding and a further £505m of additional borrowing from the Public Works Loan Board (PWLB). On the 31 October 2020, the Secretary of State for Transport agreed further funding of 18 October 2020 until the 31 March 2021 including £905m of grant and additional borrowing by TfL from the PWLB of £95m. On the 1 June 2021, the Secretary of State for Transport provided further funding of £1.08bn until 11 December 2021. Since the 18 October 2020 funding agreement, Government has provided a revenue top up mechanism under which TfL's revenues are supplemented by further grant payments if revenue is lower than the Government forecast or repaid if higher. Total support provided to TfL by Government amounts to around £5bn.

3.5. The pandemic has had significant impacts on TfL's overall operating deficit, demonstrated in Chart 4. The impacts are significant across TfL's divisional businesses. The net cost of operations for London Underground in financial year 2019/20 (the year before the pandemic) was at a deficit of £148m, very close London Underground being financially sustainable. However, in financial year 2020/21, this deficit plummeted to over £2bn. Similarly, in the surface businesses, comparing the net cost of operations from financial year 2019/20

[1] https://content.tfl.gov.uk/tfl-extraordinary-funding-and-financing-settlement-letter-1-june-2021.pdf

to financial year 2020/21, the deficit position grew from around £1.1bn to around £1.8bn, a significant deterioration of £700m.

Appendix 2 Chart 4 – TfL's Net Cost of Operations – Impact of the pandemic



Uncertainty in passenger demand poses challenges for the future

3.6. It is not yet clear how travel patterns will change in the medium to long term or how quickly demand will return to pre-pandemic levels. This is because the pandemic has resulted in more people working from home, shopping locally or online and making shorter journeys on foot or by bike.

4. Financial Sustainability Plan

4.1. Under the terms of its funding agreements, Government required TfL to *"produce a single, comprehensive management plan with options as to how a trajectory to financial sustainability could be achieved by as soon as possible with a target date of financial year 2022/23".* On 11 January 2021 TfL published its Financial Sustainability Plan (FSP)[2]. The FSP noted that the pandemic led to a crisis in TfL's immediate financial position; but with its effect on longer term travel demand in London, it could also impact the organisation's long-term finances and funding gap.

The Financial Sustainability Plan forecasts an ongoing funding gap

4.2. The FSP modelled various demand scenarios, which highlighted the trajectory towards sustainability pre-pandemic, the impact of the pandemic and that there is likely to remain a very significant gap towards TfL achieving financial sustainability going forwards without a long-term funding arrangement with Government. By financial year 2023/24, it is estimated that TfL could cover the costs of operations, maintenance and financing costs, by financial year 2024/25 it could also start to cover the cost of its core renewals. To deliver this, £500m per annum of additional income is required which may be from revenue such as Vehicle Excise Duty, a possible Greater London Boundary Charge (subject to consultation, impact assessment and decision making) or other sources of income. The funding gap to cover the remaining renewals, enhancements & to

[2] https://content.tfl.gov.uk/financial-sustainability-plan-11-january-2021.pdf

decarbonise by 2030, is estimated to be on average £1.6bn per annum from 2023 to 2030, even after TfL's ambitious savings programmes are delivered.

5. Annual Report and Statement of Accounts 31 March 2021 and the financial year 2021/22 Revised Budget

5.1. The impact of the pandemic was set out in more detail in TfL's Annual Report and Statement of Accounts for year ending 31 March 2021[3].

5.2. Following the latest funding agreement on 1 June, TfL produced a Revised Budget[4] covering the reminder of financial year 2021/22 and the full financial year 2022/23. This was approved by the TfL Board on 28 July 2021.

5.3. The Revised Budget includes updated assumptions based on the conditions set out in the Funding Agreement with the Government of 1 June 2021, including the requirement to find a further £300m of savings on top existing efficiency and savings programmes. The Revised Budget also includes the latest cost estimates and income profiles including passenger revenue scenarios based on the updated Government Roadmap.

TfL's financial performance is improving compared to previous budgets

5.4. By the end of the first quarter of financial year 2021/22 (quarter ending June 2021), TfL's net cost of operations, that is the day-to-day operating deficit including capital renewals and financing costs – before Government funding – was £636m. This is £370m, or 37 per cent, better than TfL's March 2021/22 Budget. This is driven by higher than expected passenger revenue, which was £175m better than TfL's March 2021/22 Budget, as journeys increased at a faster rate than expected after steps 1 to 3 of the Government's Roadmap. Operating costs were also £71m lower than TfL's March 2021/22 Budget due to tight spend controls and deferrals to spend due to funding uncertainty.

5.5. While performing better than the March 2021/22 Budget and against last year, the day-to-day deficit remains significantly worse than pre-pandemic levels. Compared to the first quarter of 2019/20, the net cost of operations (excluding extraordinary funding from Government) is £600m worse, driven by almost £530m lower passenger income.

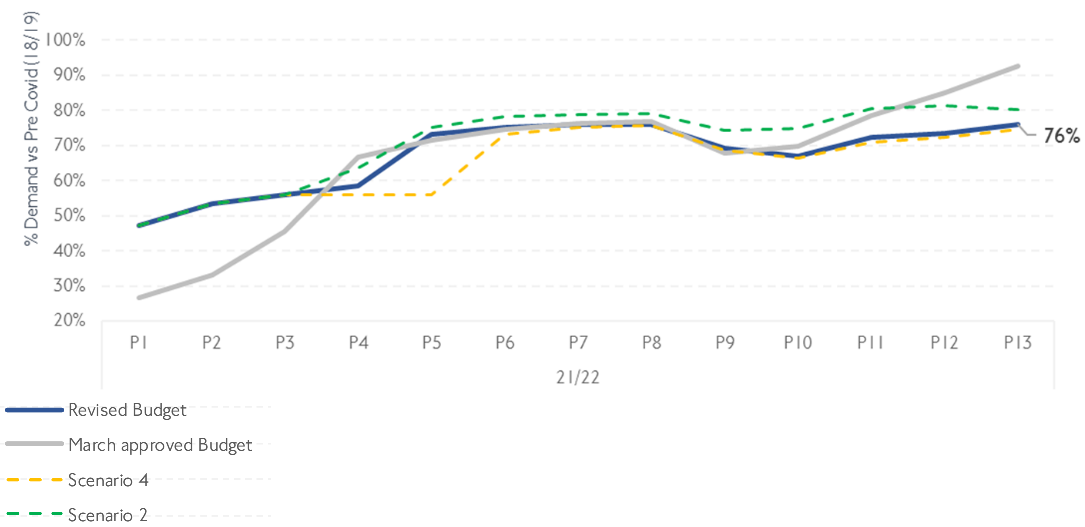
But the Revised Budget demonstrates that financial challenges remain…

5.6. The Revised Budget highlights the continued financial challenges that TfL faces. The Revised Budget reflects the latest modelling which predicts (in the central case) that passenger demand by the end of financial year 2021/22 will only recover to 76 per cent of the pre-pandemic levels of financial year 2018/19. There is still a great deal of uncertainty around passenger demand and revenue, and scenario modelling indicates a range of +/- £200m for this financial year. This is illustrated in Chart 5 below. TfL continues to discuss the need for additional funding, including the continuation of the revenue mechanism, with Government. As a result of the ongoing financial challenges, TfL will need to review every aspect of its organisation to see how it can work

[3] https://content.tfl.gov.uk/board-20210728-agenda-papers-item07-annual-report-accounts.pdf
[4] https://content.tfl.gov.uk/board-20210728-supplementary-agenda.pdf

differently, save money and increase income, while continuing to maintain the safety of colleagues and customers.

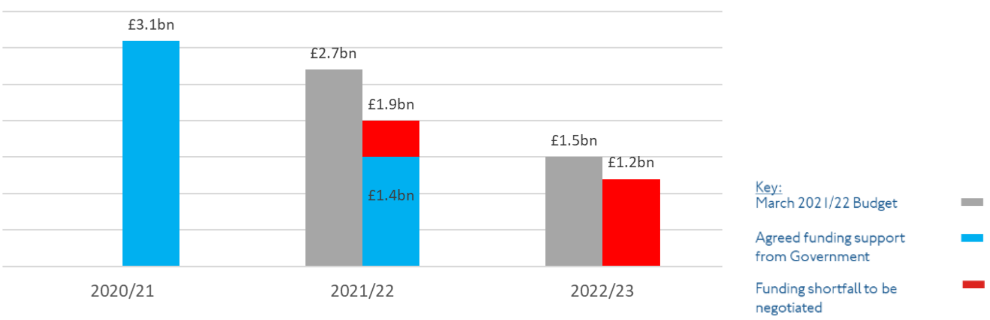
Appendix 2 Chart 5 – Demand Recovery Scenarios



5.7. The Revised Budget sets divisional targets to help achieve financial sustainability across TfL and fund long-term investment needs. The target for Rail (including London Underground) is to cover renewals from its operating surplus after financing and indirect costs and to start contributing towards the cost of replacing its life expired assets. This means moving from the current FSP forecast for 2023/24 of an £800m deficit, to a £300m surplus. The target for the combined bus and streets network is for the net cost of operations (including renewals) to break even without the need for ongoing operating subsidy. This means moving from a pre-pandemic deficit of £1.1bn to a net zero.

5.8. TfL is legally required to produce a balanced budget. The Revised Budget sets out the total TfL funding requirement for financial year 2021/22 of £1.9bn and for financial year 2022/23 of £1.2bn. Taking into account agreed funding for the year, an additional £500m grant funding is required for the remainder of financial year 2021/22 once the funding agreed in the June 2021 Funding Agreement ends on 11 December 2021 in order to maintain a balanced budget. This is illustrated in Chart 6 below.

Appendix 2 Chart 6 – TfL Total Funding Gap (excluding Government Grant)



Appendix 3: TfL's Pension Arrangements

1. Introduction

1.1. The TfL Pension Fund (the Scheme)[5] is a funded occupational "final salary" multi-employer defined benefit pension scheme set up under trust, regulated under UK pensions legislation. The Scheme is separate and distinct from Transport for London (TfL) and its subsidiaries.

1.2. TfL is the principal sponsoring employer of the Scheme and TfL Trustee Company Limited is the trustee of the Scheme (the Trustee).

1.3. The Scheme has two sections – the Public Sector Section (in which TfL and its subsidiaries participate) and the Composite Section (in which Thales Transport and Security Limited and Cubic Transportation Systems Limited participate). The Public Sector Section holds over 99% of the Scheme's liabilities.

1.4. The Scheme is a "balance of cost" arrangement, where members currently pay a fixed contribution of 5% of their pensionable salary (or pro-rated pensionable salary if the member works part time) and TfL pays the balance of cost required to meet the Scheme's liabilities.

1.5. The Scheme has around 85,000 members, of whom over 25,000 are active contributing members.

1.6. The Scheme is open to new members and the future accrual of benefits.

2. History of the Scheme

2.1. The provision of transport in London was first centralised by the London Passenger Transport Act 1933 when the London Passenger Transport Board (LPTB) was formed to operate the underground, buses and trams in the capital. The activities of LPTB were overseen by the London County Council. The LPTB was responsible for transport in London from 1933 to 1947.

2.2. When the railways were nationalised by the Transport Act 1947, the British Transport Commission (BTC) was formed and the London Transport Executive (LTE) was established and was responsible for transport in London from 1948 to 1962.

2.3. The BTC was broken up by the Transport Act 1962 and its assets were distributed to various bodies including to the London Transport Board (LTB). The LTB was responsible for transport in London from 1963 to 1969. The activities of the LTB were overseen by the Minister of Transport. The LTB established and operated a final salary pension scheme known as the London Transport Pension Fund (the Wages Fund).

2.4. When the Greater London Council (GLC) took over responsibility for transport in London, a transport executive was formed under the London Transport Act 1969 and was again called the London Transport Executive (LTE). The LTE

[5] https://tfl.gov.uk/pensions/

was responsible for transport in London from 1970 to 1984. The LTE established and operated a final salary pension scheme known as the London Transport 1970 Superannuation Fund (the Staff Fund).

2.5. The GLC was abolished in 1984 and responsibility for public transport in London was transferred from the GLC to the Secretary of State for Transport. The LTE was renamed and reorganised by the London Regional Transport Act 1984 and became known as London Regional Transport (LRT). LRT was responsible for transport in London from 1984 to 2000. The Scheme was established by LRT in its current form on 1 April 1989 and is, in effect, an amalgamation of the both the Wages Fund and the Staff Fund which was achieved by a private Act of Parliament (section 16 London Regional Transport Act 1989).

2.6. TfL was formed in 2000 and took over the operation of public transport in London when responsibility for transport was transferred from the Secretary of State for Transport to the Mayor of London. TfL substituted LRT as the principal sponsoring employer of the Scheme on 3 July 2000.

2.7. When Metronet (the contracting organisation for two of the three London Underground PPPs) went into administration in 2007, TfL guaranteed the pension liabilities and obligations of Metronet to the Scheme and subsequently, when the Metronet employees were transferred to London Underground Limited, these liabilities became part of the Scheme.

2.8. Tube Lines Limited (the third contracting organisation for the London Underground PPPs) was acquired as a wholly owned subsidiary of TfL in 2010 and employees of Tube Lines Limited were later also provided with the opportunity to become members of the Scheme.

2.9. The Scheme is the pension arrangement used by TfL for “auto-enrolment” purposes. Permanent employees of TfL are automatically included as a member of the Scheme when they begin employment with TfL. Membership is not compulsory, and employees can opt out if they wish.

3. Summary of the Scheme benefit design

3.1. Benefits payable[6] to or in respect of members are calculated by reference to their final salary when they retire, leave service or die (whichever happens first).

3.2. In summary, the benefit calculation formula for most TfL employees (payable unreduced from age 60, provided the member has more than three months' pensionable service) is:

1/60 × Pensionable Service × Pensionable Salary

3.3. Pensionable Salary is a member’s basic or contractual salary and may include permanent allowances where agreed with the employer and the Trustees but excludes overtime earnings, less the lower earnings limit. Pensionable salary is restricted to a level known as the scheme earnings cap, currently £170,400.

[6] https://tfl.gov.uk/pensions/your-pension/retirement; https://tfl.gov.uk/pensions/your-pension/ill-health-retirement

3.4. Pensionable Service is the period of time a member earns benefits from the Scheme as a contributing member. Pensionable service begins when a member joins the Scheme and builds to when a member retires or stops paying contributions, whichever is earlier. Part-time service is pro-rated.

3.5. Members may also exchange part of their pension for a tax-free cash lump sum. The maximum lump sum that can be paid is broadly 25% of the value of a member's pension at retirement.

3.6. On the death of a member, their adult dependants and eligible children may be entitled to receive benefits[7]. This could be in the form of a cash lump sum or a pension, or both, and depends on the member's and their survivors' circumstances at the time. If a member dies whilst still in service, then a lump sum of four times the member's pensionable salary is payable at the discretion of the Trustee.

3.7. Members' pensions revalue in deferment and increase in payment broadly in line with inflation each year, subject to certain caps[8]. The primary measure of inflation used for this purpose is the Retail Prices Index (RPI).

3.8. The Scheme also provides a facility for members to pay Additional Voluntary Contributions[9]. These are credited to individual member accounts, which are kept separate from the other assets of the Scheme and used to either fund the tax-free cash lump sum referred to above or provide additional defined contribution pension benefits on retirement.

4. The Trustee and Scheme administration

4.1. The Scheme is currently governed by a Consolidated Trust Deed and Rules entered into between TfL and the Trustee dated 19 December 2008 (as amended) (the Scheme Rules)[10].

4.2. The Trustee is the sole trustee of the Scheme.

4.3. The Scheme Rules require there to be 18 directors of the Trustee (Trustee Directors)[11]:

4.3.1. nine Trustee Directors must be nominated by TfL as the principal employer (of whom at least five must be members of the Scheme);

4.3.2. one Trustee Director each must be nominated by five specified trade unions and other representative bodies; and

4.3.3. four Trustee Directors must be nominated by members, through the TfL Pension Consultative Council (of whom two must be either pensioner or deferred and the other two must be active; one employed within the

[7] https://tfl.gov.uk/pensions/your-pension/benefits-on-death
[8] https://tfl.gov.uk/pensions/your-pension/pension-payments-and-deductions
[9] https://tfl.gov.uk/pensions/your-pension/your-contributions/additional-voluntary-contributions?intcmp=23579
[10] https://content.tfl.gov.uk/trust-deed-and-rules.pdf
[11] https://tfl.gov.uk/pensions/fund-management/trustee-board

London Underground Limited group of companies or subcontractors and the other not employed within that group).

4.4. The Trustee holds a general board meeting, which meets five times a year. There are also six specific committees: Operations, Audit, Investment, Actuarial Valuation, Appeals, and the Alternatives and Liability Hedging committee. In summary, the role of the Trustee is to administer the Scheme according to the Scheme Rules and overriding law and regulations and, when exercising its powers, to act in the best financial interests of the Scheme's members and other beneficiaries, to act impartially, prudently and honestly, to invest the Scheme's assets to obtain the best long-term return without putting the Scheme at undue risk.

4.5. The day to day administration of the Scheme is carried out by a specialist team, in-house. Independent specialist investment managers carry out day-to-day investment matters on the Trustee's behalf[12]. The Trustee also receives independent professional advice on actuarial, legal and audit matters from reputable third-party specialists.

5. Current Scheme funding position

5.1. Every three years the Trustee is required by law to carry out an actuarial valuation of the Scheme. As the last triennial valuation was carried out as at 31 March 2018 (the 2018 valuation)[13], the Trustee is currently carrying out its latest triennial valuation, in discussion with TfL, with a calculation date of 31 March 2021 (the 2021 valuation). The law requires these valuations to be agreed within 15 months, meaning that the 2021 valuation must be agreed between TfL and the Trustee by 30 June 2022.

5.2. The purpose of the valuation is to assess the value of the Scheme's assets and liabilities as at the assessment date (known as the effective valuation date) and to review and, if necessary, revise the level of contributions paid by TfL; both in respect of any deficit arising in the Scheme in respect of past service benefits and those contributions required to meet the cost of new benefits that will be earned by active members in future.

5.3. The method and assumptions used in the valuation to calculate the value of the Scheme's liabilities (the Technical Provisions), as well as the required level of contributions, must be agreed between TfL and the Trustee and set out in a number of key compliance documents which are ultimately submitted to the Pensions Regulator (the Regulator). The contributions agreed between TfL and the Trustee must be set out in a Schedule of Contributions, with the deficit recovery contributions also set out in a separate Recovery Plan.

5.4. The Technical Provisions are calculated by discounting the expected future cash flows from the Scheme. The discount rate and cash flows take into account current financial market conditions and expected future trends in respect of several key factors, such as:

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[12] https://tfl.gov.uk/pensions/fund-management/investment-management-and-principles
[13] https://tfl.gov.uk/pensions/fund-management/actuarial-valuation

5.4.1. the level of investment returns expected to be generated by the Scheme’s assets and an associated level of confidence in these expectations being realised in practice, in light of the current and future investment strategy of the Scheme;

5.4.2. the level of salary growth expected for the Scheme’s active members;

5.4.3. the degree to which TfL's covenant can support a range of likely adverse outcomes;

5.4.4. the expected level of future price inflation (set with reference to the RPI) which dictates the rate at which benefits are expected to grow when in payment and, for deferred members, before their retirement date; and

5.4.5. demographic assumptions such as how long Scheme members are expected to live and what spouses, civil partners or other dependants the members are expected to leave behind.

5.5. On the basis of the key assumptions agreed as part of the 2018 valuation, there was a deficit in the assets (which totalled £10,321m) versus the Technical Provisions (of £10,924m) in the Public Sector Section of £603m as at 31 March 2018[14]. In order to make up this deficit under a new Recovery Plan[15], it was agreed that TfL would pay contributions of at least £70m per annum (indexed) per annum until 31 May 2026. These contributions are paid as 6.4% of active members' pensionable salaries per annum.

5.6. In addition, TfL agreed to pay 26.9% per annum of active members' pensionable salaries to meet the cost of new benefits accruing for active members (with active members continuing to pay a fixed contribution of 5% of their pensionable salaries). This currently equates to around £295m per annum.

5.7. Therefore, TfL’s total current pensions contributions equate to around £370m per annum, or 33.3% of pensionable salaries[16].

6. Scheme investment strategy

6.1. The Trustee sets the Scheme's investment strategy, in consultation with TfL[17]. The primary objective of the Trustee’s investment strategy is that the Scheme's existing assets, together with future contributions from members and TfL, will be sufficient to meet the cost of the past and future service benefits to be provided from the Scheme.

6.2. Whilst the Trustee is required to act prudently when setting the Scheme's investment strategy, it has recognised that the current level of funding and strength of TfL's covenant permits some risk being taken in pursuit of growth (i.e. a deviation from a liability-matched portfolio).

6.3. In summary, the investment policy therefore pays regard to the following:

[14] https://content.tfl.gov.uk/public-sector-section-actuarial-valuation-report-2019-01.pdf
[15] https://content.tfl.gov.uk/public-sector-section-recovery-plan-2019-01.pdf
[16] https://content.tfl.gov.uk/public-sector-section-schedule-of-contributions-2019-01.pdf
[17] https://content.tfl.gov.uk/statement-of-investment-principles-march-2021-1.pdf

6.3.1. the security of members' benefits;

6.3.2. the need to comply with scheme-specific funding requirements set out under Part 3 of the Pensions Act 2004;

6.3.3. a desire to control the cost of benefits by preserving the Scheme's wealth;

6.3.4. a desire to limit instability in contribution rates as a result of any failure of the investment strategy;

6.3.5. notwithstanding the above, a willingness to embrace risk in a controlled fashion in order to achieve incremental excess return.

7. Regulatory Context

7.1. As explained above, the Scheme is a private sector scheme established under trust. Whilst a matter of historical accident rather than design, this anomaly causes the Scheme to be subject to an increasingly challenging funding environment. This is because the Regulator is required, by legislation, to treat the Scheme like other private sector schemes despite TfL being a public sector body.

7.2. The law which sets out the funding requirements for private sector schemes is contained in Part 3 of the Pensions Act 2004[18]. In summary, to secure accrued benefits, the Regulator focusses on requiring increased levels of prudence and contributions, in order to reduce risk over time. The Regulator's Annual Funding Statement 2021[19] suggests that, for this purpose, all private sector scheme employers and trustees should be seeking to agree a long-term funding target. This typically means aiming for their scheme to achieve a level of assets, by the time it has reached significant maturity, such that it has a substantially reduced dependency on the scheme employer.

7.3. The Pension Schemes Act 2021[20], once fully implemented, will make it a requirement for all private sector schemes to put in place a legally binding long-term strategy, designed to achieve an agreed long-term funding target. The Regulator is developing updated guidance to sit alongside this new requirement, which is currently being revised and is expected to be ready for consultation towards the end of 2021. Broadly speaking, this new requirement is likely to mean that employers of private sector schemes, such as TfL, are put under increased pressure to pay more money into their schemes more quickly.

7.4. Where the Regulator considers that a private sector scheme is not being funded in accordance with Part 3 of the Pensions Act 2004 and its associated guidance, it has significant powers available to it, including an ability to impose its own measure of the scheme's liabilities and to set the level of contributions required to be paid by the scheme employer.

[18] https://www.legislation.gov.uk/ukpga/2004/35/part/3
[19] https://www.thepensionsregulator.gov.uk/en/document-library/statements/annual-funding-statement-2021
[20] https://www.legislation.gov.uk/ukpga/2021/1/contents/enacted

7.5. The new requirements and associated Regulator guidance being introduced with the Pension Schemes Act 2021 increase the uncertainty and potential significance attached to this regulatory risk for TfL.

7.6. As stated above, TfL as a public sector body (which does not pay dividends to shareholders) is required by legislation to operate a balanced budget and has its own statutory objectives in relation to the development and maintenance of London's transport infrastructure.

7.7. For comparison, whilst the Regulator oversees the governance of public sector schemes, it has no role in their financial management nor the security of members' benefits, which is a matter solely for Government to determine. It is the case that public sector schemes have different funding arrangements and are permitted to have longer recovery periods when deficits arise.

8. Scheme Specific Issues

8.1. As noted above, the Scheme currently provides a benefit which is linked to each member's "final salary" when they retire, leave service or die (whichever happens first). The link to final salary means that benefits provided to members can potentially significantly increase beyond that funded for if members receive a large salary increase towards the end of their career.

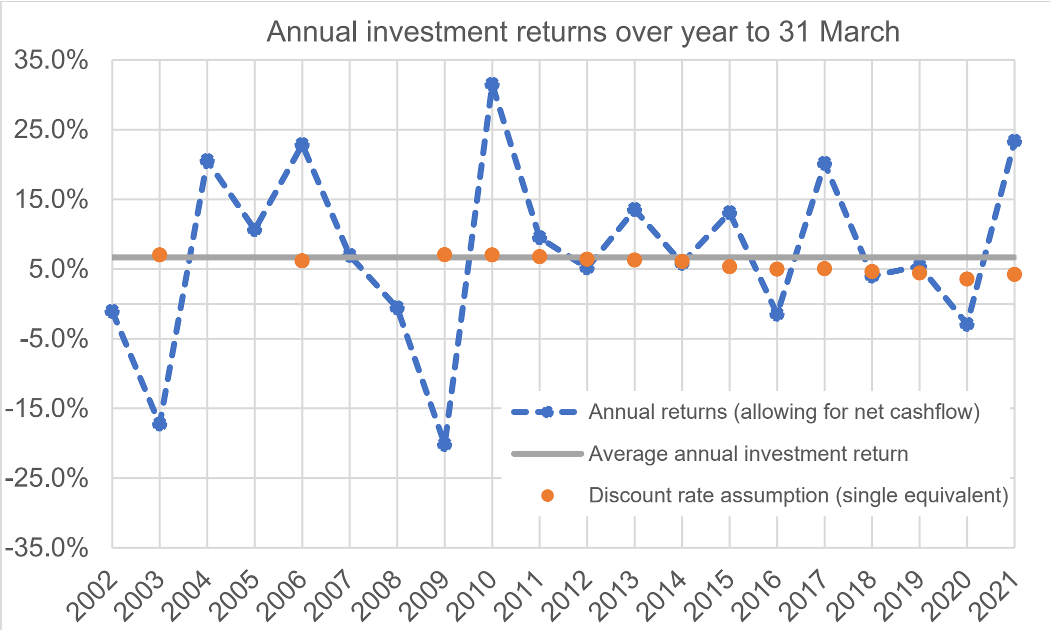
8.2. The Scheme is "balance of cost" in nature, such that members pay a fixed contribution rate equal to 5% of their pensionable salary and TfL meets any required contributions over and above this to meet the Scheme's liabilities. This means that TfL is exposed to all the risk that providing the promised benefits turn out to cost more than expected.

8.3. TfL is exposed to a number of different risks in relation to the Scheme. These are explained in further detail below.

<u>Investment risks</u>

8.4. One of the key assumptions made in an actuarial valuation is the discount rate. This is the level of investment returns expected to be generated by the Scheme's assets, with an associated level of confidence in these expectations being realised in practice. A high proportion of the Scheme's assets are invested in return-seeking classes (such as equities and alternatives) which are intended to maximise returns and, in turn, reduce the expected contributions from TfL. However, a higher risk investment strategy also means that investment returns are expected to be more volatile from one year to the next. This is illustrated by Chart below, which shows the annual returns actually received by the Scheme's assets over the last 20 years:

Appendix 3 Chart 1 – The Scheme's investment returns and discount rate assumptions over the last 20 years

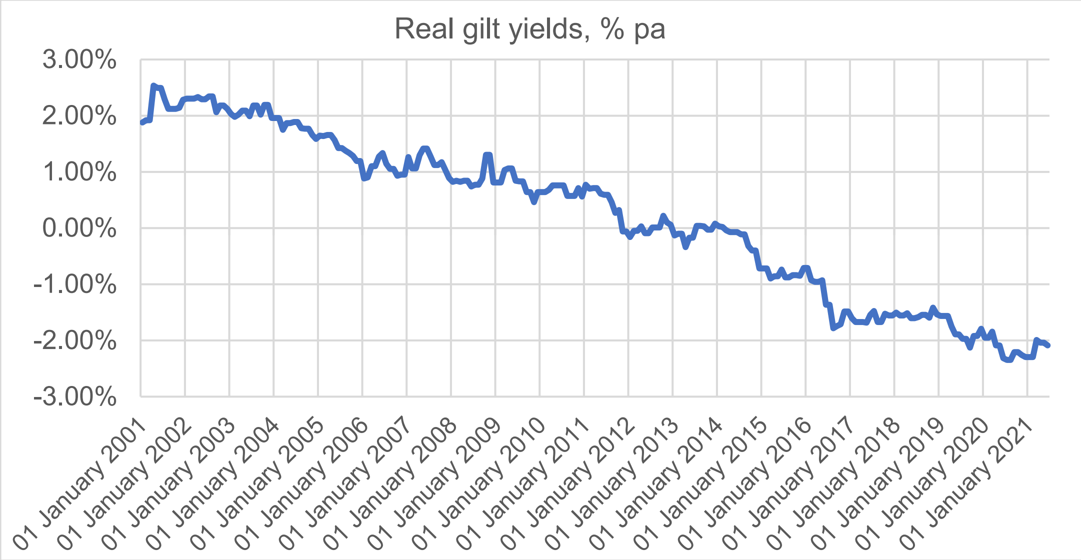


8.5. As the private sector funding regime requires the Scheme's assets (when compared to the Technical Provisions) to be assessed at a particular date, the Scheme, and hence TfL, carry a risk that a valuation falls due when the Scheme's assets have fallen in value (with no corresponding fall in the Technical Provisions). If this occurs, then there is the possibility that substantial deficits can result which can, in turn, lead to the need for TfL to pay substantial additional contributions. The significant size of the Scheme also means that a relatively small change in investment performance can lead to a relatively large increase in contributions needed from TfL.

8.6. Chart 1 also shows the discount rates (i.e. the allowance for the annual returns expected to be generated by the Scheme's assets, in future) that have been used by the Scheme actuary in the Scheme's funding assessments at each actuarial valuation and interim funding updates since 2003. This shows that the discount rate, and hence expected future investment returns, has fallen over the years, from 7.0 per cent per annum in 2003 to around an estimated 4.2 per cent per annum based on the 2018 valuation basis (updated for market conditions at 31 March 2021).

8.7. There are a number of reasons as to why discount rates have fallen over the years, but a key determinant is the very significant fall in real gilt yields over recent decades, as shown in Chart 2 below. In summary, this is because gilt yields are often considered to be a useful indicator of future investment returns. Notably, if future investment return expectations fall, then liabilities increase, as less reliance can be placed on investment income to meet the cost of the future benefit commitments. As such, unless the value of a pension scheme's assets rises in a similar way, falling gilt yields and investment return expectations give rise to larger shortfalls, all else being equal.

Appendix 3 Chart 2 – Real gilt yields over the last 20 years



Source: FTSE Actuaries Government Securities Index Linked over 15 years index – 3 per cent inflation

8.8. Falling interest and discount rates put further pressure on pension scheme funding, as lower expected future investment returns mean higher Technical Provisions and, in turn, that pension scheme sponsors, such as TfL, need to find cash to meet the inevitable ‘funding gap’ that arises.

<u>Mortality risk</u>

8.9. Another risk is the risk that members live longer than expected.

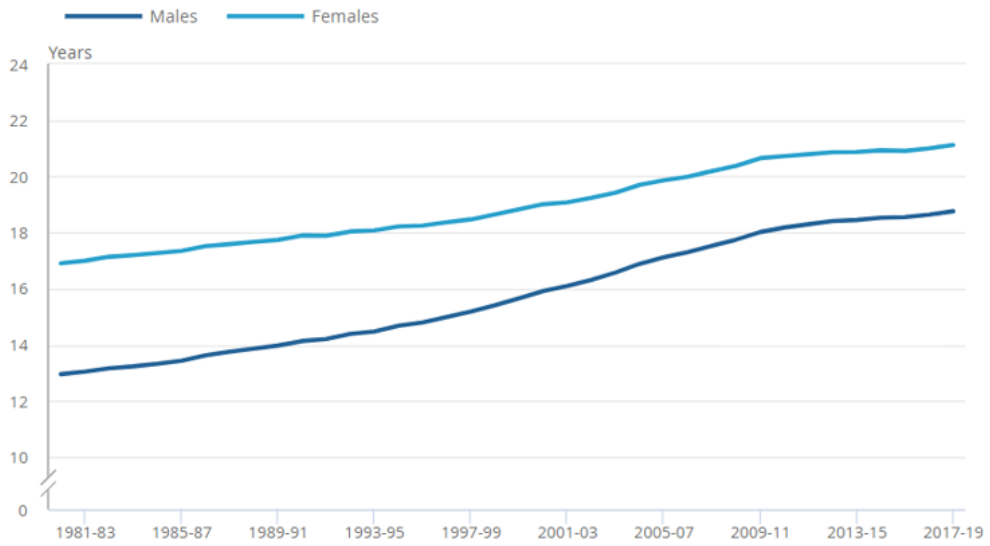
8.10. Higher life expectancy means that pensions are likely to be paid for longer, which increases the cost of providing the pension entitlement in the Scheme.

8.11. The impact of rising life expectancy is exacerbated when investment returns are lower. This is because an additional year of life expectancy leads to a greater increase in the Scheme’s liabilities when the cash flows are discounted at a lower discount rate.

8.12. Life expectancies have increased substantially over the last few decades. This is illustrated in Chart 3 below, taken from the Office for National Statistics (ONS).

8.13. Chart 3 shows that over the period between 1980 and 2019, life expectancy increased by 5.8 years for males and 4.2 years for females. This has had a very significant impact on the Scheme’s Technical Provisions, all else being equal.

Appendix 3 Chart 3 – Life expectancy at age 65 for males and females, UK: 1980 to 1982 and 2017 to 2019



Source: Office for National Statistics – National life tables – life expectancy in the UK: 2017 to 2019

Covenant risk

8.14. Another risk affecting the contributions required to fund a defined benefit pension scheme, such as the Scheme, is the strength of the sponsor covenant supporting it. In general, the Regulator expects funding assumptions to be set consistently with the strength of the sponsor covenant, such that if the sponsor is viewed to be "strong" then it is more likely to be able to support the pension scheme for the longer term, allowing the trustees to invest in higher risk assets and fund with relatively less prudence, in the expectation that the sponsor would reasonably be able to make up any funding shortfalls, should this be required. If the sponsor covenant is assessed as being "weak" then the converse is true, which would normally give rise to a higher value being placed on a pension scheme's Technical Provisions.

8.15. As explained in Appendix 2, the Covid-19 pandemic has had a significant impact on TfL's finances. In line with standard practice, the Trustee will formally assess the strength of the covenant provided to the Scheme as part of the 2021 valuation. However, if the covenant is deemed to have weakened, then this is could mean that the Trustee may aim to be more prudent in its funding assumptions, which will result in higher contributions than would otherwise have been the case.

Other risks

8.16. It is necessary to make a large number of assumptions in a formal actuarial valuation and there is a risk that these are not borne out in practice, giving rise to higher contributions than anticipated. These include:

8.16.1. the level of future salary growth for contributing members, in particular the risk that members receive a large salary increase towards the end of their career given the final salary nature of the Scheme.

8.16.2. how RPI inflation will increase in future, which affects the rate at which deferred and pensioner members' benefits increase.

8.16.3. the chance a member has an eligible dependant (spouse, civil partner or child) in the event of their death, and the age of the dependant.

9. Cost and volatility of the Scheme for TfL

9.1. Driven by many of the risks explained above, the costs for TfL of providing benefits in the Scheme have increased significantly over the last 30 years, both in monetary terms and as a multiple of employee contributions. This is illustrated by charts 4 and 5 below.

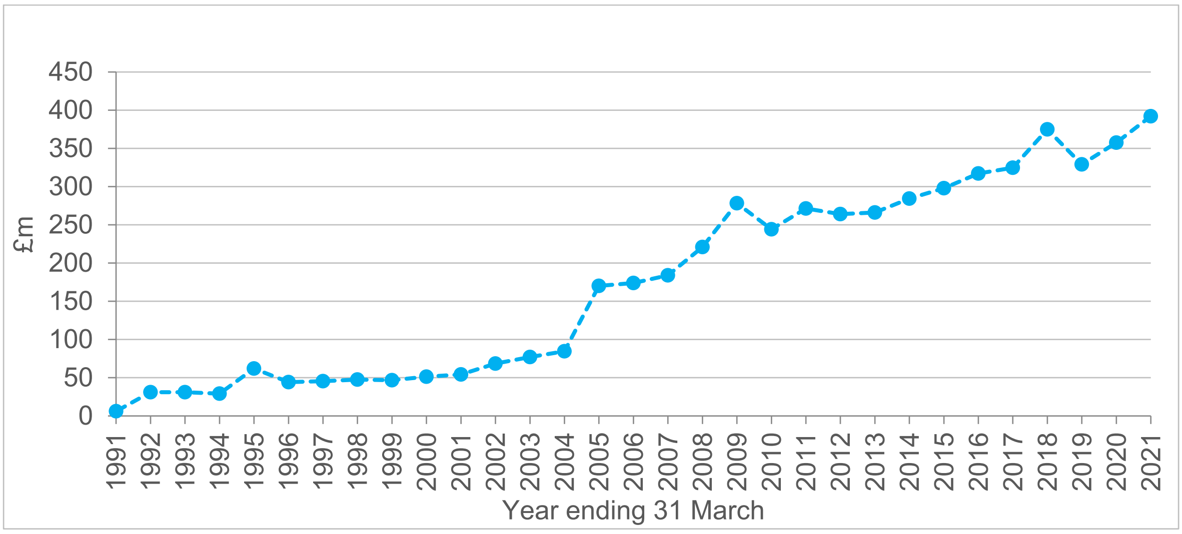
9.2. The Scheme has also grown significantly over the years, as illustrated below:

9.2.1. *Membership progression:* The total number of members in the Scheme has increased since 2003 from around 75,000 to around 85,000, with the contributing population increasing from around 15,000 to almost 26,000 over the same time period. The total membership, split by member type, is summarised in Chart 6 below at each valuation date since 2003.

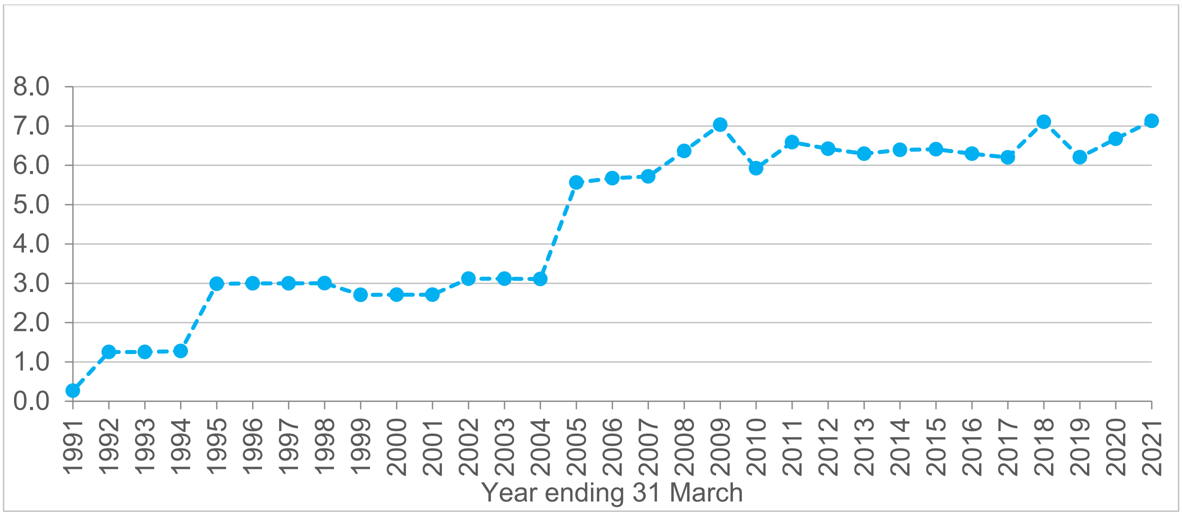
9.2.2. *Asset / Technical Provisions growth:* Chart 7 below shows that, since 2006, the Scheme has more than tripled in size, with the assets having grown from around £4bn to over £13bn as at 31 March 2021.

9.2.3. *Deficit progression:* The difference between the Scheme assets and Technical Provisions determines whether there is a surplus or deficit at each valuation date. The funding level is described by the assets as a proportion of the Technical Provisions; both these measures for the Scheme are shown below in Chart 8.

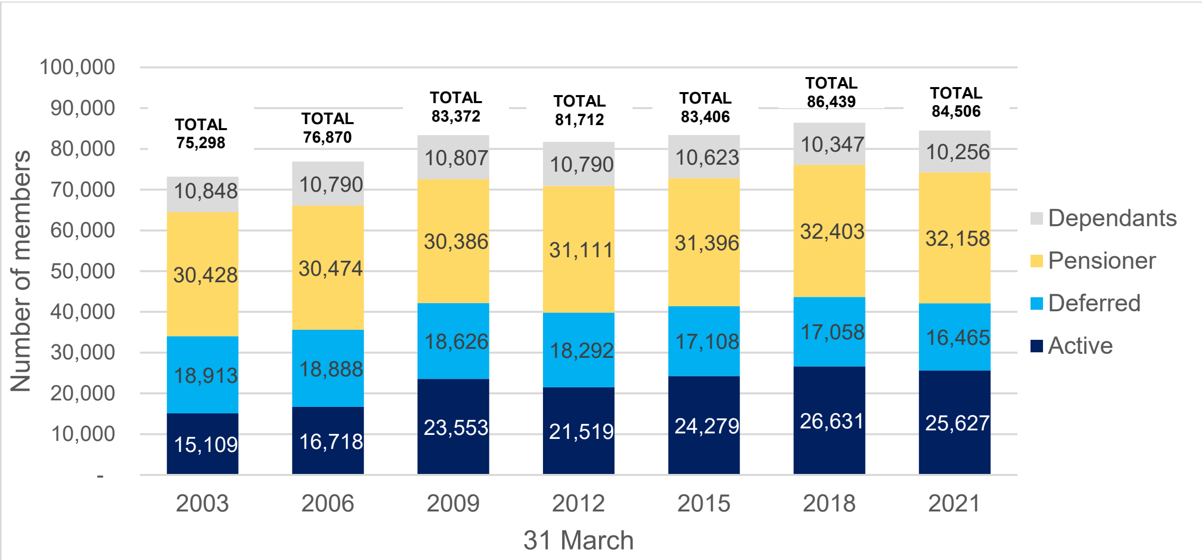
Appendix 3 Chart 4 – Total TfL contributions paid to the Scheme over the last 30 years



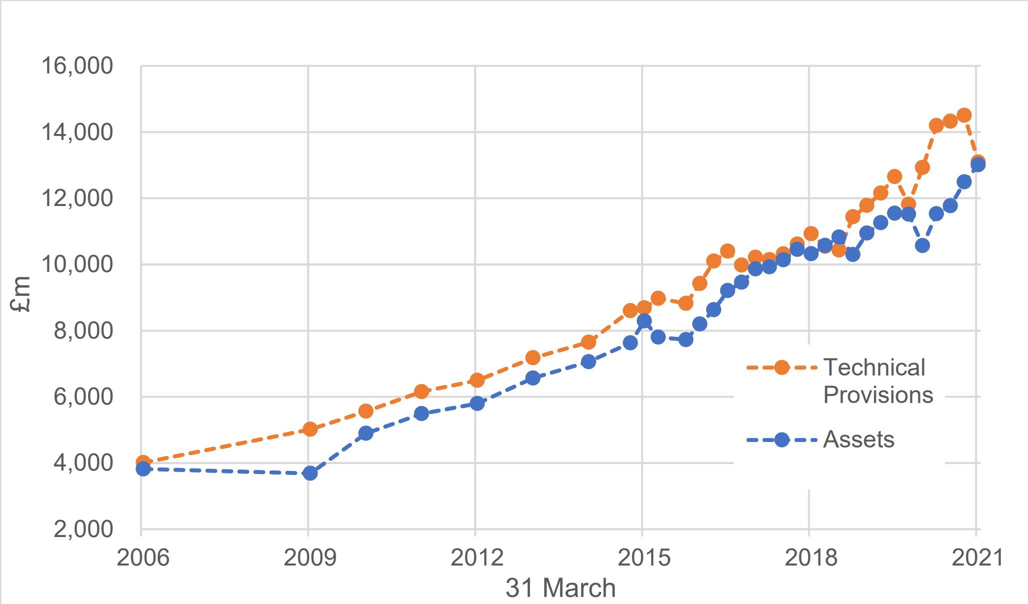
Appendix 3 Chart 5 – Total TfL contributions paid to the Scheme over the last 30 years, as a multiple of member contributions



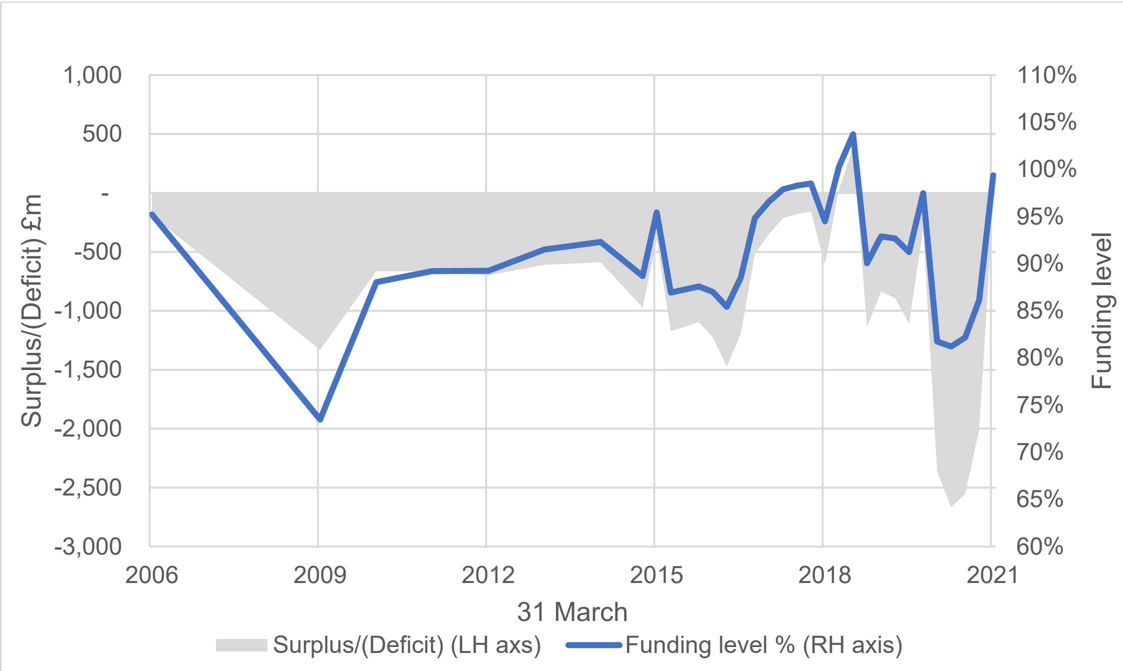
Appendix 3 Chart 6 – Membership progression since 2003, split by member type



Appendix 3 Chart 7 – Growth in Scheme assets and Technical Provisions since 2006



Appendix 3 Chart 8 – Progression of surplus/deficit and funding level in the Scheme since 2006



9.3. All the charts above demonstrate how the Scheme has grown over recent years. This growth brings some significant challenges for TfL. In particular, Chart 7 illustrates that the Scheme has grown substantially in terms of both its assets and liabilities over the years and, with that, the potential volatility of any deficits that can arise at a formal actuarial valuation.

9.4. Chart 8 shows how large the surplus / deficit swings can be and indeed in the two-year period ending 30 June 2020, the Scheme surplus / deficit swung by more than £3bn.

Appendix 4: Stage 1 Call for Evidence: questions and how to respond

For this first stage Call for Evidence the Review is keen to understand stakeholders' views on the challenges (if any) currently facing the Scheme in light of the continuing funding pressures on TfL as well as any Scheme-specific challenges arising from, for example, the increasing longevity of members.

Stakeholders are therefore invited to provide written responses to the following questions:

1. How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?

2. How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?

3. What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?

4. How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

5. What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

6. How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

7. Are there other considerations or criteria the Review should consider?

8. Is there anything else you would like to add?

It would be helpful if written responses could have particular (although not exclusive) regard to the questions set out above and provide evidence in the form of annexes to support answers.

Written responses should be submitted by midday on 17 September 2021 to pensionreviewsubmissions@tfl.gov.uk

It is the intention of the Review to be as transparent as practicable. Engagement responses (whether obtained in writing or in meetings) will be summarised and published as part of Interim and Final reports to be produced by the Review. Respondents may, by written request to the Independent Lead at the time of their submission, ask that their views and/or written responses remain anonymous and/or confidential.

Appendix 2

Pensions Review

Responses to Stage 1 Call for Evidence

September 2021

Contents

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Brendan Barber

Via email to

pensionreviewsubmissions@tfl.gov.uk

31/08/2021

Re. Tfl pension fund review. Call for evidence.

Dear Brendan,

Before dealing with specific questions in the call for evidence, there are several points that need to be made in response to Appendix 3 of the document. This seems to be drawn from comments by the employer and is similar in tone and content to the presentation given by Simon Killonback at the first meeting of the contact group.

a) The appendix focuses on perceived risks to the scheme while almost entirely ignoring its strengths. Unlike some private sector scheme that have accumulated significant deficits, the TfL scheme is financially healthy and is expected to be at around or above 100% funded when the current valuation is finalised.

b) Volatility is highlighted as a major risk. In fact, the fund has taken advantage of the unprecedented volatility in financial markets to grow its asset base.

c) It is argued that TfL could be exposed to substantial additional contributions if the schemes assets had fallen when a valuation took place. In fact, although valuations must take place every three years, there is no reason why a valuation could not take place more frequently to correct a "rogue" valuation. For instance, if the triennial valuation had taken place in March 2020 when markets were at their lowest levels due to the pandemic, a subsequent valuation could have taken place this year to reflect a return to more normal market conditions.

d) In any case the fund is a long-term investor that uses a balanced investment strategy to manage volatility

e) Mortality risk is also highlighted. While it is true that life expectancy has increased, this trend has slowed significantly.

f) Wage risk. It is argued that increases in wage levels creates risk to the employer. In fact this has been largely mitigated as pay rises for TfL employees have been non-consolidated for many years and a pay freeze is now in place.

g) It is rightly pointed out that the construction of the scheme as a trust, and so regulated as a private sector scheme was a matter of accident rather than design. This is something that it is open to the Government to change by legislation thus removing the liability risks to TfL and reducing the regulatory impact.

h) Covenant risk. Despite the current drop in passenger levels, public transport will be central to London's future for many decades to come. The necessity to mitigate global heating means that tube, bus and rail journey will increase over time as car journeys are reduced even if working patterns change. The fact that central Government insisted on full services being operated and have repeatedly provided funding (albeit with strings) demonstrates the vital role of the service. By providing strong guarantees to the scheme TfL can reduces its costs at the Trustee can invest accordingly to increase returns. Any perceived reduction in commitment by TfL to the Scheme would have to balanced by increased contributions in the short term to mitigate long term risk. Rather than saving money, this would be a large extra cost to TfL.

i) If staff feel that the scheme is to be changed to their detriment large scale industrial action is inevitable. This would not be a one-off event. Action across all grades and Unions must be expected. Staff who were rightly described as heroes during the pandemic would feel betrayed by senior management, by the Mayor and by the Government. Industrial action should be expected to be repeated over a long period of time and to continue until staff recouped any benefits they lost by changes to the scheme even if this took a number of years. Combined with the huge damage to morale such a betrayal would cause, this would mean a long term perception that the tube is unreliable and staff unmotivated. This would lead to a decline in passenger numbers and a consequent fall in revenue while polluting car journeys would be more attractive. The result would be increased cost for TfL and externalities like poorer air quality and damage to London's status as a tourist destination. The progress made in reducing days lost to strike action would be dramatically reversed.

j) Detrimental changes to the scheme, or any perceived weakening of the employer covenant is likely to increase the funding needed from TfL in the short and medium term to balance the changes that would be needed to the Funds investment strategy.

Specific questions asked.

1. *How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?*

   ASLEF's view is that maintaining a defined benefit final salary scheme is not only sustainable but that any attempt to remove it would be deeply damaging to the long-term future of TfL and to achieving the Mayor's broader goals of improving air quality and promoting London as a tourist and business location for the reasons set our above in point I.

2. *How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?*

The provision of a defined benefit final salary scheme must be seen as a basic part of the operational cost and should be funded as such.

3. *What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?*

   See above points "c". to "f" .

4. *How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?*

The governments economically damaging austerity program led to attacks on pension arrangements across the public sector. This is no justification for doing the same to the Tfl scheme. The fact that my neighbour has been burgled does not mean that it is fair that I should be burgled too.

5. *What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?*

   Maintaining the current scheme unchanged is the best way to maintain fairness to all. Members joined the Fund on the understanding that they could opt out, and that they instead stayed with the scheme on the basis of promises made. TfL did this to entice/retain staff, and any rowing back on this commitment would be deeply damaging.

6. How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

Pension arrangements are regarded by staff as deferred wages. As set out in point “I” above any attempt to attack them will lead to an industrial dispute. In the past the employer has often pointed to the pension provision as balancing lower wages or better conditions in other rail companies.

7. Are there other considerations or criteria the Review should consider?

The review needs to consider the fact that transport workers were one of the groups most effected by Covid. At least 60 TfL staff have died so far because of the pandemic. People who risked their personal safety and that of their families now see that their wages are to be frozen and that their pension benefits are to be attacked. This is a deliberate political decision, not an economically inevitable one.

8. *Is there anything else you would like to add?*

This review is driven by a politically motivated attack on TfL workers. Tory candidates for Mayor and GLA members have repeatedly called for staff benefits to be cut. They resent the fact that workers get reasonable wages and benefits. No other employer in receipt of Government funding during the pandemic has been required to review its pension arrangements in this way.

The current scheme is strong and well-funded. It should be supported. Staff who give decades of their lives to public service deserve to have a decent retirement and to be able to plan ahead knowing their pension is secure. This applies equally to future service and to future employees.

ASLEF will actively defend this principle.

The statement of the Purpose of the Review- *'the explicit aim of moving TfL's pension arrangements into a financially sustainable position'* undermines the commitment that no change is a viable option.

The confrontational language and overall tone used is deliberately loaded and misleading, creating a false narrative based on supposition that the Pension Fund is both poorly managed and in deficit, when in reality exactly the opposite is true. The Pension Fund is efficient, diversified, structured and above all solvent- underpinned with a strong covenant and experienced management. This can be illustrated by how well the Fund's investments have performed in the face of a catastrophic global pandemic.

Furthermore, TfL's current financial issues are entirely unrelated to the Pension Fund- i.e. 1) the loss of the central Government grant 2) the transference of Crossrail to TfL with the associated massive financial costs overrun 3) the Government tying financially crippling short-term loans to TfL in order to run a full service during the Pandemic, whilst fare paying passengers were told to stay at home 4) Government deliberately withholding long term sustainable financing that directly negatively impacts the Pension Fund's Covenant.

Best regards,

Finn Brennan.

TFL Pensions Review: Call for Evidence

Submission by Prospect to the Transport for London Pensions Review call for evidence

September 2021

www.prospect.org.uk

Introduction

Prospect are a trade union with 150,000 members representing specialists, managers and professionals across the public and private sector. We represent members carrying out a variety of roles across Transport for London (TfL).

Questions from the call for evidence

How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?

This review has been mandated for political reasons to attack the terms of conditions of TFL staff. We expect reviews of pension provisions such as this to be undertaken following an actuarial valuation of the pension scheme. This process cannot provide meaningful recommendations unless it is informed by the finalised 2021 valuation of the scheme.

With regards to the sustainability of the scheme we expect the outcome of the latest actuarial valuation to show the scheme in a healthy funding position. The funding level of schemes as measured by PPF 7800 index shows a positive improvement in the funding position of defined benefit schemes over the past 12 months, therefore we believe the latest actuarial valuation may show an improvement in the funding position of the scheme.

How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

We are clear our members deserve a high quality, defined benefit pension provision. A scheme that is open to new members and future accrual with an affordable employee contribution rate.

HM Treasury has recently consulted upon the discount rate methodology for public sector pension schemes and is expected to then review the discount rate itself. In their consultation they outlined an expectation that if the status quo is kept, the discount rate is likely to be reduced at the next review based upon the OBR's long term GDP forecasts at that point. The rate provided as an indication was 1.8% + CPI.

This expected reduction in the discount rate would increase the employer contribution rates of the major public sector pension schemes. The employer contribution rate for the Civil Service Pension Scheme the pension scheme for staff at Department for Transport (DfT) are from 1st April 2021 between 26.6% and 30.3%. We are anticipating an increase in the employer contribution rates for the civil service pension scheme that would put them at a comparable level to the existing employer contribution rate for the TfL pension arrangements. This shows that is not a justification for a review of the TFL arrangements based upon the rate of employer contributions.

What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

The pension arrangements should remain open to future accrual and new members to ensure equality of pension provision to all staff irrespective of age, gender and ethnicity.

How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

The pension arrangements are a key component of members terms and conditions. Member's value having access to an affordable high quality pension scheme, and we would be prepared to ballot our members to defend these arrangements with industrial action if necessary. Our members expect to continue to have access to a high quality and affordable defined benefit pension scheme.

Maintaining the value of current pensions arrangements is also significant in terms of the ability of TfL to recruit and retain the highly skilled staff required to operate and maintain London's transport network. The value of the pension has become even more important as more than a decade of public sector pay restraint has seen significant real terms cuts to salary levels in TfL.

Are there other considerations or criteria the Review should consider?

The Review should be postponed until the ongoing valuation of the scheme has been finalised and published.

Is there anything else you would like to add?

The presentation provided clearly demonstrated the difficult financial position facing Transport for London (TfL).

The TFL Independent Review published in December 2020 showed that revenue from fares accounts for 72% of revenue for TFL compared with rates of between 38% and 47% for Madrid, Paris, and New York. This reliance on fares for funding and not the costs of pension scheme is clearly causing the current financial predicament. The financial challenges TfL currently faces cannot be solved through changes to pension provision.

National Union of Rail, Maritime & Transport Workers

TfL Pension Fund

Pensions Review, Stage 1 Call for Evidence, August 2021

17th September 2021

INTRODUCTION

The National Union of Rail, Maritime and Transport Workers (RMT) is the UK's largest rail union and we organise over 84,000 workers in the tube, rail, bus, shipping, ports and offshore energy industries. We have recognised collective bargaining rights with over 160 public and private sector employers, whom many will contribute to some form of defined benefit pension arrangement which includes our members employed across London Underground.

In response to the TfL Pension Fund, Pensions Review, Stage 1 Call for Evidence consultation, please find below our views, concerns and disappointment that this review is taking place when many of our members across LUL who are contributing members of the fund have put their lives on the line to keep London moving.

1. How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?

Pension schemes like TfL's are a long-term pooling of risks in the interests of all stakeholders and their sustainability must be measured over the long-term. As illustrated in the Call for Evidence consultation paper, over the years, the TfL Pension Fund has reacted to various events in the very same way as other Defined Benefit (DB) Pension Schemes. The events we allude to are changes in legislation, poor investment performance and improvements in mortality, to name just a few. However, while we acknowledge that these events have had at times impacted negatively on the TfL Pension Fund, its strong governance has meant that these challenges have been dealt with effectively. It is of the utmost importance to the TfL scheme, as will all schemes, that decisions are made on the basis of evidence and with the long-term sustainability of the scheme in mind and are not governed by short term and politically motivated decisions.

There is no case for this review. The Independent Review into the TfL pension arrangements is in our view not only badly timed but clearly politically motivated. We would ask why anyone would seek to review the TfL Pension Fund at a time when it's almost fully funded, and perhaps more importantly while the Trustee Board are carrying out a full Triennial Actuarial Valuation. The timescale for the Review is established in order to drive the Review to conclusions before vital evidence is available and at the whim of the government, without any internal rationale. In our experience the tried and tested method in dealing with similar pension arrangements is when the results of a triennial valuation reveal a deficit which needs to be addressed. Setting up a review panel is not only unnecessary it is also a waste of TfL's time and resources which would be better focused on ensuring and safe and sustainable increase in passenger numbers back onto the network. It also causes wholly unnecessary anxiety to employees who have risked their lives through the pandemic. Too many have died giving this service.

Neither is it legitimate to judge the long-term sustainability of the TfL pension scheme through quick and facile comparisons with other schemes. Comparisons to Network Rail and Local Government pension schemes, for example, are totally inappropriate. Each scheme has been established on the basis of different historic labour markets and reward packages, different mixes of public and private employment, different funding levels and assets and with differing precision, variations in the role of the state and the taxpayer. The taxes of our members, for example, contribute toward the pensions of government ministers. Each scheme needs to be judged on its own merits and not through a politically motivated imperative to drive a race to the bottom aimed at making our members poorer in retirement.

The TfL pension scheme has a well-established governance structure along with a very focused investment strategy based on the principle of diversification which is very well-equipped to manage the scheme in the interests of its long-term sustainability.

2. How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?

The sustainability of the TfL Pension Fund should be viewed in line with the scheme's liabilities and assets on a long-term basis considering the characteristics and obligations placed on the fund in providing benefits in retirement for all beneficiaries.

These characteristics and obligations are ingrained into three fundamental principles we believe are unremovable:

1. The pension fund must remain open. We believe that if the TfL Pension Fund is closed to new entrants this will create a spiral of decline in the scheme. The experience of closing schemes to new entrants over the last 20 years is that it reduces the investment horizon, refocuses schemes on cash and bonds with lower returns, and produces more pressure to raise contributions and cut benefits. Closing the scheme to new entrants must be avoided to escape such a spiral. Current benefits must be retained for current and new members.
2. Current contributing members have an expectation of a certain level of benefit not only for past service benefits but also for future accrual. These promises should be honoured in full. We do not accept that change is necessary for the sake of change and our members expect and deserve a certain level of benefit in retirement. Cutting benefits for future members will build inequity and instability into the scheme. Future members of the TfL Pension Fund should have the same expectations as existing members.
3. All pension schemes should be affordable and fit for purpose. We do not accept bald statements that the TfL Pension Fund is somehow outdated and must be modernised. This is, in our view, nothing more than political propaganda which aims to divide workers by using the narrative that DB final salary pension schemes are 'gold plated', unaffordable and must be closed.

From a member perspective, having new members contributing to the fund on a continuous ongoing basis is we believe is the most important element of long-term sustainability when combined with an effective diversified investment strategy that takes fully into account fluctuating investment markets. While it can be argued that using such investment strategies, such as Liability Driven Investment, can stifle investment growth, it is clear that over the last 18 months the TfL Pension Fund, like many similar DB schemes, has seen funding levels grow and not reduce which is primarily due to the protection provided by way of diversification as a cornerstone premise of the TfL Pension Funds Investment strategy.

3. What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?

All pension schemes pool risk and while we recognise the risks associated with DB pension schemes in general, we do not accept that they cannot be managed or indeed mitigated on a long-term basis. The challenges faced by the TfL Pension Fund are nothing new and the existing governance structures are entirely fit for purpose in managing those challenges. especially in the pursuance of its investment strategy. This investment strategy has been a great success story for the Fund since first embarked upon in 2009 following the global financial crisis.

The key risk we face now is that the TfL scheme is being reviewed as part of a reckless, opportunistic, politically motivated attack on workers who have put their lives on the line throughout the pandemic. Political pressure is being applied to remodel a scheme and potentially undermine the strength of the Employer Covenant without any inherent justification arising from the scheme itself. Pressure is being applied to find a 'solution' to a non-existent problem in order to cut our members' deferred pay. This is not only morally reprehensible, it is, pragmatically, a highly dangerous way in which to make policy regarding a substantial pension scheme.

However, while we do not accept the rationale of the review, we would like to comment on possible key risks mentioned.

The risks mentioned are of course a concern for all DB pension schemes but if there is good Trustee governance and strong employer covenant, when it comes to managing these risks over the long-term horizon these challenges can be mitigated.

This is exemplified by the crises which resulted from the Covid-19 pandemic which saw the leading index of both global and UK company shares plummet by 30% in the three months up to the end of March 2020, the largest quarterly fall in UK equities since Black Monday in October 1987. However, while we saw, for example, the FTSE 100 fall by almost 2,000 points, from 7,542 to 5,672 points, as we have experienced with other financial crisis the markets have since rallied and these leading stocks, in the FTSE 1OO as an example, are now valued by 7000 points.

While the above clearly was of some concern, as noted above DB pension schemes do not invest in the short-term but set their horizons much further out. Of course, in the short-term pension schemes will want to have liquid investments to react to such events and of course pay benefits. The TfL Pension Fund has diversified its investment portfolio to take into account the many different types of scenarios as well as taking advantage of the falls in different markets as mentioned above.

The good governance we mention above is in respect of the skill of investment advisors appointed by the Trustee and while you cannot always rely on this expertise due to certain events the TfL Pension Fund has and hedge its investments. to offset the risk of any adverse price movements or falls in markets. It is not by chance that the fund now finds itself almost fully funded based on the most recent valuation forecast despite financial market volatility and the turmoil experienced at the beginning of the pandemic.

It needs to be pointed out that the fact the Government has only offered a short-term funding agreement with TFL will consequentially negatively impact on the fund's investment strategy. This will result in the Trustees having to take a less aggressive or de-risking of investment approach due to the weakening of the sponsoring Employers Covenant. Therefore, the failure of the Government to agree a long-term funding agreement with TfL will therefore adversely affect potentially the current and continuous ongoing growth in investment returns and therefore damaging the fund in itself.

In respect of wage inflation and longevity, we also see these as being mitigated by the structure the existing, and still growing, investment portfolio and continued contributions being made into the fund. Experience taught us that most DB pension schemes now mitigate the pressure of an ageing population by matching their investments to the membership profile of the scheme. Investment concepts such as Liability Driven Investment are now used to manage the liabilities being built up by both active and pensioner members. While you can't always put faith in all these investment techniques all of the time, but it is crucial that the Trustees of the TfL Pension Fund are regularly monitoring their investments which we know to be the case based on the improved funding level of this pension scheme.

Additionally, these positive valuation outcomes are notwithstanding on going actuarial updates since 2018 which have been based on more conservative valuation criteria.

It is noteworthy, for example, that most of the still existing DB pension schemes that remain open to new members, including the TfL Pension Fund, have come out of the pandemic in very good financial shape.

4. How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

As noted above, in our view easy and facile comparisons with other pension schemes should be resisted. Whether in the public or private sector, each scheme has developed its own benefits structure, membership profile, employer covenant, funding arrangements and so on to reflect the particular characteristics of the industry, workforce, employers, employment patterns and labour markets in question. The need for reform should be established with reference to the particular industry and the particular scheme in question and not through headline grabbling, politically motivated comparisons. That is why the best locus for discussions of any need for reform is within the existing governance structures of the scheme and not a review established as part of a politically motivated funding settlement.

We are aware that the Trustee Board of the TfL Pension Fund are currently carrying out the 31st March 2021 triennial actuarial valuation which we believe will indicate the financial position of the fund and that is where any discussion should be directed. The synopsis to the review frames the issue in a way that is highly revealing, asking the question of whether other workers, regardless of where they work, receive benefits similar to those of TfL employees. This is a direct and leading reference to the nasty, divisive mantra used to drive a race to the bottom in public sector pension schemes: that these schemes are somehow "gold plated". This is pure political propaganda, designed to pitch working people against one another in the interests of those who seek to drive down working class living standards while protecting the wealth of the super-rich and promoting the parasitic profiteering of big business.

Pension reform should not be established on the basis of a race to the bottom and we do not and will not accept workers being played off against one another.

5. What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

We do not view the TfL pension fund as being unfair. TfL employees join the fund with an expectation of receiving a certain level of benefit at retirement in exchange for carrying out their employment duties as part of an overall remuneration package within a given industry. The sponsoring employer in return contributes to its employee's pension scheme on a balance of cost basis. There is no sleight of hand this is the contract both parties enter knowingly under a contract of employment.

This arrangement between TfL and its employees works no differently to any other agreement across UK industry. The contract between both parties only becomes unfair, in respect of pensions, when the workers' expectations are reduced or taken away.

Raising the question of how a scheme can share risk more fairly is almost invariably a thinly coded way of employers arguing for reducing their share of the risk and shifting it onto workers, by closing DB schemes and offering inferior DC schemes, reducing employer contributions and so on. By the very nature of DB pension schemes there is a risk which regardless of the contribution rates or benefit structure will still exist even if changes are made to members benefits. The key to this debate is how to manage risk and fairness. As noted throughout, we believe this can only be achieved by total transparency, evidence-based debate and negotiation within the governance structures of the scheme.

A fair balance of risks will certainly not be delivered by a government-mandated attack on workers' pensions, justified, cynically by the financial costs of a national covid pandemic crisis which has claimed the lives of a significant number of TfL employees.

6. How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

This is a key question which we believe is a crucial to understanding why our members value the TfL Pension Fund. While we acknowledge that there may be some members of the fund who do not fully understand the benefits offered by the fund, it is our very firm belief that most employees across LUL are very much engaged when it comes to their pension scheme.

Members understand that they are given a promise that on conclusion of their work based career they will receive a certain level of income upon retirement, This of course is highlighted in their Annual Pension Statement which provides estimates of their retirement benefits at age 60 and 65. They also recognise that in the event they are no longer able to carry out their employment duties the fund will provide them with an income e.g. ill health and survivor dependant(s) benefits etc.. And lastly in the event of their death, whether that be during their employment or in retirement, their loved ones will be protected.

In respect of recruitment and retention the TfL Pension Fund is a fundamental reason why individuals join LUL and remain employed in the long-term. This is mirrored across many different types of industries where similar DB pension schemes are offered, the railway industry to name one where the turnover across Train Operating Companies is much lower when you compare it against other railway employers who don't offer their staff a DB arrangement.

Offering any type of inferior pension arrangement to existing or new staff would negatively impact recruitment, as well as retention, and undermine the morale of those workers choosing to remain. Pensions have never been so important when you consider the inadequacies or limitations of the Basic State Pension (BSP). Due to the State Pension Age progressively increasing from age 65 to age 68 many workers will continue to need a decent occupational pension scheme which will allow them to retire at a reasonable age to enjoy a long retirement. Also the current single persons BSP of £179.60 a week is not in the majority of cases going to give individuals financial stability. So building up a decent occupation pension is fundamental.

7. Are there other considerations or criteria the Review should consider?

We have already commented on the opportunistic, cynical and politically motivated timing of this Review. We would also note that the terms of reference of the review do not enable it to examine other questions that directly affect the issue. For example, the financial sustainability of the scheme for the employer would be boosted significantly it TfL were not wasting hundreds of millions every year on funding profiteering by outsourcing companies.

TfL's search for 'efficiency' has led it to continue using outsourcing to deliver key transport services. The failure of the Metronet and Tubelines PPPs led London Underground to take much of its maintenance work back in-house. Yet much maintenance work on the Underground is still performed by agency workers, so called "independent contractors", and external companies. In addition, cleaning across TfL is outsourced to the US facilities management company ABM. Bus services are delivered by the private transport companies under franchise agreements. Spending on these franchise agreements represents the largest component of spending on outsourced services. Finally, London Overground and TfL Rail services are delivered by private rail operators under Concession agreements.

Analysis of TfL's procurement spending on these outsourced services shows that around 50% of TfL's procurement spending is on services that could be brought in-house. Trade Union research has shown that:

- Between 2017 and 2021, TfL has spent on average around £6.3 billion every year on procurement.
- Of that spending, an average of £3.0 billion (50%) is spent on outsourcing contracts for services that could easily be brought in-house by TfL. These include contracts for agency staff, bus operation, operating the Overground and TfL Rail franchises, as well as catering, cleaning, maintenance and security work.
- The companies operating these contracts will all demand a commercial margin of profit. In maintenance and facilities management these can be conservatively reckoned at about 5% of costs. On the bus contracts they are around 9%.
- On average around £230 million is lost to London's Transport network every year in commercial profits from outsourcing.
- Bringing these services in-house would save TfL at least £230 million every year, around 7.6% of its total procurement spending, in commercial profits.

To give a sense of the scale of this outsourcing waste, £230 million represents almost 8% of TfL's total spending on procurement (across operational and capital budgets). It's also equivalent to 75% of the £300 million that the government demanded TfL cut from its operating budget in 2021/22. This happens to be also the equivalent to around 60% of what TfL reports that it spends on pensions each year.

The review should also consider the potential impact of establishing a Crown guarantee for the scheme's liabilities. The TfL Pension Fund is technically defined as a private sector scheme but this is more a technicality than a reality. The Covid crisis has for the moment *wrecked* the 'commercial self-sufficiency' funding model that fantasised about fare revenue covering operating costs, but it also revealed the extent of co-dependence between the state and the transport system. The continued running of the Underground, rail and bus networks, were essential for the continued running of essential services and the government's bailout demonstrated this clearly. The government's letters of comfort and continued access to the Public Works Loans Board are the only things that enable TfL to continue borrowing on the private bond markets. Whatever the technical appearance, the actual reality is that the government sits behind TfL as the funder and lender of last resort. A Crown Guarantee of historic liabilities for the TfL pension scheme would be nothing more than a recognition of this reality and, as the Independent Review of Financial Sustainability commissioned by TfL argued, would reduce TfL's contributions to the scheme and save the public sector money.

8. Is there anything else you would like to add?

The Mayor of London is clear that this review of the TfL Pension Fund is wrong. In June this year, he said "Boris Johnson's Tory Government is also forcing us to look at reforming TfL's pension scheme. I've made it clear that the Government's approach to try to rush through reforms is wrong and ill-judged when our transport key workers have done so much to keep our city moving during the pandemic." The Tory plans risk unnecessary industrial action, which would be extremely costly to our city's economy and entirely of the Tories' own making".

We agree with the Mayor's observations about the political ideology that has enforced this review. To launch a review on the basis of effecting a cynical, opportunistic and politically motivated attack on the future livelihoods of all essential workers employed by TFL and London Underground who have done their duty throughout one of the worst crises of recent times, is both deplorable and contemptible.

We should also not forget that as well as risking their lives and suffering illness, many TfL key workers have tragically lost their lives in the fight against Covid -19. Many of the dependants of those who have died have rightly been able to draw upon a "critical safety net" by way of some financial support from the benefits provided by the TfL Pension Fund Occupational Scheme in line with the longstanding current fund rules. It is sobering to reflect that had the government or some employers managed to translate their long-standing hostility to the TfL pension fund into regressive reforms prior to the pandemic, the families and dependents of the workers would have had less protection.

The joint unions' position is that this review should recommend absolutely no change to the TfL pension scheme and that future discussions on the financial sustainability of the scheme should be conducted on the basis of evidence through the appropriate mechanisms, not as a consequence of cheap, nasty and divisive political manoeuvre.

17th September 2021

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Sir Brendan Barber
Independent Lead
TfL Pension Fund Review

By email to: pensionreviewsubmissions@tfl.gov.uk

Date: 16th September 2021

Dear Sir Brendan,

RE: TfL Pensions Review Stage 1 Call for Evidence – TSSA Response

I am writing to you with TSSA's response to the Stage 1 Call for Evidence issued on 16th August 2021 and which followed the first Pension Review Contact Group meeting held on the previous Friday.

As you will see, TSSA's response is broken into two parts:

- Part 1: General
- Part 2: Call for Evidence questions

Part 1: General

From the start I want to be clear that TSSA opposes making any changes to the TfL Pension Fund that will negatively affect members' benefits. Our view, and that of our members, is that the past and future benefits accrued in the Fund are deferred wages which will enable Fund members to enjoy a level of financial security beyond the State Pension when they come to retire. Members are also very mindful that when they joined the Scheme they received a promise about the level of benefits they could expect to receive upon retirement based on a set final salary formula in return for the contributions that they and TfL have paid. On both of these counts, to make changes that would reduce deferred wages or renege on the defined benefit promise will, as we have seen in other companies, undermine trust and confidence in the motivations of the employer that is likely to have a range of consequences from industrial disputes, increased staff turnover and the inability for the company to be able to offer a balanced and attractive employment package to future employees.

TSSA is also very aware that both the briefing at the first Contact Group meeting and the content and questions in the Stage 1 Call for Evidence have the effect of funneling thoughts and responses to accept that there is a need for change to the Pension Fund. If that is the purpose, we reject that approach because:

- **2021 Valuation:** The 31st March 2021 Triennial Valuation of the TfL Pension Fund has not been completed and may not be until June 2022 in accordance with The Pensions Regulator's (TPR) fifteen month deadline.

  Normally, changes to a DB pension scheme occur because a deficit situation has arisen and part of the recovery plan is to make changes. However, whilst the TfL Pension Fund had a £603m deficit (95% funded) at the March 2018 Valuation, necessitating additional employer contributions under the balance of cost nature of the Fund, currently we are not aware that the 2021 Valuation will show the Scheme still in that position.

  The reason for that statement is that the return on assets has substantially improved in the year leading up to 31st March 2021. The Fund's latest Annual Report and Accounts[1] shows an increase of £2.47bn in the net return on assets with a net increase in the fund recorded as £2.52bn. Overall, the level of net assets has improved from £10.58bn (31st March 2020) to £13.101bn a year later. The latest figure is also substantially higher than the 2019 level of net assets, recorded as £10.95bn.

  No information has currently been made available for the technical provisions that have to be compared with the level of assets to arrive at the funding level. However, we note that the Call for Evidence includes Appendix 3 Charts 7 and 8 at Page 26 that appear to indicate overall that the Fund is about 100% funded. This calls in to question the need for a review of the Scheme that would lead to changes to benefits, etc;

- **Refusal to supply up to date information justifying savings:** At the first Contact Group meeting in August several trade unions including TSSA asked for an indication of the level of savings that were being considered in the Fund and how that would then justify changes to benefits. The response we received was that the Fund Review has no set figure in mind.

  However, the TfL Independent Panel Review that was published in December 2020 claimed that the funding gap in the Scheme could be reduced by £100m alongside limiting future public sector liabilities including by applying a cap.[2] Various suggestions were made about ways to make savings as well as to change the classification of the Scheme to move away from TPR regulation (the TPR would still be involved in setting standards of practice in public sector schemes in relation to governance and administration).

  The Pension Working Group (PWG) at its meeting on 15th January 2021 requested sight of justification of the level of savings, framed as a FOI (Reference 2238-2021) in terms of "who and what information was shared for the Independent Report." However, as you are aware, TfL's response on 18th

[1] Page 46, TfL Pension Fund Annual Report and Accounts for year to 31st March 2021 at: https://content.tfl.gov.uk/2021-annual-report-and-accounts-1.pdf
[2] Page 31, TfL Independent Panel Review at: https://content.tfl.gov.uk/tfl-independent-panel-review-december-2020.pdf

March 2021 was to refuse to share any information "on commercial confidentiality grounds" leading to the conclusion that financial information had been supplied to the Independent Review.

I have subsequently written to you via Martin Boots about this issue and been assured that the email (dated 17th August 2021 and sent at 1655) has been forwarded for your response.

The point for TSSA is that it is clear some work has already been done to look at ways of changing the Scheme and levels of savings have been considered but the refusal to share that research suggests a lack of transparency and openness by TfL. It could also undermine the credibility of the Independent Review if the measures suggested then become the basis of the final recommended approach or if information sharing and a lack of openness became a bone of contention .

- **TPR Funding Code and Pension Schemes Act 2021:** Section 7 of the First Call for Evidence cites changes to TPR's approach and describes, in paragraph 7.3 and 7.4, elements of both the recent TPR Funding Code Consultation and the Government's Pension Schemes Act 2021.

  Our concern here is that the emphasis in the Call for Evidence is that of looking at the TfL Pension Fund from the perspective of a mature and closed (or about to close) scheme with a long term funding objective whose ultimate aim is to reach significant maturity, thereby substantially reducing dependency on the scheme employer.

  The TfL Pension Fund is not in that circumstance because it admits new members (even using the Fund as its auto enrolment Scheme) and currently has an investment policy that includes high risk, return seeking assets like equities.

  We are aware that fears existed in some open (to new members) DB pension schemes that both the Funding Code Consultation and Pension Schemes Bill (ie, before Royal Assent was achieved) would be applied in a way that forced open arrangements to adopt more mature, less risk based investment policies and cause them to close because of increased costs due to a one size fits all approach (even though a twin track system was proposed – Fast Track and Bespoke).

  Both in the TPR first stage consultation and during the passage of the Bill through Parliament this issue was raised repeatedly and the Government and TPR have now recognised that allowance must be made for the different circumstances that open (to new members) and less mature schemes find themselves in when compared to closed arrangements.

  For instance, in a lengthy speech at the end of a debate in the House of Lord on the Pension Schemes Bill, Baroness Stedman-Scott OBE (Parliamentary Under Secretary of State at the Department for Work and Pensions) committed to take various actions, including through secondary legislation, and stated:

"We absolutely do not want to see good and viable defined benefit schemes close unnecessarily. We want them to be treated on their merits in a truly scheme-specific regime. We have said that open schemes should be able to provide the same level of security for members as closed schemes. I want to make it absolutely clear that this does not mean that they necessarily need to invest in the same way. We simply mean that members in an open scheme should be able to enjoy the same level of confidence that the benefits they have worked hard to build up will be paid in full, as for members in a closed scheme. We completely agree that open schemes that are not maturing and have a strong employer covenant should not be forced into an inappropriate de-risking journey. We will ensure that such schemes and employers which can support a higher risk and higher expected reward investment strategy can continue to invest in this way. If they are already doing the right thing, they should not need to significantly increase contributions as a result of these new measures."[3]

Pensions Minister Guy Opperman MP has made similar statements[4] whilst David Fairs, Executive Director for Regulatory Policy, Analysis and Advice at The Pensions Regulator highlighted his response on open schemes being less mature by writing:

"Truly open schemes with a strong flow of new entrants may always be immature. In those circumstances…we recognised that schemes might invest in more illiquid and volatile assets in the expectation of a higher return."[5]

- **<u>Political motivation as driver of Review:</u>** A further point we want to make is that it is difficult to be able to separate a political motivation in the Government's approach to providing funding for Transport for London.

  Ever since the Conservative Government's decision to cut the General Operating Grant, a decision that was subsequently revisited and brought forward to the Financial Year 2017/18, TfL has been in difficulties. Consequently, TfL is the only major world city that does not receive a central government subsidy[6] despite the importance of the UK's capital to the country's economy.

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[3] See Hansard Column 1110, House of Lords debate on Pension Schemes Bill, 21st January 2021 at: https://hansard.parliament.uk/lords/2021-01-19/debates/6D6F0A1E-0B12-4969-8070-54A4DAB00477/PensionSchemesBill(HL)

[4] See: https://www.professionalpensions.com/opinion/4024455/guy-opperman-funding-measures-protect-pension-scheme-member

[5] See: https://blog.thepensionsregulator.gov.uk/2020/12/08/db-funding-code-busting-a-few-myths/

[6] See: "TfL's budget shows operating deficit almost halved as Mayor calls for Government investment in transport" published by TfL 20th March 2019 and available at: https://tfl.gov.uk/info-for/media/press-releases/2019/march/tfl-s-budget-shows-operating-deficit-almost-halved-as-mayor-calls-for-government-investment-in-transport See also: The House of Commons Library looked at Paris, Berlin and New York – at: https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7425#fullreport

The Conservatives have lost two London Mayoral elections to Labour yet the consequence of the Covid-19 Pandemic has required the Labour Mayor to approach the Tory Government for financial assistance. For the citizens of London, the conditions attached to the short term settlements have seen the imposition of Government policy, like fare increases, even though the majority voted for a candidate offering a different agenda. The latest manifestation of this is the demand for a review of the TfL Pension Fund motivated by similar policy that affected the public sector.

- **TfL's review of expenditure:** A final point in this part of our response is to draw attention to remarks made at the first Trade Union Contact Group meeting where it was claimed that every item of expenditure is being reviewed. The point raised at the meeting was the cost of maintaining the private sector involvement in London Bus. In another forum with TfL, TSSA has previously submitted the following table which illustrates the levels of profit extraction taking place by bus companies with concessions from TfL:

Company Name	**Profit**				**Company Number**
	2016	**2017**	**2018**	2019	
London United	£5.1m	£5.8	£0.639m	-£7.6m	02328561
Arriva London North	£12.7m	£15.3m	£10.9m	No accounts available	02328559
Arriva London South	£51k (£4.9m income)	£2.8m	£5.7m	No accounts available	02328467
Abellio London Ltd	£3.6m (£7.5m income)	£4.9m	£4.6m	£2.3m	03786162
Abellio West London Ltd	£1.02m	£0.747m	£1.6m	£3.4m	00689260
(Go Ahead) London General Transport Services	£32.2m	£34.2m	£32.4m	£31.6	02328489
Metroline Ltd	£28.1m	£21.7m	£14.8m	£10.3m	02826284
Stagecoach UK Bus (London)	£20.2m	£18.4m	£13.3m	£16.1m	SC100764
Total	**£102.97m**	**£103.85m**	**£83.9m**	**£56.1m**	
Total after tax profit 2016-2019					**£346.82m**

NOTE: The profit figures do not include the additional amounts attributed in the company accounts to "income." Two small companies (Sullivan Buses and Tower Travel) are omitted.

As can be seen, TfL would have an opportunity to gain over £80m a year by public ownership of its bus operations.

Part 2: Call for Evidence questions

Part of TSSA's preparation to answer these question has involved conducting members' meetings which have been well attended and provoked a number of questions, comments and concerns. On top of that, we have also carried out a short online survey of our membership across Transport for London and London Underground. The results of both the members' meetings and survey are reflected in our answers.

1. How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?

From a members' perspective, over 96% of our members participating in the TSSA survey believe that the long term sustainability of the TfL Pension Find must mean that it:

- Represents value for money in terms of what is paid by members in relation to the benefits (pension, etc) received upon retirement
- Is and remains affordable
- Remains secure and is not subject to change
- Delivers on its promises and can be trusted to pay out the benefits being paid for
- Is seen as a long term commitment

This result should be understood against the fact that over 96% of TSSA's members see the long term future of the TfL Pension Fund in its current form as either 'extremely important' or 'very important' to them. This means that Scheme has to remain open for new entrants and further accrual.

In addition, members to date have:

- Been confident of the long-term sustainability of the TfL Pension Fund and its ability to continue to deliver on the Employer pension promise;
- Been aware of TfL's status as a statutory undertaking, delivering long term sustainability benefits via a statutory and financial underpin and for some, that informed their reason for joining the organization in the first place;
- Noted that pensions are cited as a key pillar of remuneration within the TfL's 2021 Financial Sustainability Plan and that has reinforced in members' minds that the Employer promise will continue to be delivered and is deemed sustainable over the longer term;

- Continue to take comfort from the strength of the Employer Covenant and the fact that there is no requirement for TfL to seek to be a profitable undertaking or meet payment obligations to external shareholders.

2. How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?

From the perspective of members, long term affordability is a major factor but for many it is also wound up with what is being paid for, ie, the level of pension benefits that have been promised.

From the limited data that is available, current active membership of the scheme is high with few eligible employees not already members (noting that some may not have joined because they retained legacy arrangements in pension schemes like the Local Government Pension Scheme due to TUPE transfer into TfL whilst some formerly active members of the TfL Pension Fund have chosen to become deferred members to avoid exceeding the Lifetime Allowance).

The levels of membership would suggest that employees see the Scheme as affordable in terms of the benefits that they could receive and encourages them to want to join and remain a member. That conclusion is supported by the outcome of our survey in which 80.6% of members supported keeping contributions at current levels whilst 99% of respondents see their pension as an important part of their employment reward package.

Members also note that Employer pension contributions remain small and manageable within the context of total TfL income. We would also highlight that through various pay frameworks over many years, TfL has improved still further the affordability of the Scheme via actively and consistently constraining pensionable pay growth, a point that we explore further below.

3. What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?

In common with other DB pension schemes and TPR requirements, the TfL Pension Fund adopts a risk based approach in its management of the challenges it faces and as such can be seen as pooling risks, whether from investment performance, pensionable salary inflation, increasing longevity or any changes to the Employer's covenant rating.

On this last point, the lack of a long term funding settlement from the UK Government – as referred to at the start of this submission – is what has the potential to cause issues with the covenant rating and create the need to revise the current investment policy to one that is less risk based with the effect of creating a deficit situation.

Pension schemes also take a long term perspective and not the short term expediency of political interest and opportunism that the TfL Pension Fund is currently facing which, frankly, calls into question the whole pretext of the Fund Review.

The question asks for the key risks and challenges facing the Scheme and the one that TSSA would identify as of primary concern now is that of the current external threat posed by the outcome of the Review. The Scheme itself has not caused this threat from within itself because from what we know its 2021 Valuation should show a substantial improvement in its funding position. Instead, the risk comes from external sources intent on cutting the pensions of workers to fulfil short term financial aspirations and political goals.

4. How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

TSSA believes the TfL Pension Fund is currently competitive with other public sector arrangements and remains a significant part of the reward package (the view of 99% of TSSA members). It was designed specifically for employees in TfL and LU and has individual characteristics to that end.

To answer this question more specifically would require the Review Team to identify Schemes they thought to be comparable.

In the TfL Independent Panel Review schemes in Network Rail and the Civil Service were quoted and claimed to have been 'reformed.' That claim is misleading because there was no altruistic intention to change any of those schemes to improve member benefits. Instead, the motivation was simply cost cutting and de-risking that would benefit the employer whilst potentially undermining the pensions members thought they were going to enjoy.

In Network Rail, for instance, the initial impetus to change was a substantial deficit in their Section of the trust based Railways Pension Scheme but it is worth recognizing that the final salary defined benefit arrangement is still open and where most employees choose to accrue pension benefits. The latest Valuation (2019) also showed the Scheme to be in a surplus situation.

Comparison with Civil Service pensions also fails to recognise that that arrangement is a statutory, unfunded, pay as you go scheme with the Government pocketing all contributions and benefits payable from the public purse as they fall due, rather than from a fund like the TfL Scheme built up from employers' and employees' contributions paid in the past and then invested.

5. What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

The TfL Pension Fund is a balance of cost defined benefit final salary scheme that is currently affordable to members. The nature of DB schemes is that virtually all risk is with the employer that provides the scheme for its employees. To change the risk would entail a significant alteration to – or closure of – the Fund which TSSA and its members are opposed to.

As stated at the first Contact Group meeting, TSSA is opposed to a race to the bottom by moving to a Defined Contribution arrangement that places virtually of the risk with the member.

6. How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

99% of TSSA members have told us through the survey that their pension is an ‘extremely important’ or ‘very important’ part of their reward package.

It is also fair to say that TfL’s staff greatly value the current pension arrangements, something that has been shown from the Union’s survey in which 96% of TSSA’s members see the long term future of the TfL Pension Fund in its current form as either ‘extremely important’ or ‘very important’ to them.

In our survey of members, we also asked them about staff retention. Over 83% agreed that in the event that “the Fund was changed so that it became more expensive for members and/or future pension benefits were reduced, it would influence whether they continued to work for TfL and lead them to choose to leave for another job.”

This outcome is compounded by the majority of survey participants – over 66.4% - who do not trust TfL to protect the Pension Fund which is a stinging indictment of how employees view their directors.

TSSA also wants to highlight that the latest Annual Accounts suggest that some TfL Directors may have exhausted their Lifetime Allowance (LTA) (from 2021/22 to 2025/26 set by the Government at £1,073,100) but for most TfL workers, their TfL pension remains a vital component delivering financial security in old age in the face of the dismal financial security provided by the new State Pension.

At our meetings with members these outcomes have also been forcibly presented with people actively talking about the options to leave that are available to them now or in the near future. Members are only too aware of TfL’s existing recruitment difficulties, describing the turnover in staff and telling us that it is only by keeping the Pension Fund in its present form, open to new members, that ensures they stay when external job opportunities arise or they are approached to leave for higher salaries. It is the Pension that keeps them in TfL

Some of the anger has <u>also</u> been tied up with the application of the Pay for Performance and Senior Management Reward Framework arrangements which many members are deeply unhappy with (see response to next question).

Frankly, taking these matters together could create a perfect storm for TfL with large numbers of highly experienced and very competent staff looking to leave the organisation, with all of the consequences for TfL in terms of the loss of experience, threats to service provision, the cost of recruitment, the inability to attract new employees and even the expensive use of contractors and temps.

What's more, this process of staff leaving could become ever more endemic as those employees remaining would be faced with increased workloads, further eroding depressed morale and leading to an 'outbreak' of mental health issues

7. Are there other considerations or criteria the Review should consider?

The Review needs to consider the application of the Pay for Performance (PfP) system that TfL has operated since 2015 and which has become discredited in the eyes of staff. It is supposed to ensure that staff are properly rewarded for their commitment and dedication but instead has left a significant number of employees having to get by on salaries that have either:

- been frozen for many years
- have only been increased by below inflation levels
- or are in receipt of non pensionable lump sums instead of salary increases.

TSSA can provide further information on this complex issue which has impacted many members' pensions because of the effect on pensionable salary growth, undermining the value of the final salary which members expect to see increased year on year. An illustration of this factor can be seen in the basic calculation used to determine a members' pensions:

1/60 x pensionable service x pensionable salary

In essence, PfP has been used as a form of unofficial and unagreed pensionable salary capping that, unlike in other schemes, has not been uniformly applied to all Fund employees because of the terms of the pay system. In our survey, for instance, we found that:

- nearly half (45%) of respondents have only received below inflation pay increases in the last three years
- close to a quarter (23.44%) had not received any salary uplift in the same period.

Clearly, this issue adds to the sense of injustice and anger with TfL that I have referred to in my response to the previous question.

What's more, the pay system in <u>not</u> applied to London Underground staff who receive full and completely pensionable annual salary increases.

8. Is there anything else you would like to add?

TSSA wants to add that any change to the Pension Fund is likely to have a disproportionate effect on lower paid staff, women employees and younger workers with the potential to raise equality issues that could lead to discrimination claims.

In making this claim we have in mind how increasing contributions, for instance, would more heavily impact the lower paid employees in TfL and LU and even cause some to leave the Scheme, potentially in large numbers depending on the level of increase. The implication of the affordability issue for future pension provision for people in this position could easily set them in train for an increased reliance on the new State Pension, still the lowest in Europe, and a retirement potentially in poverty. However, higher paid staff, particularly at senior management level, have more of an ability to cope with the pension contribution increases and can thus weather such storms. They are also protected more by the offer of financial advice, including around avoiding exceeding the Lifetime Allowance and sheltering money. We see this as an unfairness that should be recognised and avoided.

The issue with women members is that many join TfL and its Pension Fund later in life which means that they are more deeply affected by changes to their pensions in a way often not experienced by men able to join the Fund earlier in a career. Many women with caring responsibilities aren't able to begin a career until later in a working life so have to plan to work longer to accrue a reasonable pension. Put simply, the loss of the ability to accrue pension benefits is more acutely felt by women than men with the former likely to be more reliant on the State Pension at SPA (State Pension Age).

Younger workers also face the dilemma of being a member of a pension scheme that favours older staff with longer service in order for them to be able to achieve a reasonable level of pension on retirement. At present, it appears that virtually all eligible employees join the Scheme when they start to work for TfL in the hope that they will get the same level of benefits as their more experienced colleagues. However, in the event that changes are made it is the younger workers who will be the most adversely affected, potentially losing out on the opportunity to accrue the same level of benefits as older people with longer service. They may also face the competing demands of saving for a home or remaining in the Scheme at a time when member contributions to the latter increase to the point when they feel they have no opportunity but to drop out of the Fund. In essence, the outcome of the Review has the potential to treat people differently because of age which could lead to issues of discrimination.

Conclusion

It is clear from the evidence that we have presented that TSSA and its TfL members are opposed to any change to the Pension Fund. It is also clear that there is a lot of distrust in the motives behind the demand for a review of the Pension Scheme and whether a spirit of openness would actually prevail given the denial of the previous request for information. The application of the Pay for Performance policy had already eroded much goodwill but now that the Pension Fund is up for review numbers of highly qualified and experienced staff are telling us that they are actively considering departing the organization because of yet another assault on their employment package.

We have also noted that the Call for Evidence seems to be aimed at achieving a particular outcome which would see a process of de-risking take place that would lead to the Pension Fund being progressively closed, first to new entrants and then to further accrual, and along the way a vastly inferior DC alternative would be put in place. We oppose that course that would only undermine employees' deferred wages and their income for retirement. Finally, TSSA wants to know what ever happened to Recommendation 7 from TfL's Financial Sustainability Plan[7] where "any review of the Reward package is considered holistically, and the scope of any review includes all elements of the base pay, pensions and benefits offering"?

Yours sincerely

Rob Jenks
Policy Officer, TSSA

[7] Recommendation 7, Page 87, TfL Financial Sustainability Plan at: https://content.tfl.gov.uk/financial-sustainability-plan-11-january-2021.pdf

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CENTRAL OFFICE

Brendan Barber
Via email to
pensionreviewsubmissions@tfl.gov.uk

17th September 2021

Re: TfL pension fund review - Call for evidence.

Dear Brendan,

Unite believes that questions 1-3 are predicated on the assumption there is something wrong with the current scheme and/or that it needs changing.

So Unite has chosen to respond to the general themes to questions 1-3 in one below:

1. **How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?**

2. **How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?**

3. **What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?**

The employer has a strong covenant and the scheme is well run, financially healthy particularly in comparison to many private sector schemes and is expected to be close or above fully funded, when then valuation is finally agreed.

Rather than suffer from the recent market volatility that Covid has brought, the scheme has actually performed extremely well during this period and assets have increased by £2,520.1m to £13,101.9m as at 31 March 2021.

The hypothetical argument/question of what if the valuation had been March 2020 instead? Is a strange one to make, when the valuation is March 2021. Would this question be asked if things were the other way round and the valuation was in a more favourable surplus position the year before a valuation? It would not - but the most important thing is that the scheme takes a long term view of market fluctuations, in line with a balanced investment strategy to manage market fluctuations.

In terms of longevity risk, the reality is that while life expectancy has increased, the rate of improvement has slowed and this is before any potential future impact of Covid. So at the current time there is no evidence to suggest that this isn't manageable.

In terms of salary risk, there have been no RPI pay rises in the last 10 years, in addition many of the pay rises have been un-consolidated with the pension. With pay freezes now being imposed, this risk seems to already have been managed.

Sharon Graham
General Secretary

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CENTRAL OFFICE

In terms of how the potential challenges can be mitigated, it is within the Government's gift to change the private sector scheme status through legislation, therefore removing the liability risk and regulatory impact from TfL.

Members care about future financial certainty and receiving the benefit they were promised in their retirement, when they chose to join TfL. Any proposed change to the scheme and future retirement provision is one our members are prepared to fight to defend.

The taxpayer's argument is again a strange one to make when TfL isn't fully publicly funded and also factors out that the members of the scheme are all tax payers in their own right. However leaving this aside, why should the tax payer get to determine what levels of terms and conditions our members at TfL should receive?

Equally it shouldn't matter what fare payers think of a pension arrangement. Which one of us doesn't routinely buy from a shop, receive care in a hospital or call a plumber and do we stop to ask ourselves about the pension scheme those providing the service may receive? The key question for fare payers is "am I happy with the service I receive for the price I pay"? Freezing or controlling fares is something of far greater relevance to them.

The trustees and the employer both have legal responsibilities and a duty of care concerning the provision of a pension. Their job is to manage the risk and provide the pension. In addition the employer has recruitment and retention considerations and a defined benefit pension scheme is an integral part of the TfL offering.

Therefore for the reasons laid out above Unite believes that maintaining a defined benefit final salary scheme is sustainable.

4. How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

TfL is unique in the public sector in that (ordinarily) it does not receive government funding to subsidise transport - one of the few major cities in the world where this is the case. It also has huge numbers of highly specialist and safely critical roles. It is disingenuous to compare pension arrangements in isolation with others in the public sector as if that were the only differentiating factor. However, it is comparable to some sections of the NHS and Police Schemes and considerably inferior to the scheme for Members of Parliament.

Surely any guiding principle of any genuine review should be looking to "level up" rather than "dragging everyone to the bottom".

5. What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

Our members are already sharing a significant burden of risk. With the funding grant removed and with Covid, their employment position is more precarious. Transformations and staff cuts were occurring even before Covid. Pay for many staff has been frozen and bonuses removed. All this at a time when salaries in the private sector are significantly rising. Our members are already sharing the risk by working for an employer that pays less than market rates and is not free to award pay increases. The current pension partially offsets some of this risk.

Sharon Graham
General Secretary

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CENTRAL OFFICE

There should be no "cohorts of members". Any attempt to divide staff and create cohorts should absolutely be discounted. We are already in a position where TfL has divided staff by having separate TfL/LU pay settlements. This should not extend to the pension.

Maintaining the current scheme unchanged is the best way to maintain fairness to all. Members joined the pension scheme on the understanding that they could opt out, and that they instead stayed with the scheme on the basis of promises made. TfL did this to entice/retain staff, and any rowing back on this commitment would be deeply damaging.

6. How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

They are vitally important. Many new TFL staff look at the total reward package. Some members have told us that compared to their previous employment package they received a pay cut of over 30% when joining TfL together with a much smaller bonus. The pension was absolutely influential in their decision to join TfL. They would not have done so otherwise. The pension is mentioned as a key benefit during recruitment.

It's already having an effect. One member told us that in the last week there have been 5 resignations in their department of circa 200. Even the threat of change to the pension is making people question their futures at TfL.

7. Are there other considerations or criteria the Review should consider?

Beyond the obvious industrial threat and upheaval this would cause, now is not the time to change the pension scheme. TfL is currently under some financial constraints with revenues still low and it will take time to bounce back to pre-pandemic levels. Changing a pension scheme is a costly and time consuming endeavour, consultant's fees, new software systems, consultation, employee 1:1s, and communications.

Can TfL really afford the cost of change now, both financially and in terms of impact on staff who are already suffering low morale after the removal of bonuses and pay freezes for many? The one off cost of changing a pension scheme, just in terms of lost staff productivity alone, would be disastrous. "Struggling" businesses do not waste time and money changing their pension schemes, they focus on winning back customers, driving revenues and keeping their staff happy and motivated.

8. Is there anything else you would like to add?

Transport Secretary, Grant Shapps, made the recent bailout of TfL conditional on its pension fund being reviewed.

Unite raised concerns that the review could be used to slash pension costs, leaving TfL workers struggling in their retirement, while also making the London Underground more attractive to private bidders.

Unite represents more than 2,000 workers directly employed by TfL, as well as 22,000 more across the capital's public transport network.

Sharon Graham
General Secretary

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Our members will not sit back and allow their pensions to be raided because TfL is being starved of funds by Ministers. Contrary to what the government would have people believe, the TfL pension fund is not gold plated – it is well-managed, properly funded and proportionate.

The DfT bailout already forced a pay freeze on our members – their pensions must be left alone and Unite will use every means at its disposal to ensure this is the case.

The Underground is the envy of metropolises the world over. Unfortunately, it is not safe under a Tory administration that cares more about the deals done in the City's financial centre, than the people who rely on its public transport network.

Despite being proved wrong countless times, the Conservative mantra of 'private good, public bad' means there is no doubt that Minister's hold a long-term ambition of carving up TfL and handing it to their privateer mates. What better way to get the ball rolling than hiving off pensions, so that TfL's future running costs are reduced for private sector bidders?

London and Londoners deserve better.

Regards.

Simon McCartney
Unite Regional Officer

Pensions Review
Stage 1 Call for Evidence, August 2021

Representations from TfL Trustee Company Limited as trustee of the TfL Pension Fund

17 September 2021

Introduction

1. TfL Trustee Company Limited ("**Trustee**") is the sole trustee of the TFL Pension Fund ("**Scheme**"). The Scheme is the primary pensions vehicle for Transport for London ("**TfL**") and its operating subsidiaries.

2. Under the terms of TfL's Funding Agreement dated 1 June 2021, TfL is required to conduct a review of the Scheme ("**Review**"). TfL decided that, rather than conduct the Review internally, it would invite an independent person to conduct the Review ("**Independent Lead**"). The Independent Lead of the Review has issued a paper, "*Pensions Review: Stage 1 Call for Evidence, August 2021*".

3. The Independent Lead confirmed that he would be seeking the involvement of stakeholders throughout the Review process. The first stage of the Review is to seek the written submission of representations and evidence from various stakeholders, including the Trustee.

4. In particular, Appendix 4 of the paper states that the purpose of the first stage is "…*to understand stakeholders' views on the challenges (if any) currently facing the Scheme in light of the continuing funding pressures on TfL as well as any Scheme-specific challenges* …". A number of specific questions are then set out.

5. The Trustee has considered which of the questions it is appropriate for it to respond to as trustee of the Scheme, both from its own perspective and from the viewpoint of the Scheme's members and other beneficiaries. At this stage, the Trustee is submitting representations in response to questions 1, 2, 3, 6, 7 and 8.

6. Although it has decided not to respond to all of the questions, the Trustee may wish to do so at a later stage in the Review and reserves its position in that regard. For now, it simply wishes to record the following points in relation to questions 4 and 5:

7. Question 4 asks "*How should TfL's pension arrangements compare with other pension arrangements elsewhere in the public sector?*". The Trustee considers it important for the Review to take into account the Scheme's unique history (see, by way of example, paragraphs 73 - 76 below) and the role that the Scheme's benefits fulfils as part of TfL employees' overall remuneration package (see paragraphs 12, 13 and 71 below). The Trustee therefore warns against any comparisons being drawn with other pension arrangements, particularly any over-simplified comparisons.

8. Question 5 asks "*What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?*". The Trustee notes that this question tends to suggest that TfL's pensions arrangements are not currently fair to all, and warns against starting the Review from that premise. Furthermore, the Trustee again considers it important to note the Scheme's unique history and its crucial role in TfL's overall remuneration package for its employees. The Trustee also notes the benefits that TfL's pensions arrangements provide by supporting its crucial role – not only to travellers on its network, but also to London and the UK more generally.

9. Please note that the responses to the questions contained in these representations are made on behalf of the Trustee in its capacity as trustee of the Scheme. They do not necessarily represent the personal views of individuals associated with the Scheme, who may also contribute to the Review in their personal capacity or through a different stakeholder.

10. The Trustee also notes that Appendix 4 of the paper states that "*engagement responses…will be summarised and published as part of Interim and Final reports to be produced by the Review*". The Trustee requests that it have a reasonable opportunity to comment on the summary of these representations (and any additional comments made on behalf of the Trustee, whether orally or in writing) produced by the Review before it is published.

11. Finally, it should be noted that the Scheme has two sections – the Public Sector Section (which represents over 99% of the Scheme's assets and liabilities) and the Composite Section. The Trustee's representations are intended to apply primarily in relation to the Public Sector Section although, to the extent that they have general application, they also apply to the Composite Section.

Question 1: How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?

Pensions are part of overall remuneration package

12. As a preliminary point, the Trustee notes that it is widely understood that pensions are regarded as deferred pay and form part of employees' overall remuneration package. This is also reflected in TfL's Financial Sustainability Plan dated 11 January 2021 where it is noted that TfL's reward offering comprises as its key elements base pay (including performance awards), pensions and other discretionary benefits.

13. Further, the page headed "Rewarding You" on TfL's own website notes that, if TfL is to attract the right talent and retain the energy and commitment of its people, it "*must provide the rewards for that to happen*". The Scheme is highlighted as an important part of that package. It follows that, given the importance of pensions to the overall remuneration package, any adverse changes to pension benefits will jeopardise the ability of TfL to recruit, motivate and retain its employees. Therefore the long-term sustainability[1] of TfL's pension arrangements should be considered in that overall context; not in isolation.

Trustee's ability to pay beneficiaries' benefits

14. The Trustee views the long-term sustainability of the Scheme as relating to its continued ability to pay members' and other beneficiaries' benefits as and when they fall due.

15. With the main purpose of the Scheme being the provision of retirement pensions and other benefits, the Trustee is primarily concerned with its ability to pay the Scheme's accrued benefits over the long-term. The time horizon over which the Trustee considers the Scheme's obligations is very long. The youngest members are around 20 years old, and their benefits might not start to become payable for some 45 years and might continue to be paid in 70 or more years' time.

TfL's financial position

16. TfL's financial position is an important factor in the Trustee fulfilling its role.

17. The Trustee is aware of TfL's position as a statutory body under the Greater London Authority Act 1999 ("**GLA**") and the regulation it must comply with under the Local Government finance rules. Collectively, these provide an element of statutory protection and a financial underpin. For example, as a statutory corporation, TfL is a functional body of the GLA so the corporate insolvency regime does not apply to it. Equally, unlike a commercial entity, TfL is legally required to produce a balanced budget each year.

18. The Trustee also notes the effective monopoly position of TfL as the operator of London's transport infrastructure. Government's support to TfL has also been demonstrated both during the pandemic in the face of a significant reduction in fare income and also in terms of the material increase in the cost of completing Crossrail.

19. These and other factors mean that the Trustee is able to place a high degree of reliance on the long-term commitment of TfL towards the financing and support it provides to the Scheme.

20. The Trustee notes that its view of the position of TfL is consistent with that taken by the rating agencies, who also take account of the direct and indirect support of Government in assessing the creditworthiness of TfL's financial position. Whilst they have recently downgraded TfL as a result of reduced certainty over longer-term government support, it still retains a strong investment grade rating.

21. From the Scheme's perspective, this means that, as long as TfL is in a position to pay the required level of contributions agreed at each actuarial valuation (as has always been the case), the Trustee can be confident that the Scheme will be able to weather any short-term adverse experience that could be reasonably expected and that TfL will continue to support the long-term approach to financing the Scheme and the benefits this will deliver.

[1] And "affordability", as referenced in Question 2

Funding

22. In viewing the long-term sustainability of the Scheme, the Trustee considers the statutory funding measure (i.e. that required by Part 3 of the Pensions Act 2004) to be the most appropriate financial metric. Under this approach, a prudent value is placed on the Scheme's accrued liabilities (known as the "Technical Provisions") and a prudent approach is taken to establishing contributions due from TfL and the other participating employers in respect of new accrual and the costs of ongoing administration. These representations refer to this as the Scheme's "**funding approach**".

23. The statutory requirement to be prudent in the funding approach means that it is expected to overstate the actual long-term cost of financing the Scheme, on the assumption that the Scheme remains in its current form. The Trustee notes that the underlying "best estimate" cost of running the Scheme is therefore expected to be somewhat lower than that reflected by the funding approach.

24. As required by applicable legislation, the Scheme's funding approach is agreed between the Trustee and TfL (subject to the supervision and regulation of the Pensions Regulator ("**TPR**")) as part of each actuarial valuation carried out for the Scheme (usually every three years).

25. The funding approach that was agreed in respect of the actuarial valuation as at 2018 ("**2018 Valuation**") is consistent with that which has been adopted by the Scheme since the current "scheme specific" funding regime came into force in 2005. As part of the 2018 Valuation, the Trustee and TfL entered into a legally binding agreement which provides additional security through an annual review of any excess of liabilities over assets. During the year ended 31 March 2021, additional deficit reduction contributions of £25.6m were paid by TfL to the Scheme under this agreement.

26. While there have been considerable fluctuations in the assessed funding level of the Scheme over this period, and the assessed cost of ongoing benefit accrual has been rising in recent years, this funding approach has resulted in the overall level of contributions paid to the Scheme by TfL remaining very stable at six to seven times the 5% level of contributions payable by contributing members. This supports the Trustee's view that, despite very significant changes in financial markets and the environment in which TfL is operating over the period from 2006 to 2018, the Scheme has remained sustainable.

27. Much of the increase in the value placed on the Scheme's liabilities and in the cost of ongoing benefit accrual over the last 10 years is a result of the reduction in interest rates and the consequent reduction in discount rates used to value future pension payments. If, as anticipated by many investment professionals, interest rates increase in the long term, then the value of the Scheme's liabilities and the assessed cost of benefit accrual would be expected to reduce compared with current levels. Long-term sustainability should therefore not be judged purely in terms of costs assessed based on current market conditions, not least because these conditions lie far from historical norms.

28. The Scheme is in the process of carrying out its next actuarial valuation as at 31 March 2021. Although it is premature to comment on its likely outcome, the Trustee notes that, using the approach and assumptions adopted for the 2018 Valuation updated to reflect prevailing market conditions and the Scheme's latest target asset allocation, the Scheme's funding level at 31 March 2021 is currently estimated to be around 100%. Therefore, if there is no change to the investment strategy or risk tolerance of the Trustee, the Scheme is expected to have sufficient capital to meet the payment of benefits that have accrued to date, without needing additional deficit contributions from TfL (above meeting the cost of further accrual).

Investment strategy

29. In the same way as it does in relation to the funding of the Scheme, the Trustee adopts a long-term view in relation to its investment strategy for the Scheme. This provides a competitive advantage versus other investors, including other private sector, 'defined benefit' pension schemes (which are typically closed to either new members or new accrual). In particular, as a long-term investor, the Trustee is able to invest in assets which have historically delivered higher returns and are expected to deliver higher returns over the long-term, within the constraints of an agreed risk budget. This, in turn, allows the funding strategy to be based on these long-term return expectations.

30. Whilst short-term "mark-to-market" volatility is an important consideration, the Trustee's primary focus is on the longer-term risk/return trade-off and the implications of alternative strategies on the ability to pay members' benefits and the balance between contributions and investment returns needed. The long-term outlook also presents a wider range of investment opportunities to achieve a higher return, such as a higher allocation to less liquid investments (investments which are expected to be more difficult or costly to sell). This leads to an efficient investment portfolio which supports the provision of the Scheme's benefits over the long-term.

Question 2: How should long term affordability be viewed, and how does this look from the perspective of members, the employer, taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TFL?

31. The Trustee primarily assesses the "affordability" of TfL's pension arrangements by reference to the amount of the contributions agreed at each actuarial valuation and whether TfL is in a position to pay those contributions when they become due.

32. The Trustee notes that, to date, the contributions have represented a relatively small proportion of TfL's total income.

Question 3: What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?

Introduction

33. As an institutional investor, and a large, 'open' pension scheme, the Scheme is exposed to a range of financial and non-financial risks as outlined below. Exposure to such risks is not necessarily a concern, if they are understood, measured, and monitored, and are appropriately sized in the context of the overall operations and strategy of the Scheme. In addition, a number of the financial risks (such as equity or illiquidity risks) are considered "rewarded risks" – that is, the Scheme's investments in this regard are expected to generate a higher level of long-term return as compensation for the short-term risks the Scheme is exposed to.

34. It is important to note that the open nature of the Scheme means that the 'long term' is much longer than for many other pension schemes. The Scheme is able to make investment and other decisions taking this into account, which can be a source of competitive advantage and operational efficiency gains compared with other pension schemes. Any material change to the open nature of the Scheme would lead to a fundamental reassessment of the funding and investment strategy, potentially leading to significantly increased costs and an increase in the level of contributions required from TfL and other participating employers in the Scheme.

35. Approaching the question more broadly, the Trustee is concerned that decisions could be made which have the potential to adversely impact members' benefits whilst the financial impact of the pandemic on TfL is still being keenly felt. It risks such decisions being based on short-term and/or potentially politically motivated grounds without proper regard to the longer term, and without taking into account the unique circumstances of the Scheme and the hugely positive benefits it provides to TfL as well as its employees and former employees.

Investment risk

36. As a result of the nature of the investment portfolio, the Scheme is exposed to mark-to-market investment volatility. This is the risk that the Scheme's assets experience large changes in value (either up or down); a material fall in market value as a result of adverse market events can result in a worsened funding position and a reduced surplus/increased deficit relative to the funding approach.

37. In certain circumstances, poor performance in investment markets may be offset by an increase in the future expected return of the asset class. This may increase the liability discount rate and provide an offsetting impact to the funding position. The size of the portfolio and a desire to ensure that the portfolio remains appropriately liquid means that the risks associated with investing in equity markets represent the most material element.

38. The Trustee has a number of risk mitigation measures already in place:

(1) The Scheme has a highly diversified portfolio invested across a wide range of asset classes, including equities and bonds, invested in assets that are exposed to many countries and their economic growth, through many different investment strategies. The diversification this provides is intended to reduce the impact of a material downside event on the Scheme's funding position. In recent years, the Trustee has actively looked to increase the amount of diversification within the portfolio through disinvesting out of public equity and into a range of alternative asset classes, including hedge funds, alternative credit, and private markets. The Trustee is two years into a four-year "implementation roadmap" to facilitate additional disinvestment from equity markets and investment into a range of alternative asset classes to further increase the level of diversification and improve the investment efficiency of the portfolio;

(2) The Scheme has implemented an equity options protection strategy which provides some protection against a material downside event in equity markets;

(3) The Trustee undertakes a detailed review of the investment strategy at least every three years and monitors both the funding position and the level of risk being run on a quarterly basis (for example, with the use of Value at Risk metrics). A series of triggers for a review of the investment strategy are also monitored on a quarterly basis;

(4) Whilst monitoring market conditions and the implications on the funding position on a quarterly basis, the Trustee is more focussed on the longer-term ability to pay members' and other beneficiaries' pensions and other benefits as they fall due. Consistently with this, the Trustee would typically expect to not sell assets following a material market event, but instead would look to hold the assets and take a long-term view and so be able to take advantage of market corrections as conditions improve – the most recent example of this is the impact of the fall in markets seen in the first quarter of 2020, followed by the swift rebound over the rest of 2020 and into 2021; and

(5) The Trustee recognises that climate change poses a clear and present risk, and in some cases an opportunity, to the future returns of a number of the asset classes within the Scheme's investment portfolio. The Trustee has taken a number of steps to reduce the carbon exposure of the portfolio including through restriction on investment in thermal coal, targeted engagement programmes with managers and underlying portfolio companies, and commitments to projects with a positive environmental impact. The Trustee is in the process of agreeing an ambitious "Carbon Neutral Journey Plan" to further manage the reduction of carbon emissions over time.

39. The risk mitigation measures outlined above have been demonstrated to mitigate against material falls in asset values, for example during the market volatility experienced in the first quarter of 2020 as a result of concerns about COVID-19. Over the quarter, the Scheme's return-seeking assets performed considerably better than global equity markets as a result of the diversification away from public equities and into liquid alternatives and private markets, and the protection provided by the Scheme's equity options protection strategy.

40. Additional possible risk mitigation measures which the Trustee keeps under review include:

(1) Further reducing the level of risk within the investment portfolio;

(2) The use of additional insurance strategies (such as the existing equity options protection strategy) to reduce the impact of downside events; and

(3) Interest rate and/or inflation hedging strategies, as is often the case for typical 'defined benefit' pension schemes (which are closed to either new accrual or new members). However, the Trustee notes the Scheme is both open and very long-term in nature and the Scheme's current investment strategy reflects this.

Liquidity risk

41. The Scheme retains a relatively large allocation to listed equities and other highly liquid assets, which in total comprise over 75% of its total portfolio. The Scheme is also invested in a number of illiquid (or potentially illiquid in stressed market scenarios) investment strategies, which provide access to the illiquidity risk premium. In theory, the Scheme is exposed in respect of these illiquid or potentially illiquid assets to short-term liquidity risk, which is the risk that the Scheme has insufficient cash available to meet its short-term cash requirements, such as paying benefits and other expenses, meeting collateral calls from the investment portfolio, and meeting capital calls from private markets managers.

42. However, the Trustee has a number of risk mitigation measures in place in this regard:

(1) The cashflow-positive nature of the Scheme reduces the likelihood of cash needing to be generated (either organically or through asset sales) to meet day-to-day cash requirements;

(2) The Scheme has a very large amount of liquidity which is far more than would ever be required for the day to day management of the Scheme's cashflows. For example, the Scheme could realise more than 66% of its total assets within five days, which is a far greater amount of liquidity than would ever be needed for the operation of the Scheme; and

(3) The expected and potential cash requirements of the Scheme outside of this are monitored on an ongoing basis, and periodic disinvestments are made from the Scheme's liquid assets to ensure a cost effective and orderly realisation of assets if ever needed.

43. In practice therefore the Trustee does not consider liquidity risk to be a material risk to the Scheme.

Investment modelling risk

44. At each actuarial valuation, a key actuarial assumption is the level of future anticipated investment returns (known as the "**discount rate**"). This is made using an investment model regarding future return expectations on the Scheme's actual investment strategy.

45. There is the risk that this modelling process, which focuses on long-term returns relative to cash rates, generates changes in discount rates from time to time that diverge from short-term market returns. This translates to potential short-term volatility in the assessed funding position. The Trustee seeks to mitigate this risk through the flexibility in the contributions that have been agreed by TfL.

46. In the longer term, there is the risk that actual returns on the Fund's assets are lower than the prudent return assumptions made by the Trustee for funding purposes.

47. The Trustee seeks to mitigate this longer-term risk by diversifying the portfolio between a range of assets and reviewing the suitability of the portfolio on an ongoing basis. The Trustee also:

(1) takes a prudent approach to the modelling, rather than best estimate expected returns, in determining the appropriate liability discount rate, which increases the likelihood of the return on the investment portfolio being sufficient to meet the liabilities; and

(2) monitors the development of the discount rate regularly, with full reviews at each actuarial valuation and otherwise through regular quarterly monitoring.

48. The modelling approach for the discount rate takes into account a range of sources, including not only market yields but also views of finance and investment experts (such as economists, central banks, fund managers and academics) regarding future return expectations. The focus is to generate a sensible, prudent view on the long-term return expectations, not one that is fixed relative to some arbitrary risk-free measure.

49. Poor returns relative to expectations may also arise from lower performance from individual asset classes or individual active investment managers not performing in line with expectations. The Scheme is also exposed to the risk that it is unable to source sufficient high-quality investment opportunities to meet the long-term expected return of the portfolio.

50. A key mitigating factor is that the Trustee ensures that the in-house investment team, which is responsible for the day-to-day management of the assets, is resourced as required, and makes appropriate use of external advisors to support the sourcing and monitoring of high-quality investment opportunities.

51. A detailed triennial review of the investment strategy also considers whether the portfolio should be evolved to reflect changes in market conditions, available opportunities or Trustee views. This looks to ensure that the Trustee is maximising the potential returns from the assets whilst keeping risk levels within the Trustee's risk appetite, whilst taking into account any changes to the Trustee's risk appetite as a result of changing market conditions, covenant strength, or other factors.

52. As part of the Trustee's investment process, the long-term sustainability of the investment portfolio is considered within the investment strategy, portfolio construction, and ongoing monitoring processes. This process helps to mitigate the risk of investment decisions having long-term detrimental effects to experienced investment returns. This includes consideration of environmental, social and governance risk and opportunities, and ensuring the Scheme's investment managers are making long-term decisions in line with the Scheme's time horizon.

Inflation risk

53. The Scheme is also exposed to inflation risk, through the risk that increased inflation (either experienced or expected) increases the liabilities to a greater extent than the assets. This is a component of the risk that the actual returns on the Scheme's assets are lower than the prudent discount rate assumption.

54. The Scheme has taken a number of mitigating actions through making investments to assets which either have an explicit link (such as index-linked gilts and secure income assets), or an implied link (such as gold or equities), to expected or experienced inflation.

55. Additional possible risk mitigation measures which the Trustee keeps under review include increasing the Scheme's exposure to assets with explicit inflation linkages, for example increasing the exposure to index-linked gilts and inflation swaps.

Salary risk

56. Following discussions with TfL in relation to each actuarial valuation, the Trustee agrees a prudent salary growth assumption for funding purposes. The Trustee notes that salary growth for pensions purposes is largely within the control of TfL. Specifically, under TfL's current remuneration structure, an increasing proportion of remuneration is provided in the form of non-consolidated lump sums rather than pay increases, thus limiting the risk to the Scheme of large increases in pensionable salary.

Longevity risk

57. The Fund is exposed to what is known as longevity risk (i.e. the risk that members and other beneficiaries of the Scheme live longer than expected). However, the Trustee considers it has made prudent allowance for longevity in the funding approach.

58. At each actuarial valuation, the Trustee reviews in detail the actual mortality experience of the Scheme's membership. It has also periodically supplemented this with additional longevity modelling investigations, such as assessing longevity based on a number of risk factors known to influence mortality, such as pension size and pensioner location.

59. The Trustee is well aware of the improvements in longevity that have been seen generally in the wider population over recent decades. This knowledge has been built into the Trustee's longevity assumptions for many years, and the Trustee makes prudent allowance for future improvements in longevity for funding purposes.

60. The Trustee considers its approach to monitoring longevity and making periodic adjustments to its prudent longevity assumptions for funding purposes to be an appropriate way to manage the longevity risk. Longevity risk is also partially mitigated by its lack of correlation with investment risks.

61. It would be possible to mitigate some of the Scheme's longevity risk by transferring it to the insurance market via a longevity swap or bulk annuity. This market is well established for pension schemes of similar size to the Scheme, albeit to a lesser extent for non-pensioners. This option therefore exists for the Scheme, and is expected to remain so in the future.

Other demographic risks

62. Due to the range of benefit options available to members, and the possible path a member might take through his or her membership of the Scheme, there are a number of other demographic risks. Assumptions regarding these are made, and reassessed, at each actuarial valuation, such as the one currently underway as at 31 March 2021, to reflect emerging Scheme experience and wider population data. These assumptions include in-service experience (which in practice may vary between different employee groups) regarding such matters as early leavers, early/late/ill-health retirement, and also commutation, transfers and dependant statistics.

63. The Trustee does not consider, relative to the other risks addressed in this section, these other demographic risks to be significant. They are managed in a similar manner to longevity risk, by making and periodically reassessing prudent assumptions. Indeed, the funding position of the Scheme is not materially sensitive to a number of these options that are close to actuarially cost neutral (for example, early/late retirement terms).

TfL's 'covenant' risk

64. The TfL 'covenant' reflects TfL's legal obligation and its financial ability to support the Scheme both now and in the future, including any agreed deficit repair contributions. Consequently, any factor that materially impinges on this ability is a concern from the Trustee's perspective.

65. From this covenant perspective, the key risks relate to developments that could reduce TfL's income or increases its cost base. Examples of such risks include:

(1) A slower than anticipated recovery in public transport usage as a result of COVID-19 thus negatively impacting income;

(2) A major health or security event incident or crisis;

(3) A failure to implement successfully TfL's longer-term projects (e.g. Crossrail, Bank Station capacity upgrade) and to invest at the required level to maintain TfL's infrastructure;

(4) An inability to continue to have access to financial markets as and when required;

(5) A reduction in the ability or willingness of the Government to provide financial support to TfL over and above existing funding requirements; and

(6) The impact of climate change on the operations of TfL over the medium term, resulting in interruptions in service and consequential major capital expenditure requirement.

66. These risks are monitored by the Trustee on a regular basis and discussed with TfL's management team. As a result, the Trustee believes these risks remain manageable, noting such factors as: the continued support from the UK Government during TfL's recent loss of revenue; the importance of the services that TfL provides; and the allowance made for deficit repair contributions within TfL's balanced budget framework.

Other risks and challenges

67. As is the case for all other occupational pension schemes, the Scheme is subject to potential changes to the relevant legal environment, the tax regime, pension regulatory requirements/expectations, and changes to the regulatory investment landscape. The Trustee closely monitors these potential changes and, to the extent appropriate, takes steps to address their impact on the Scheme.

Risk of short-term and/or inadequate decision-making

68. The Trustee recognises the financial challenges that TfL is currently facing, and the extent of the financial support that Government has provided and will need to continue to provide for some time, given the impact of the Covid-19 pandemic and the Government's decisions in response to it on public transport travel in London.

69. Nonetheless, as noted at paragraph 35 above, the Trustee is concerned that decisions could be made which have the potential to adversely impact members' benefits whilst the financial impact of the pandemic on TfL is still being keenly felt. It risks such decisions being based on short-term and/or potentially politically motivated grounds without proper regard to the longer term, and without taking into account the unique circumstances of the Scheme and the hugely positive benefits it provides to TfL as well as its employees and former employees.

Question 6: How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

Introduction

70. In the Trustee's view, the Scheme provides members with a high degree of reassurance that they and their dependants will be able to enjoy an adequate retirement.

71. Furthermore, as is clear from TfL's own website, the provision by the Scheme of a range of high quality pension options for members (including ill-health and other benefits which may be particularly highly valued for a wide range of employees including those with physically and/or mentally demanding roles) is a key element in staff recruitment and retention, which in turn contributes to the continued safe and efficient running of London's critical transport infrastructure.

72. The value of the Scheme to TfL's current and former employees is also reflected in their engagement with the Scheme (both directly and through their representative organisations) stretching back to the establishment of the Scheme itself.

Member engagement throughout the history of the Scheme

73. The Scheme was established in 1989 as a result of the merger of two pre-existing pension schemes for staff and wages grade employees of London Regional Transport ("**LRT**").

74. In the mid-1980s, LRT had wished to pursue a policy of amalgamating both pension schemes into a single pension scheme with one administrative body, comprising equal representation of management and staff, combining the current functions of the management committees and trustees. Discussions took place with a number of interested unions through a "joint working party on pensions" ("**JWP**") and that led to the Scheme's establishment.

75. Reflecting the importance of the Scheme to its members even shortly before its establishment, the initial proposal presented at the JWP provided that the Board of the intended LRT trustee company would be constituted with eight LRT nominated members including the Chairman, and eight from the members' side. (This principle of equal representation was subsequently established, and remains the position today.)

76. Furthermore, in a High Court case (known as *LRT v Hatt* (1993)), LRT was ordered to establish a "pensioners' forum" which would meet from time to time to discuss pension matters affecting pensioners and deferred pensioners. This was in addition to the Pensions Council for contributing members which already existed. This involvement of members in bodies associated with the Scheme continues today through the TfL Pension Consultative Council.

77. Perhaps in contrast to the members of many other defined benefit ("**DB**") pension schemes, the history of the Scheme demonstrates that its members have been engaged with the Scheme and the benefits it offers right from the outset.

78. This engagement has continued ever since through, for example, the online portal, the Scheme's website, and the regular communications that the Scheme provides such as annual pension statements, newsletters and the annual general meeting. And, with greater information and financial education in the public domain about the benefits of DB pensions, it is the Trustee's experience that members' awareness and appreciation of their benefits under the Scheme has also continued to grow.

Question 7: Are there any considerations or criteria the review should consider?

Relevant funding basis

79. In the response to question 1, it is noted that the Trustee views the statutory funding basis to be an appropriate measure to view the long-term sustainability of the Scheme. Other valuation measures are routinely calculated either by the Trustee (such as those known as 'solvency', 'PPF / Section 179') or by TfL ('IAS19 accounting').

80. The Trustee does not consider those other measures as appropriate to assess the long-term viability of an ongoing pension scheme such as the Scheme. The solvency and PPF / Section 179 bases consider the scenario of the Scheme ceasing to have a sponsoring employer. The IAS19 accounting basis values liabilities using a discount rate set by reference to prevailing market yields on corporate debt, which bears no relation to the expected returns from the Scheme's actual investment strategy.

Member expectations

81. The Trustee notes that, as part of their overall remuneration package, active members of the Scheme (who contribute a percentage of their annual salary to the funding of the Scheme) may well have a genuine expectation to automatic enrolment in the Scheme on the current benefit and contribution structure that will continue in its current form for the duration of their careers with TfL.

82. The Trustee believes this to be an entirely appropriate consideration for the Review.

Operational efficiencies

83. The Trustee believes that the way the Scheme is administered and the associated cost of doing so are important factors to take into account in the Review. Through its Board (which includes an independent chair), the Trustee monitors and actively manages both closely to ensure that the service it provides through the Fund Office is first class whilst also being as cost efficient and cost effective as they can be.

TfL's balanced budget obligation

84. TfL is different from most businesses in that it is obliged to produce a balanced budget each year, does not seek to be profitable at the operating cash flow level, and makes no dividend or other payments to outside shareholders. The Trustee has taken these factors into account in coming to its assessment of the strength of the covenant.

Question 8: Is there anything else you would like to add?

85. When considering any reform options, the Independent Lead and TfL should ensure that they are fully aware of, and take into account, both the short-term costs and longer-term impact of any such changes on the Scheme.

86. Once the Independent Lead publishes a final list of the options under consideration, the Trustee will be in a position to provide further comments as appropriate. It is important to be aware that the costs of change – from long-term Scheme financing costs to short-term management time costs - could be very material.

87. The Scheme's funding level has improved significantly since the global financial crisis of 2008/09. It is the Trustee's position that from 2009 to the present date, the diversified investment strategy has produced positive results that have served to reduce the Scheme's reliance on the covenant over the longer term.

88. In addition to the responses to the questions set out above, the Trustee wishes to make the following comments in relation to Appendices 2 and 3 of the Call for Evidence. For this purpose, we have referred to the paragraphs in the applicable appendix to the Call for Evidence.

Appendix 2

89. Paragraphs 5.6 and 5.7: The Trustee notes the reduction in demand brought about by the Covid-19 pandemic for TfL's services, as has been illustrated on Appendix 2 - Chart 5. However, it also notes that this is unlikely to be permanent with demand expected to return to 90% of pre-pandemic levels by 2022/23 and to 2018/19 levels (i.e. pre Covid-19 levels) by 2024 under Management's 'Decarbonise by 2030' case.

90. The Trustee notes the current funding discussions between Government and TfL are taking place against a protracted decline in passenger numbers due to the Covid-19 pandemic. Although the timing of the recovery continues to be uncertain, as the number of people working from home reduces, the Trustee understand that TfL expects its revenue to recover. From the Scheme's perspective, the Trustee expects the underlying financial position of TfL (which will also include the beginning of commercial operations for Crossrail) to improve before the next actuarial valuation for the Scheme in 2024.

91. The support provided by Government to TfL in response to the Covid-19 pandemic has reinforced the Trustee's view that the network represents an essential element of London's infrastructure, benefitting not only the travelling public directly but also the wider commercial and hospitality sectors. This view in turn allows the Trustee to take a long-term view of TfL's financial position.

92. However, the Trustee does note that the fact that the Government's funding support has, to date, been short-term in nature and has prompted an examination of whether there has been any weakening of TfL's covenant over the longer term, which in turn is relevant to the level of risk that it is appropriate to take. In this respect, a longer-term funding solution will assist not only the financial position of TfL but also the longer-term viability of the Scheme.

93. More broadly, the Trustee believes TfL's wider role should be considered from a sustainability perspective:

(1) It is essential as part of UK Government's target to achieve environmental sustainability; whilst this may require further government investment this will generate significant additional revenues and environmental long-term benefits (see TfL's Decarbonise by 2030 case).

(2) Its historically reliant on government support (Appendix 2 – Chart 1) and consequently its sustainability should be viewed more broadly than whether it requires medium term government support. For instance, it plays a crucial role in supporting the hospitality and tourism sector in London, providing jobs, income and tax support for the UK economy as a whole. This in turn has generated business rates revenue that has been used to fund Crossrail and other TfL investments.

(3) The nature of government support also plays an important role from a sustainability perspective with the current short-term funding agreement potentially weakening the sponsor employer covenant and thereby increasing the cost of the Scheme. Longer term government support would therefore be beneficial; this is in addition to the greater investment certainty it would provide from a wider TfL perspective.

Appendix 3

94. Paragraph 7.1: The Trustee agrees that the nature of the Scheme, as a private sector scheme sponsored by a public sector body, does not fit neatly within the current regulatory framework. The Trustee's view is that its unique circumstances should be recognised and more expressly taken into account within the regulatory framework.

95. Paragraphs 7.2 and 7.3: For the avoidance of any doubt, the Trustee notes that Part 3 of the Pensions Act 2004 does not require "*increased levels of prudence and contributions in order to reduce risk over time*". The Trustee also does not accept that it is TPR's focus for the Scheme. Although the Trustee acknowledges that, speaking generally, it may be correct to describe this as the focus of TPR, it should also be noted that the reason for this general focus is because the majority of private sector defined benefit schemes are, unlike the Scheme, closed to new entrants and/or future accrual.

96. Paragraph 7.4: It is the Trustee and TfL who are responsible for ensuring that the Scheme is being funded in accordance with legal requirements. TPR has significant powers available to it in this regard, but the examples provided have never been exercised to date in relation to any pension scheme, let alone in relation to the Scheme. In addition, it should be noted that the governing documentation for the Scheme supplements the statutory funding regime (e.g. the Rules of the Scheme require TfL to pay a certain minimum level of contributions to the Scheme).

97. Paragraph 8.8: The Trustee notes that if the increase in value of Scheme assets keeps pace with the increase in Scheme liabilities resulting from lower expected future investment returns, then it is not 'inevitable' that a funding gap will arise. The experience of the Scheme over the period since 2006 has shown that it has been possible to maintain a relatively stable level of cash contributions expressed as a percentage of pensionable salary from TfL despite the significant reduction in expected returns over that period.

98. Paragraph 8.13: The Trustee does not disagree that population life expectancy has increased significantly since 1980. However, the Scheme has been able to incorporate this within the funding arrangements. In presenting a more balanced view on the topic, the Trustee would highlight the slow-down in improvements in life expectancy in the last 10 years, and the potential for COVID-19 to further exacerbate and even reverse that trend.

99. Paragraph 9.4: Chart 8 reflects the quarterly funding updates provided for the Trustee by the Scheme Actuary. Between actuarial valuations, these reflect a mechanistic update of the previously agreed valuation methodology, and it does not follow that the same assumptions would have been used had a full valuation been carried out at those interim dates. As evidenced above, the Scheme has been able to withstand such volatility by taking a long-term view and has maintained the overall cash cost of the Scheme to TfL within a stable range for many years. The Trustee does not believe that the extreme market volatility experienced in the first half of 2020 should form the basis for making decisions about the long-term future of the Scheme.

100. In addition, if Chart 8 was extended to show a longer period of history more consistent with the long-term context in which the Trustee believes the Scheme should be viewed, it would show actuarial valuations which revealed a funding surplus (e.g. in 2000).

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Response to the Pension Fund Review by the London Transport Superannuitants Association (LTSA)

The LTSA has 4000 signed up full members of both deferred and retired TfL Pension Fund members and is open to all grades of previous employees and dependents of TfL

1. **How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others?**

From all of the literature concerned with this Review of the TfL Pension Fund one thing is obviously clear throughout and that it is the intention of those instigating the review are seeking one single thing and that is an attempt to find what they consider a long term solution to what is ostensibly a short term problem brought on by the current Covid-19 pandemic and the fear that passenger mileage will not return to pre Covid_19 proportions this one again is pure supposition and an unknown quantity. The wording in the literature is specifically intended to focus on the fear factor in an attempt to drive through changes to the TfL Pension Fund that are in essence unwarranted and unacceptable to all those involved with the TfL Pension Fund per se.

The TfL Pension Fund's strong governance has meant that regardless of short- term external events such as the financial fiasco of the financial crash of 2000, the subprime mortgages fiasco of 2015; the current covid_19 epidemic, and the long term effects of legislation which has seen the removal of Government funding for TfL placing pressure on TfL in meeting its employer contribution commitment to the Pension Fund. However it can be shown that regardless of short term problems, the long term sustainability of the TfL Pension Fund has never been in doubt given that it's sponsors TfL are unlikely to go out of existence due to the continuing need for passenger transport throughout London and given the positive handling of the Fund's assets by the Trustee Board and Wills Towers Watson actuaries.

The primary reason that TfL contributions has risen to £370 million p.a. has been the gradual reduction over the last 10 years or so in the discount rate i.e. the expect real returns expected. This is due to the fact that interest rates have been historically low over the same period. The result is that liabilities have grown. Recent assumptions are that this trend is beginning to change and therefore if global interests continue to rise the liabilities will reduce.

If there is a move to close the Scheme to new entrants, over time this will have a negative impact on investment returns as the investment risk profile that the Fund adopts will need to be more cautious. This alone is a compelling argument to keep the TfL Pension Fund open to new members.

Over the last few years members have welcomed the increased focus by the Fund on sustainable investments. The Funds carbon footprint has been reduced by 30% since 2016 and strategies to reach net zero are in the process of being finalised. I believe the TfL Pension Fund is ahead of the curve compared to other Pension Schemes in this area and in the coming years this will be of increasing value to our members.

Given the historical long term stability of the TfL Pension Fund from it's original origins as a blue collar worker Pension Fund Scheme, shows that a well managed pension such as the TfL Pension Fund, is sustainable over the long term and as such the current TfL Pension Fund should be maintained in its current format with no alterations whatsoever.

There is no justification whatsoever for this current proposed review of the TfL Pension Fund given that the Trustee Board is carrying out the next Triannual Actuarial Valuation at this moment in time.

2 How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements for TfL?

Affordability and sustainability are two sides of the same coin thus predominantly the response provided in question one equally applies to the response in question two, nonetheless assuming the fund can maintain strong, long return seeking asset portfolio, this coupled with the increase in the discount rate will reduce pension fund contributions required from TfL. Having a scheme open will facilitate a return seeking investment strategy. Conversely if the scheme was to be closed to new members the level of risk in the investment strategy would need to be reduced over time increasing the reliance on contributions from TfL.

Prior to the COVID pandemic TfL had been reducing its reliance government fundings, demand for services increased following a period of significant capital investment and operational efficiencies that reduced the cost base reducing the effect on TfL of the loss of government funding. Service demand and therefore TfL's income may take a period of time to recover although this will be primed by the opening of the Elizabeth Line and increases in demand riven by business recovery in London.

In the discussion surrounding taxpayers it needs to be pointed out that contributing members of the TfL Pension Fund will also pay income tax, Council tax and VAT on goods and services, by this token the contributing members will also pay more into the fund via taxation

The same will apply to the deferred and retired members who will, contribute via Council tax and via their disposable earnings they will also pay VAT on goods and services, once again paying into to the TfL Pension Fund long after they have ceased to be wage earners.

The sustainability the TfL Pension fund is inexorably linked to benefit on the welfare state by TfL pensioners having a reduced dependence on social wellfare income thus freeing up capital for others in need.

The fare paying passengers will always need a regular and reliable transport services, as recompense for the fares they pay, likewise so will businesses who will need to have the reliability of their employees being able to travel relatively quick and safely to their place of business. As far as businesses are concerned the review has little say in this respect yet these groups benefit especially the hospitality sector who have been at pains to point out during the COVID-19 travel restrictions how much this has harmed their sector, nonetheless it is debatable as to whether those operating in this sector have any concerns about Tfl's deficit contributions. It should be noted that since the Covid restrictions have been lifted a number of politicians and the press have been vocal in encouraging people to return to working in London in order to support those businesses that provide services to these workers.

The London Evening standard has actually published news that there is a rise in passenger travel on both bus and underground over the past week, leading to the belief that London is beginning to come out of the stupor that has becalmed it since the outbreak of COVID-19

3 What do you consider to be the key risks and challenges in the short-medium-and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how can these risks and challenges be mitigated?

All pension schemes pool risk and while Trustees recognise the risks associated with DB pension schemes in general, Trustees are already mitigating risk on both a short, intermediate and long-term basis. The challenges faced by the TfL Pension Fund are nothing new and the existing governance structures are entirely fit for purpose in managing those challenges.

Regardless of the rationale for the review, the PCC would like to comment on possible key risks mentioned.

The risks mentioned are of course a concern for all DB pension schemes but if there is good Trustee governance when it comes to managing these risks over the long-term horizon, these challenges can be managed and mitigated.

This is exemplified by the crises which resulted from the Covid-19 pandemic which saw the leading global investment market indices e.g. Standard & Poor 500 UK FTSE 100 etc. 25% in the three months up to the end of April 2020, the largest quarterly fall in equities since Black Monday in October 1987. However, while we saw FTSE 100 indice fall by almost 2,000 points, from 7,542 to 5,672 points, as we have experienced with other financial crises the markets have since rallied and this leading stock indice is now once again valued by over 7000 points.

While the above clearly was of some concern, as noted above DB pension schemes do not invest in the short-term but set their horizons much further. Of course, in the short-term, pension schemes will want to have liquid investments to react to such events and of course pay the required benefits to its near 40,000 pensioner beneficiaries. Over 13 years the TfL Pension Fund through its two investment committees has diversified its investment portfolio from a mere 6 Fund Managers in 2009 to around 35 Fund Managers assigned to around 45 investment mandates. The asset baseline in that 13 years has grown from £4 Billion to £14 Billion as at mid-September 2021 to take into account many different types of scenarios as well as taking advantage of the falls in different markets as mentioned above. The process of diversification of investments has been in place since 2009, and whilst it remains an ongoing work in progress, there is no denying that its diversification of investments strategy both in macro and alternative investments has been a great success story over the last dozen years or so.

The good governance mentioned above is in respect of the skill of both its external and internal investment advisors appointed by the Trustee and while you cannot always rely absolutely on this expertise, due to certain events the TfL Pension Fund have both hedged and managed their investment to both offset and mitigate the risk of any adverse price movements or falls in markets. It is not by chance that the fund now finds itself almost fully funded based on the most recent valuation forecast, despite the turmoil experienced at the beginning of the pandemic back in February - April 2020.

It needs to be pointed out that the fact the Government has only offered a short term funding agreement with TfL has negatively impacted on the fund's investment strategy which could yet force the Trustees into having to take a less aggressive investment approach due the weakening of the sponsoring employer's covenant. Therefore, the failure of the Government to agree a long-term funding agreement with TfL has therefore great potential to adversely affect the continued robust growth on investment returns and therefore will result in sustained collateral damage to the fund in itself.

In respect of wage inflation and longevity, we also see these as being mitigated by the structure of both the investment portfolio and continued contributions being made into the fund. Experience has taught us that most DB pension schemes now mitigate the pressure of an ageing population by matching their investments to the membership profile of the scheme. Investment concepts such as Liability Driven Investment (LDI) are now used to manage the liabilities being built up by active and pensioner members. While you can't always put all one's absolute faith in all these investment techniques, it is indeed crucial that the Trustees of the TfL Pension Fund are regularly monitoring their investments which we know to be the case based on the very positive funding level of this pension scheme.

It is noteworthy, for example, that most of the still existing DB pension schemes, including the TfL Pension Fund, have come out of the pandemic in a very positive and good financial shape.

Discussing the risks from salary increases towards retirement at point 8.1 we note and challenge the following "The scheme currently provides a benefit which is linked to each member's final salary when they retire, leave service, or die (whichever happens first) .The link to final salary means that benefit provided to members can potentially significantly increase beyond that funded for if members receive a large salary increase towards the end of their career." At each actuarial valuation, TfL have been at pains to insist that the Actuary need make only a minimal allowance for projected salary increase, apart from any RPI. We believe that there is no evidence that this risk actually materialises. This purported risk is repeated at 8.16.1

In relation to investment Risk, we note the claim at 8.5 "that the significant size of the scheme also means that a relatively small change in investment, performance can lead to a relatively large increase in contributions needed from TfL.. However, the freedom to fund deficit contributions over ten years mitigates the risk, especially if it has arisen from short term volatility of some of the investment classes.

In relation to mortality risk it is claimed at point 8.9 “that another risk is that members live longer than expected. However, the most recent Actuarial advice is that improvements in life expectancy are diminishing and thus the risk will also become less.

In relation to the Covenant Risk the paper at 8.15 discusses the impact on the Valuation of a perceived weakening of the employer covenant stating “ if the covenant is deemed to have weakened than this could mean that the Trustee may aim to be more prudent in its funding assumptions, which will result in higher contributions than would otherwise have been the case”. We would note that the converse is also true i.e., if the strength of the Covenant is unchanged, or even strengthened this would have a desirable positive impact on TfL’s contributions.

As pointed out in the responses to question 1 We believe that many of the risks are exaggerated or short-term and TfL’s true position in relation to funding any deficit or the costs of the future accrual may be more manageable than is implied. TfL itself will continue in some shape or form for many years, as it is inconceivable that the need for public transport to support London as a capital city will vanish. We would argue strongly that short term problems with funding could be weathered, especially if the Trustees were given the confidence in a strong Covenant running similarly into the future.

The problem that the TfL Pension Fund right now is the same problem facing the 500 employer supported defined final salary pension schemes across the UK is the COVID-19 pandemic and the continued all time low interest rates which means the Trustees have to have faith in the actuaries they employ to ensure long term stability, the Financial Times September 2021.

4 How should TfL’s pension arrangements compare with other available elsewhere in the public sector?

As noted above, in the LTSA’s view, facile comparisons with other pension schemes should be resisted. Whether in the public or private sector, each scheme has developed its own benefits structure, membership profile, employer covenant and funding arrangements to reflect the particular characteristics of the industry, workforce, employers, employment patterns and labour markets in question. Any need for reform should be established with reference to the particular industry and the particular scheme in question and not through headline grabbling, or irrelevant comparisons. That is why the best focus for discussions of any need for reform is within the existing scheme structure governance.

We are aware that the Trustee Board of the TfL Pension Fund are currently carrying out its 31st March 2021 triennial actuarial valuation which we believe will indicate in more detail a very positive financial position of the fund and that is where any discussion should be directed. The synopsis to the review frames the issue in a way that is highly revealing, asking the question of whether other workers, regardless of where they work, receive benefits similar to those of TfL employees. This is a direct and leading reference to drive a “race to the bottom” in public sector pension schemes: that these schemes are somehow “gold plated”.

Pension reform should not be established on the basis of a “race to the bottom”.

The LTSA see no need to make such comparisons, as TfL is in a unusual position as regards its definition as a “Public Sector” scheme. We note that the schemes that people may compare the TfL Fund to are generally funded in a very different manner with apparently no limit on the liabilities to the Treasury.

The Tfl Pension Fund is designed specifically for TfL employees and meets their unique requirements. Other pension schemes are just as individual, and no fair comparison is possible. Tfl Is not classed as a public sector pension fund because there is no reference to it in any government document describing public service pension. We should not be classed with them or compared to them comparison is further valid as TfL's scheme is unique to TfL's requirements #, just as other schemes are determined by their employers providers..

Most public sector pensions are now on a "CARE" Most public (Career Average Related Earnings) basis, while TfL's scheme remains a stable and sustainable defined benefit final salary scheme. Most public sector schemes are funded on a 'pay as you go' principle, h no Trustees, investments to manage and no accountability to scheme members; any shortfall liabilities in those funds automatically falls on the taxpayers nationally and indiscriminantely, where as TfL ahs a funding strategy approved by the Pension Regulator, which clearly y defines the contribution.

Public sector pensions are by definition national schemes, while Tfl is specific to one defined region of the UK. The same applies Local Authority schemes, which while they may have commonality of some resource funded specifically for the relevant employers, and not a charge on the national economy. There o fair comparison between TfL's scheme and public sector pensions

5 What are your views on how TfL's pension arrangements can be fair to all going forward, including
overall remuneration package within a given industry. The sponsoring employer in return contributes to its employees' pension scheme on a balance of cost basis. This is both the legal and the social contract both parties enter knowingly under the formalities of the employees' contract of employment on first entering service and ongoing thereafter throughout one's service career with TfL and or London Underground.

This arrangement between TfL and its employees works no differently to any other agreement across the UK industry. The contract between both parties only becomes unfair, in respect of pensions, when the workers' expectations are reduced or taken away. Historically, it has been a highly valued aid for recruitment and retention by both employer and employee alike.

Raising the question of how a scheme can share risk more fairly is almost invariably a thinly coded way of employers arguing for reducing their share of the risk and shifting it onto workers, by closing DB schemes and offering inferior DC schemes, reducing employer contributions and so on. By the very nature of DB pension schemes there is a risk, which regardless of the contribution rates or benefit structure, will still exist even if changes are made to members benefits. The key to this debate is how to manage risk and fairness. As noted throughout, we believe this can only be achieved by total transparency, evidence-based debate and negotiation within the governance structures of the scheme. A fair balance of risks must be taken into consideration.

The LTSA challenge any suggestion that the employee needs to take a greater share of the risk to their pensions. Employees are individuals, hoping by the time they cease earning a living and thus retire , their retirement standard of living will have been predictable and, if they have a reasonable length of service, be as affordable as when they were earning. There is little that such an individual can do to increase that income, should the pension be reduced or the costs of accruing it fluctuate.

Employees take the risk that if they die early, without dependents, and thus do not realise the benefit of all of their contributions and those made by the employer on their behalf. Tfl has a greater freedom to adjust their income through choice over the long-term and with Government support where necessary.

6 How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

This is a key question which we believe is crucial to understanding why members highly value the TfL Pension Fund. While we acknowledge that there may be many members of the fund who do not fully grasp or understand the benefits offered by the fund, it is The PCC's firm belief that most employees across TfL and London Underground (LUL) staff are very much engaged when it comes to their pension scheme and fully comprehend the "critical safety net' the scheme may provide either for life beyond a career in transport in retirement or in the not so good times, when a primary breadwinner is no longer able to earn a living from their chosen career such as by way of an ill health or a survivor dependent's pension

Members understand that in exchange for an element of deferred pay in respect of their remuneration in employment package they are given a promise that at retirement they will receive a certain level of income which is of course highlighted in their Annual Pension Benefits Statement. They also recognise that in the event they are no longer able to carry out their employment duties the fund will provide them with an income. And lastly in the event of their death, whether that be during their employment or in retirement, their loved ones will be protected.

A healthy open Pension Fund gives reassurance to Pensioners hat their pensions are secure and highly value a responsive and customer focused pension fund office, and that the knowledge that their pensions will be paid on time when it is due.

Also the pensioners have the opportunity to attend the Annual Members Meeting where they are given a full in depth up date of how the TfL Pension Fund is being run, with explanations of the current assets and liabilities of the Fund, those present will include the TfL Trustee Board Chair, a representative from both Sakers the Funds legal advisers and from Wills Tower Watson the Funds Actuaries.

There is always time for a question and answers session at the end of the presentation, as usual PCC Councillors are in attendance so that after the meeting the all members can speak with them if they wish to these may well include contributing members of the fund also.

7

There are employer benefits of a secure Pension Fund indeed especially from the stand point of recruitment for new employees. There is now a pressure on employers generally to recruit staff, which is beginning to exert and upward pressure on wages and salaries, and job movements in search of better conditions. It is possible that it will impact on TfL staff recruitment if this should happen then the attraction of forward thinking long-term reward package inclusive having security in retirement may well be a sustainable and inexpensive way to retain the assets of valuable employees.

The independent Review (1)found that TfL's pay package was within the market average for most staff and below this for senior staff, and the Financial Sustainability Plan published in January 2021(2) recognized that all elements of the reward package must be considered holistic. In other words any reduction in pension benefit will need to be offset by corresponding increases in other rewards if TfL is to continue to recruit and retain the necessary staff, particularly experienced and senior staff.

A House of Commons report Page 9(3) shows the impact of the 2011-2015 'modernisation' of public service pensions generally including a change from a final salary to career-average based pensions reduced the average value of members' benefits by more than a third. Such a loss of benefit would significantly affect the attractiveness of TfL as an employer.

7 Are there any other considerations or criteria the Review should consider?

The LTSA consider that any major changes to the Tfl Pension Fund will come at significant costs and that these costs need to be considered fully as part and parcel of this review.

As well as the direct costs implementing any changes including legal fees, project management and organisational charge costs, there may well significant indirect costs linked to the reactions from employees affected by the changes. There is a potential for industrial action resulting in a loss of revenue for TfL and a wider impact on the London economy if passenger services are affected.

8 Is there anything else you would like to add

In respect of recruitment and retention the TfL Pension Fund is a fundamental reason why individuals join TfL/LUL and remain employed in the long-term. This is mirrored across many different types of industries where similar DB occupational pension schemes are offered. The railway industry to name one where the turnover across Train Operating Companies is much lower when one compares it against other railway employers who don't offer their staff a DB arrangement.

Offering any type of inferior pension arrangement to existing or new staff would negatively impact recruitment and retention. Pensions have never been so important when you consider the inadequacies of the Basic State Pension (BSP). Due to the State Pension Age increasing typically from age 65 to age 68*(but also for women in particular the migration of pension age from 60 to 68 in a relatively short period of time)* many workers will need a decent occupational pension scheme which will allow them to retire at a reasonable age to enjoy a long if not fact a longer retirement. Also, the current single person’s BSP of £179.60 a week is not in the majority of cases going to give individuals financial stability. So, building up a decent occupation pension is fundamental.

Analysis of TfL’s procurement spending on these outsourced services shows that around 50% of TfL’s procurement spending is on services that could be brought in-house.

TfL is a public sector employer, but has a private sector scheme arrangement. This means that the principal employer -Transport for London on behalf of itself and its participating employers e.g. London Underground - hands over both the employer and employee contributions to the Trustees. The Covid crisis may have impacted on the self-sufficiency funding model, and historically until 2017, TfL was a recipient of subsidy from central government, and until the advent of the Covid pandemic in early 2020, pension contributions had never been an issue.

“The purpose of the Review is to assess the Scheme and to make recommendations in relation to TfL’s pension arrangements generally that are sustainable and affordable in the long term, FAIR to employees, farepayers and taxpayers and consistent with TfL’s financial challenges ahead, while protecting members’ benefits built up to date (the purpose)” the word “FAIR” is extremely vague and we hope that the Panel will explain their interpretation of the word “FAIR” in this context?

We note that point 7.3 on page 19 of the document attempts to summarise the Regulators approach to scheme funding and comments>” Broadly speaking, this new requirement is likely to mean that employers of private sector schemes, such as TfL, are put under increased pressure to pay more money in to their schemes more quickly. This is an oversimplification of the Regulators’ approach, and the requirement for open DB schemes to invest in the same way as closed schemes is still being challenged. We understand that it is likely that a less restrictive regime, albeit more onerous in terms of justifications, will be available to the schemes like the present TfL Fund. We believe this comment and that in 7.5 is unnecessarily pessimistic.

9

The LTSA feels there is a substantial arguments that support the ‘do nothing’ option which we note is mentioned by TfL but is not in the definitive Review document. We speak for the past, present and future beneficiaries of the Tfl Fund and we cannot state strongly enough that, that where the TfL Pension Fund is concerned the “Status Quo” should be the final

statement coming out of this Review, which has been propounded through out in our response, this decision would be a benefit not only for the Pension Funds past, present and future members' but also for TfL too.
The LTSA welcomes the opportunity to contribute to this review on the questions raised and our understanding of the Review to date. New consideration may well arise at later stages of the review and therefore we would reserve our position to contribute further at a later point.

To conclude, the LTSA wishes to acknowledge the fact that LRT fully took on board the advice handed down by Knox J in the 1993 Hatt and Others v LRT that there should be openness, transparency and communications between the employer having set up the original Pension Fund and continued to support it when the Fund merger took place.

You can see how passionate the membership is about the TfL Pension Fund simply by looking at how the deferred and retired members who are nominated by their peers for election to the PCC Council
and the time and effort they put in to ensure that the TfL Pension Fund is well run and sustainable.

All of these positions on the PCC and the Pensioners Forum and the London Transport Pensioners Association are all unpaid and voluntary, which speaks volumes in respect of the depth of feeling for the current TfL Pension Fund, and are committed to see it remains as always the best DB pension fund in the UK, and without any future changes to the way the Tfl Pension Fund has been set up, change for them is not an option, this feeling goes right across the board of all beneficiaries, wishing to maintain the Status Quo so that future beneficiaries can enjoy the benefits of a what is uniquely a world class Pension Fund.

Alexandra E Barnes Chair of the London Transport Supperannuitants Association (LTSA)

Response to the Pension Fund Review by the Pensions Consultative Council

General Information

The TfL Pensions Consultative Council (PCC) came into being as a result of the High Court Judgement of (Knox J.) in the case of Hatt and Others v LRT 3rd May 1993.

The PCC is made up of 20 elected Councillors divided into 3 sections: -

Section I. is made up from deferred and retired members of the Fund and has 8 elected members.

Section 2. is made up from TfL employees and has 4 elected members.

Section 3 is made up of LUL employees and 8 elected members.

Four Councillors serve as Director Trustees of the TfL Pension Fund Trustee Board, 2 Trustees from Section (1) and 1 Trustee from Section's' (2 and 3)

With regard to the roles these Trustees perform on the TfL Pension Fund Trustee Board they are as follows: -

I Section (1) Trustee sits on the investment committee and sits Appeals Committee and is the Vice Chair of that Committee

1 Section (1) Trustee sits on the Actuarial Valuation Committee and is the Vice Chair of that Committee, in the past has sat on every TfL Pension Fund Trustee Board Committee with the exception of the Appeals Committee. With the formation of the present Penson Fund became a founder Trustee in 1989 and served as a TSSA nominee, until 1995, shortly after leaving service through redundancy, was re-elected from Section (1) as a Trustee in 2005, taking over the seat of a retiring Trustee.

That particular retiring Trustee has now been re-elected on to Section (1) as a PCC Councilor, having previously served as a Trustee on the Pension Fund Board from 1995-2004 as a PCC Section (1) Trustee serving on the Operations and Audit Committees of the Pension Fund Board.

The Section (2) Trustee sits on the Operations Committee, and has been a Trustee since 2017and sits on the Appeals Committee

The Section (3) Trustee sits on the Alternatives and Liabilities Hedging (ALHC) Committee, the Investment Committee and Chairs the Operations Committee, and has been a Trustee since 2007.

The PCC Trustees produce a TfL Pension Fund Report to be given out at the quarterly PCC Council meetings, thus allowing the elected PCC councilors to question and respond to these reports and where appropriate the PCC Council can seek further information from the TfL Pension Fund Manager who attends the PPC Council meetings. Thereby allowing the full Council to have a strong working knowledge of how the TfL pension fund is being handled especially in regards to the assets and liabilities of the TfL Pension Fund.

The Section (1) PCC Councillors also sit as committee members of the TfL Pensioners Forum Committee, which in itself concentrates on all areas of the TfL Pension Fund that impacts whether positively or negatively on the deferred and retired members of the TfL Pension Fund.

1. How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others?

Pension schemes like TfL's are a long-term pooling of risks in the interests of all stakeholders and their sustainability must be measured over the long-term. As illustrated in the Call for Evidence consultation paper, over the years, the TfL Pension Fund has reacted to various events in the very same way as other DB Pension Schemes. The events we allude to are changes in legislation, poor investment performance and improvements in mortality, to name just a few. However, while we acknowledge that these events have had at times impacted negatively on the TfL Pension Fund, its strong governance has meant that these have been dealt with effectively. It is of the utmost importance to the TfL scheme, as with all schemes, that decisions are made on the basis of evidence and with the long-term sustainability of the scheme in mind, based on investments made over a longer-term timeline and which are not governed by short term and politically motivated decisions.

There is no case for this review. The Independent Review into the TfL pension arrangements is in our view not only badly timed but clearly politically motivated. We would ask why anyone would seek to review the TfL Pension Fund at a time in consequence of a very conservative 2018 actuarial valuation when it is in effect, if not in spite of being, fully funded? Perhaps more importantly this review is happening while the Trustee Board are carrying out the full 2021 Triennial Actuarial Valuation. The timescale for the Review is established in order to drive the Review to conclusions before vital evidence is available and at the whim of the government, without any internal rationale. In our experience the tried and tested method in dealing with similar pension arrangements is when the results of a triennial valuation reveal a deficit which needs to be addressed. A distinct prospective outcome of the 2021 actuarial valuation is indeed a substantial surplus. Setting up a review panel is not only unnecessary, it is also a waste of TfL's time and resources which could be better focused on ensuring a safe and sustainable increase in passenger numbers back onto the London Underground, TfL Railway and Bus networks. It also causes wholly unnecessary anxiety to employees who have risked their lives through the Covid pandemic. Too many have died giving this service.

Neither is it legitimate to judge the long-term sustainability of the TfL pension scheme through quick and facile comparisons with other schemes. Comparisons to Network Rail and Local Government pension schemes, for example, are totally inappropriate. Each scheme has been established on the basis of different historic labour markets and reward packages, different mixes of public and private employment, different funding levels and assets and a different if not a more precise role for the state and the taxpayer. The taxes of our members, for example, contribute toward the pensions of government ministers. Each scheme needs to be judged on its own merits and not through a politically motivated imperative to drive a "race to the bottom" aimed at making our members poorer in retirement.

The TfL Pension Fund occupational scheme has a long and well established governance structure that is well-fitted to manage the scheme in the interests of both its long-term sustainability and investment strategy.

What are the key features of long-term sustainability for the pension arrangements of TfL?

The sustainability of the TfL Pension Fund should be viewed in line with the scheme's liabilities and assets on a long-term basis considering the characteristics and obligations placed on the fund in providing benefits in retirement for all beneficiaries.

These characteristics and obligations are ingrained within three fundamental principles which we believe are inviolate:

1. The pension fund must remain open. We believe that if the TfL Pension Fund is closed to new entrants this will create a spiral of decline in the scheme. The experience of closing schemes to new entrants over the last

20 years is that it reduces the investment horizon, refocuses schemes on cash and bonds with lower returns, and produces more pressure to raise contributions with the consequence that benefits are cut. Closing the scheme to new entrants must be avoided to escape such a spiral. The current benefit structure must be retained for current and new members.

2. Current members, by making pension contributions which is in essence Deferred Pay have an expectation of a certain level of benefit not only for past service benefits but also for future accrual. These promises should be honoured in full. We do not accept that change is necessary for the sake of change and our members expect and deserve a certain level of benefit in retirement. Cutting benefits for future members will build inequality and instability into the scheme. Future members should have the same expectations as current contributing members.

3. All pension schemes should be affordable and fit for purpose. The PCC does not accept bald statements that the TfL Pension Fund is somehow outdated and must be modernised. From a member perspective, having new members contributing to the fund is potentially the most important element of long-term sustainability when combined with an effective diversified investment strategy that takes fully into account fluctuating investment markets. While it can be argued that using such investment strategies, like Liability Driven Investment, can stifle investment growth, it is clear that over the last 18 months the TfL Pension Fund, like many similar DB schemes, has seen funding levels grow and not reduce, which is primarily due to the protection that diversification as part of its overall investment strategy provides.

3. What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?

All pension schemes pool risk and while Trustees recognise the risks associated with DB pension schemes in general, Trustees are already mitigating risk on both a short, intermediate and long-term basis. The challenges faced by the TfL Pension Fund are nothing new and the existing governance structures are entirely fit for purpose in managing those challenges.

Regardless of the rationale for the review, the PCC would like to comment on possible key risks mentioned.

The risks mentioned are of course a concern for all DB pension schemes but if there is good Trustee governance when it comes to managing these risks over the long-term horizon, these challenges can be managed and mitigated.

This is exemplified by the crises which resulted from the Covid-19 pandemic which saw the leading global investment market indices e.g. Standard & Poor 500 UK FTSE 100 etc. 25% in the three months up to the end of April 2020, the largest quarterly fall in equities since Black Monday in October 1987. However, while we saw FTSE 100 indice fall by almost 2,000 points, from 7,542 to 5,672 points, as we have experienced with other financial crises the markets have since rallied and this leading stock indice is now once again valued by over 7000 points.

While the above clearly was of some concern, as noted above DB pension schemes do not invest in the short-term but set their horizons much further. Of course, in the short-term, pension schemes will want to have liquid investments to react to such events and of course pay the required benefits to its near 40,000 pensioner beneficiaries. Over 13 years the TfL Pension Fund through its two investment committees has diversified its investment portfolio from a mere 6 Fund Managers in 2009 to around 35 Fund Managers assigned to around 45 investment mandates. The asset baseline in that 13 years has grown from £4 Billion to £14 Billion as at mid-September 2021 to take into account many different types of scenarios as well as taking advantage of the falls in different markets as mentioned above. The process of diversification of investments has been in place since 2009, and whilst it remains an ongoing work in progress, there is no denying that its diversification of investments strategy both in macro and alternative investments has been a great success story over the last dozen years or so.

The good governance mentioned above is in respect of the skill of both its external and internal investment advisors appointed by the Trustee and while you cannot always rely absolutely on this expertise, due to certain events the TfL Pension Fund have both hedged and managed their investment to both offset and mitigate the risk of any adverse price movements or falls in markets. It is not by chance that the fund now finds itself almost fully funded based on the most recent valuation forecast, despite the turmoil experienced at the beginning of the pandemic back in February - April 2020.

It needs to be pointed out that the fact the Government has only offered a short term funding agreement with TfL has negatively impacted on the fund’s investment strategy which could yet force the Trustees into having to take a less aggressive investment approach due the weakening of the sponsoring employer’s covenant. Therefore, the failure of the Government to agree a long-term funding agreement with TfL has therefore great potential to adversely affect the continued robust growth on investment returns and therefore will result in sustained collateral damage to the fund in itself.

In respect of wage inflation and longevity, we also see these as being mitigated by the structure of both the investment portfolio and continued contributions being made into the fund. Experience has taught us that most DB pension schemes now mitigate the pressure of an ageing population by matching their investments to the membership profile of the scheme. Investment concepts such as Liability Driven Investment (LDI) are now used to manage the liabilities being built up by active and pensioner members. While you can't always put all one's absolute faith in all these investment techniques, it is indeed crucial that the Trustees of the TfL Pension Fund are regularly monitoring their investments which we know to be the case based on the very positive funding level of this pension scheme.

It is noteworthy, for example, that most of the still existing DB pension schemes, including the TfL Pension Fund, have come out of the pandemic in a very positive and good financial shape.

4. How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

As noted above, in the PCC's view, facile comparisons with other pension schemes should be resisted. Whether in the public or private sector, each scheme has developed its own benefits structure, membership profile, employer covenant and funding arrangements to reflect the particular characteristics of the industry, workforce, employers, employment patterns and labour markets in question. Any need for reform should be established with reference to the particular industry and the particular scheme in question and not through headline grabbling, or irrelevant comparisons. That is why the best focus for discussions of any need for reform is within the existing scheme structure governance.

We are aware that the Trustee Board of the TfL Pension Fund are currently carrying out its 31st March 2021 triennial actuarial valuation which we believe will indicate in more detail a very positive financial position of the fund and that is where any discussion should be directed. The synopsis to the review frames the issue in a way that is highly revealing, asking the question of whether other workers, regardless of where they work, receive benefits similar to those of TfL employees. This is a direct and leading reference to drive a "race to the bottom" in public sector pension schemes: that these schemes are somehow "gold plated".

Pension reform should not be established on the basis of a "race to the bottom".

5. What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

The Trustees' primary role is the administration and oversight of the pension scheme, on account of its fiduciary duties to all members. The PCC does not view the TfL Pension Fund as being unfair. TfL employees join the fund with an expectation of receiving a certain level of benefit at retirement in exchange for carrying out their employment duties as part of an overall remuneration package within a given industry. The sponsoring employer in return contributes to its employees' pension scheme on a balance of cost basis. This is both the legal and the social contract both parties enter knowingly under the formalities of the employees' contract of employment on first entering service and ongoing thereafter throughout one's service career with TfL and or London Underground.

This arrangement between TfL and its employees works no differently to any other agreement across the UK industry. The contract between both parties only becomes unfair, in respect of pensions, when the workers' expectations are reduced or taken away. Historically, it has been a highly valued aid for recruitment and retention by both employer and employee alike.

Raising the question of how a scheme can share risk more fairly is almost invariably a thinly coded way of employers arguing for reducing their share of the risk and shifting it onto workers, by closing DB schemes and offering inferior DC schemes, reducing employer contributions and so on. By the very nature of DB pension schemes there is a risk, which regardless of the contribution rates or benefit structure, will still exist even if changes are made to members benefits. The key to this debate is how to manage risk and fairness. As noted throughout, we believe this can only be achieved by total transparency, evidence-based debate and negotiation within the governance structures of the scheme.

A fair balance of risks must be taken into consideration.

6. How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

This is a key question which we believe is crucial to understanding why members highly value the TfL Pension Fund. While we acknowledge that there may be many members of the fund who do not fully grasp or understand the benefits offered by the fund, it is The PCC's firm belief that most employees across TfL and London Underground (LUL) staff are very much engaged when it comes to their pension scheme and fully comprehend the "critical safety net' the scheme may provide either for life beyond a career in transport in retirement or in the not so good times, when a primary breadwinner is no longer able to earn a living from their chosen career such as by way of an ill health or a survivor dependent's pension

Members understand that in exchange for an element of deferred pay in respect of their remuneration in employment package they are given a promise that at retirement they will receive a certain level of income which is of course highlighted in their Annual Pension Benefits Statement. They also recognise that in the event they are no longer able to carry out their employment duties the fund will provide them with an income. And lastly in the event of their death, whether that be during their employment or in retirement, their loved ones will be protected.

In respect of recruitment and retention the TfL Pension Fund is a fundamental reason why individuals join TfL/LUL and remain employed in the long-term. This is mirrored across many different types of industries where similar DB occupational pension schemes are offered. The railway industry to name one where the turnover across Train Operating Companies is much lower when one compares it against other railway employers who don't offer their staff a DB arrangement.

Offering any type of inferior pension arrangement to existing or new staff would negatively impact recruitment and retention. Pensions have never been so important when you consider the inadequacies of the Basic State Pension (BSP). Due to the State Pension Age increasing typically from age 65 to age 68*(but also for women in particular the migration of pension age from 60 to 68 in a relatively short period of time)* many workers will need a decent occupational pension scheme which will allow them to retire at a reasonable age to enjoy a long if not fact a longer retirement. Also, the current single person's BSP of £179.60 a week is not in the majority of cases going to give individuals financial stability. So, building up a decent occupation pension is fundamental.

7. Are there other considerations or criteria the Review should consider?

We note that the terms of reference of the review and timetable do not enable The Review Team to examine other questions that directly affect the issue. For example, the financial sustainability of the scheme for the employer could and would be boosted significantly if TfL reviewed existing outsourced arrangements.

TfL's search for 'efficiency 'has led it to continue using outsourcing to deliver key transport services. The failure of the Metronet and Tubelines Public-Private

Partnerships led London Underground to take much of its maintenance work back in-house. Yet much maintenance work on the Underground is still performed by agency workers - many of whom are categorised quite wrongly as "independent contractors" who are supposedly self-employed and external companies. In addition, cleaning across TfL is outsourced to the US facilities management company ABM. Bus services are delivered by the private transport companies under franchise agreements. Spending on these franchise agreements represents the largest component of spending on outsourced services. Finally, London Overground and TfL Rail services are delivered by private rail operators under Concession agreements.

Analysis of TfL's procurement spending on these outsourced services shows that around 50% of TfL's procurement spending is on services that could be brought in-house.

TfL is a public sector employer, but has a private sector scheme arrangement. This means that the principal employer -Transport for London on behalf of itself and its participating employers e.g. London Underground - hands over both the employer and employee contributions to the Trustees. The Covid crisis may have impacted on the self-sufficiency funding model, and historically until 2017, TfL was a recipient of subsidy from central government, and until the advent of the Covid pandemic in early 2020, pension contributions had never been an issue.

8. Is there anything else you would like to add?

From what we can determine, NO other company who received Government funding as a consequence of COVID 19 has been told to review their corporate pension scheme which calls into question why the review is required. The condition ' move to a financially sustainable position' clearly implies that the fund is currently unsustainable for which no evidence has been provided.

Additionally, no financial information has been provided to support the statement that the pension scheme is 'generous' and 'outdated' made by members of an 'independent' review, none of whom spoke to anybody in the Pension Fund Office or any of the bodies involved in this review. Nor do the biographies of independent panel members indicate any pensions background

The PCC is of the view that from 2009 to the present in mid-2021, the Trustees' well diversified investment strategy has been a great success story, and being cognisant of risk continues to be effectively managed in spite of volatility in the markets.

"The purpose of the Review is to assess the Scheme and to make recommendations in relation to TfL's pension arrangements generally that are sustainable and affordable in the long term, FAIR to employees, farepayers and taxpayers and consistent with TfL’s financial challenges ahead, while protecting members’ benefits built up to date (the purpose)” the word “FAIR” is extremely vague and we hope that the Panel will explain their interpretation of the word “FAIR” in this context?

We note that point 7.3 on page 19 of the document attempts to summarise the Regulators approach to scheme funding and comments>” Broadly speaking, this new requirement is likely to mean that employers of private sector schemes, such as TfL, are put under increased pressure to pay more money in to their schemes more quickly. This is an oversimplification of the Regulators’ approach, and the requirement for open DB schemes to invest in the same way as closed schemes is still being challenged. We understand that it is likely that a less restrictive regime, albeit more onerous in terms of justifications, will be available to the schemes like the present TfL Fund. We believe this comment and that in 7.5 is unnecessarily pessimistic.

The PCC feels there are substantial arguments that support the ‘do nothing’ option which we note is mentioned by TfL but is not in the definitive Review document. We speak for the past, present and future beneficiaries of the Tfl Fund and we cannot state strongly enough that, that where the TfL Pension Fund is concerned the “Status Quo” should be the final statement coming out of this Review, which has been propounded throughout in our response, this decision would be a benefit not only for the Pension Funds past, present and future members’ but also for TfL too.

The PCC welcomes the opportunity to contribute to this review on the questions raised and our understanding of the Review to date. New consideration may well arise at later stages of the review and therefore we would reserve our position to contribute further at a later point.

To conclude, the PCC wishes to acknowledge the fact that LRT fully took on board the advice handed down by Knox J in the 1993 Hatt and Others v LRT that there should be openness, transparency and communications between the employer having set up the original Pension Fund and continued to support it when the Fund merger took place.

The advice handed down by Justice Knox may well have been heavily influenced by the problems that arose from the Robert Maxwell incidence over the Daily Mirror Pension Fund.

Through negotiations the PWG, the PCC, the Pensioners Forum and the London Transport Pensions Association were formed and are still fully functional to this day under TfL.

With the formation of the PCC came the chance for four elected PCC Councillors across three sections to be nominated as Trustee Directors of the TfL Pension Fund Board along with trade union nominated Director Trustees to the Pension Fund Board.

Thus, giving the contributing members, the deferred members, and the retired members a voice never before heard at the Pension Fund Trustee Board level in doing so giving them the opportunity to assist in real terms the management of the Pension Fund per se.

Through the Pension Fund Trustee Board PCC Councillors are invited to attend the annual Trustee training day which is run by Wills Towers Watson, were the latest developments in the pension fund world are discussed both on the investment front and changes on law concerning pension funds.

With the emergence of the Pensioners Forum and with all members of the retied and deferred section of the PCC given a seat on this forum it goes without saying that there are always two Director Trustees of the Pension Fund available to comment on matters arising in the forum.

While the Tfl Pension Fund is unique itself as far as the Pension Fund Industry is concerned nevertheless it has been recognized as an outstanding pension fund by the Pensions Association of Great Britain, and has won accolades from its peers, including best Pension Fund of the year on many occasions, and winning the Pension Fund manager of the year many times over the past 20 years.

You can see how passionate the membership is about the TfL Pension Fund simply by looking at how the deferred and retired members who are nominated by their peers for election to the PCC Council and the time and effort they put in to ensure that the TfL Pension Fund is well run and sustainable.

All of these positions on the PCC and the Pensioners Forum and the London Transport Pensioners Association are all unpaid and voluntary, which speaks volumes in respect of the depth of feeling for the current TfL Pension Fund, and are committed to see it remains as always the best DB pension fund in the UK, and without any future changes to the way the Tfl Pension Fund has been set up, change for them is not an option, this feeling goes right across the board of all beneficiaries, wishing to maintain the Status Quo so that future beneficiaries can enjoy the benefits of a what is uniquely a world class Pension Fund. This review should recommend **no change** to the TfL pension scheme and that future discussions on the financial sustainability of the scheme should be conducted on the basis of evidence through the appropriate mechanisms.

Introduction - The Pensioners Forum

The Pensioners Forum is composed of 8 members of Section 1 of the TfL Pension Consultative Council (PCC), a section for Pensioners, deferred members of the Fund and dependants who are elected by and from that group, plus four members from the London Transport Pensioners Association (LTPA) to which all pensioners are members.

We thus have considerable experience of employment by TfL and its predecessors, and of the benefits of retirement with a pension.

Our Constitution states:

The purpose of the Forum is to facilitate discussion between LRT and pensioner representatives about LRT policies as they apply to and affect pensioners. Such policies shall in particular include those on pensions and travel concessions but shall also include other relevant matters. The Forum was set up as part of the negotiated settlement of the Hatt et al[1] case.

Below we have set out our responses to the questions raised in the Pensions Review Stage 1 Call for Evidence document dated August 2021.

Question1: How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?

1.1 Forum members note this Pension Fund Review has been instigated in response to a short term funding shortfall in TfL finances as a result of the COVID pandemic. The TfL Pension Fund takes a long term (60 years plus) view when developing funding and investment strategies. We would urge that the Review Team should take a long term view when considering the sustainability of TfL pension arrangements.

1.2 With reference to Appendix 3 Chart 4 of the Call for Evidence, the primary reason that TfL contributions have risen to £370m p.a. has been the gradual reduction over the last 15 years or so in the discount rate i.e., the real return on investments expected. This in turn is due to that fact that interest rates have been historically low over the same period. The result is that liabilities have grown. Recent assumptions are that this trend is beginning to change and therefore if global interest rates continue to rise, even to fairly moderate levels, liabilities will reduce.

1.3 Over a similar period of time the Trustees have continued to diversify its investment portfolio resulting in asset values rising significantly and an investment portfolio that reduces the risk of major shocks in the markets. The value of assets dropped by c.20% at the start of the pandemic but have recovered strongly since resulting in asset values today similar to those before the COVID pandemic.

[1] LRT Pension Fund Company Ltd and another v Hatt and others: ChD 20th May 1993

1.4 Assuming the Fund can maintain a strong, long term and return seeking asset portfolio, this coupled with increases in the discount rate will reduce pension fund contributions required from TfL. Having a scheme open to new members will facilitate a return seeking investment strategy. Conversely if the scheme were to be closed to new members the level of risk in the investment strategy would need to be reduced over time increasing the reliance on contributions form TfL.

1.5 We note that in 1990 the Actuarial Valuation showed that the Fund was in surplus, and the Employer had proposed some benefit improvements, coupled with a significant drop in the Employer Contribution multiple. This suggestion was overtaken by the agreement which followed the *Hatt et el* Court case.

1.6 Prior to the COVID pandemic TfL had been reducing its reliance on government funding as demand for services increased following a period of significant capital investment and operational efficiencies that reduced the cost base. Demand and therefore TfL's income may take a period of time to recover although this will be primed by the opening of the Elizabeth Line and increases in demand driven by business recovery in London.

1.7 Forum members believe that it is realistic to assume that TfL will continue to play a major part in a thriving London economy and as a result will have a healthy financial outlook and therefore a strong Employer covenant in the medium term.

Question 2: How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?

2.1 Forum members believe that sustainability and affordability of the Fund are interrelated and therefore our responses to Question 1 above incorporate our views regarding long term affordability in relation to the TfL Pension Fund.

2.2 In terms of the perspective of other stakeholders regarding both sustainability and affordability we would submit the following points.

2.3 From the perspective of taxpayers, a successful fund will generate pensions which sustain a reasonable standard of living for the beneficiaries, thus avoiding any demands on the taxpayer for income support. And pensioners with reasonable spending power support the economy through their spending thereby increasing tax revenues.

2.4 For farepayers, their interests are likely to be a regular and reliable transport service, as a recompense for the fares they pay. To the extent to that the costs of operation are not affected by Fund deficit contributions, they would be unaffected.

2.5 Missing from this list are those individuals, employers and businesses including the arts and hospitality sectors who benefit from the existence of regular and reliable public transport in London, even if they do not use it themselves. The Review papers have little to say on how these groups benefit, or whether they have any concerns about TfL's deficit contributions. It should be noted that since COVID restrictions have been lifted a number of politicians and the press have been vocal encouraging people to return to working in London in order to support those businesses that provide services to these workers.

Question 3: What do you consider to be the key risks and challenges in the short-,medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?

3.1 Forum members believe that the key challenges are that short-term considerations about TfL's Government support mean that TfL fails to be able to demonstrate a long term ability to fund scheme deficits, which perversely leads to more pessimistic assumptions about covenant, and an increase in the deficit.

3.2 If there is any move to close the scheme to new entrants, over time this will have a negative impact on investment returns as the investment risk profile that the Fund adopts will need to be more cautious. This alone is a compelling argument to keep the fund open to new members.

3.3 In discussing the risks from Salary increases towards retirement within point 8.1 we note and challenge the following: *The Scheme currently provides a benefit which is linked to each member's "final salary" when they retire, leave service, or die (whichever happens first). The link to final salary means that benefits provided to members can potentially significantly increase beyond that funded for if members receive a large salary increase towards the end of their career.* At each Actuarial Valuation, TfL have been at pains to insist that the Actuary need make only minimal allowance for projected salary increase, apart from any RPI. We believe that there is no evidence that this risk actually materialises. This purported risk is repeated at 8.16.1.

3.4 In relation to Investment Risk, we note the claim at point 8.5 *that the significant size of the Scheme also means that a relatively small change in investment performance can lead to a relatively large increase in contributions needed from TfL*. However, the freedom to fund deficit contributions over ten years mitigates this risk, especially if it has arisen from short term volatility in some of the investment classes.

3.5 In relation to Mortality risk It is claimed at point 8.9 that *Another risk is the risk that members live longer than expected.* However, the most recent Actuarial advice is that improvements in life expectancy are diminishing, and thus this risk will also become less significant over time.

3.6 In relation to Covenant Risk the paper, at point 8.15, discusses the impact on the Valuation of a perceived weakening of employer covenant stating *if the covenant is deemed to have weakened, then this this could mean that the Trustee may aim to be more prudent in its funding assumptions, which will result in higher contributions than would otherwise have been the case.* We would note that the converse is also true i.e., if the strength of the Covenant is unchanged, or even strengthened this would have a desirable positive impact on TfL's contributions.

3.7 Overall Forum members believe that many of the risks suggested are exaggerated or short-term and TfL's true position in relation to funding any deficit or the costs of future accrual may be more manageable than is implied. TfL itself will continue in some shape or form for many years, as it is inconceivable that the need for public transport to support London as a capital city will vanish. We would argue strongly that short term problems with funding could be weathered, especially if the Trustees were given confidence in a strong Covenant running similarly into the future.

Question 4: How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

4.1 Forum members see no need to make such comparisons, TfL being in an unusual situation as regards its definition as a "Public Sector" scheme. We note that the schemes that people may compare the TfL Fund too are generally funded in a very different manner with apparently no limit on the liabilities to the Treasury. In contrast the TfL Pension Fund overseen by The Pensions Regulator controls its operation through a Trustee Board to meet quantifiable liabilities over the longer term, which public sector pensions lack and can therefore call on taxpayer support as and when the government determines.

4.2 The TfL Pension Fund is designed specifically for TfL employees and meets their unique requirements. Other pension schemes are just as individual, and no fair comparison is possible.

Question 5: What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

5.1 Forum members challenge any suggestion that the employee needs to take a greater share of the risk to their pensions. Employees are individuals, hoping that by the time they cease earning a living and thus retire, their retirement standard of living will have been predictable and, if they have a reasonable length of service, be as affordable as when they were earning. Any changes made to the benefit structure of the Fund will unfairly affect the retirements of longer-serving Fund members who are planning their retirements. They will have made assumptions about the pensions they will receive and would have planned their finances accordingly. There is little that such an individual can do to increase that income, should the pension be reduced or the costs of accruing it fluctuate.

5.2 Employees take the risk that they may die early, without dependants, and thus not realise the benefit of all their contributions and those made by the employer on their behalf. TfL has greater freedom to adjust their income through choice over the long-term and with Government support where necessary.

Question 6: How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

6.1 A healthy open Pension Fund gives reassurance to Pensioners that their pensions are secure and that their pensions will be paid when due. Pensioners highly value a responsive and customer focussed Pension Fund office helping them to quickly resolve any issues that arise with their pension arrangements.

6.2 From Forum members own experiences and that of our colleagues, we know that a good and assured pension arrangement has been an important element of recruitment and retention in TfL. We do not have surveys etc. to quantify this, but we know from many conversations in the workplace that the public sector 'package' of which the pension is a significant part, is important to many people including those working in areas such as business strategy, planning, analysis, and Information Technology, who with a high demand for their transferable skills often had choices of more lucrative salaries working elsewhere.

6.3 Forum members are aware of the recent pressure on employers generally to recruit and retain staff, which is beginning to lead to an upward pressure on wages and salaries, and job movements in search of better conditions. It appears to us that this is likely to eventually impact on TfL and that a forward thinking reward package which includes the attraction of long-term security into retirement may be an inexpensive way to sustain retention of valuable employees.

6.4 The Independent Review[2] found that TfL's pay package was within the market average for most staff and below this for senior staff, and the Financial Sustainability Plan published in January 2021[3] recognised that all elements of the reward package must be considered holistically. In other words, any reduction in pension benefit will need to be offset by corresponding increases in other rewards if TfL is to continue to recruit and retain the necessary staff, particularly experienced and senior staff.

6.5 A House of Commons Library report, Page 9[4] shows that the impact of the 2011-2015 'modernisation' of public service pensions, generally including a change from final salary to career-average based pensions reduced the average value of members' benefits by more than a third. Such a loss of benefit would significantly affect the attractiveness of TfL as an employer.

6.6 There are a number of supporting actions and communications provided by TfL and the Fund Office that we believe are valued by members and will be of significance to individual members in considering the security in later life provided by Fund membership. These include Vacancy advertisements that often refer to Fund membership as a key feature of the employment offer, regular Fund communications including the Trustees booklet introducing them to the Fund and its benefits, Pension News and Annual Benefit Statements. Members have been prompted by these communications, for example, to contact the Fund Office with queries about completing or updating an Expression of Wish Form.

6.7 Over the last few years members have welcomed the increased focus by the Fund on sustainable investments. The Funds carbon footprint has been reduced by 30% since 2016 and a Carbon Neutral Journey Plan to reach net zero is in the process of being finalised by the Trustee. We believe the TFL Pension Fund is ahead of the curve compared to other pension schemes in this area and in coming years this will be of increasing value to our members. If as a result of changes, there is a need to reduce the current level of risk in the investment strategy by switching away from return seeking assets it could well take longer to achieve a carbon neutral objective.

Question 7: Are there other considerations or criteria the Review should consider?

7.1 Forum members consider that any major changes to the TfL Pension Fund will incur significant costs and that these costs need to be considered fully as part of the review.

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[2] TfL Independent Review, July 2020 https://tfl.gov.uk/corporate/publications-and-reports/independent-review

[3] Financial Sustainability Plan, January 2021, 5.4.10 and Recommendation 7, https://tfl.gov.uk/cdn/static/cms/documents/financial-sustainability-plan-11-january-2021.pdf

[4] https://researchbriefings.files.parliament.uk/documents/CBP-8478/CBP-8478.pdf

7.2 As well as the direct costs implementing any changes including legal fees, project management and organisational change costs, there may well be significant indirect costs linked to the reactions from employees affected by the changes. There is potential for Industrial action resulting in loss of revenue for TfL and a wider impact on the London economy if passenger services are affected.

7.3 As Pensioners we naturally have concerns about the long-term security of our Pensions income. We have taken comfort in being able to rely on TfL's continued willingness and pre-pandemic ability to continue to fund any short-term deficit. We view with alarm suggestions for change which might reduce that security.

Question 8: Is there anything else you would like to add?

8.1 The purpose of the Review is to assess the Scheme and to make recommendations in relation to TfL's pension arrangements generally that are sustainable and affordable in the long term, **fair** to employees, farepayers and taxpayers and consistent with TfL's financial challenges ahead, while protecting members' benefits built up to date (the Purpose). The word "fair" is extremely vague and we hope that the Panel will explain their interpretation of "fair" in this context.

8.2 We note that Point 7.3 on Page 19 of the document attempts to summarise the Regulator's approach to scheme funding and comments. *Broadly speaking, this new requirement is likely to mean that employers of private sector schemes, such as TfL, are put under increased pressure to pay more money into their schemes more quickly.* This is an oversimplification of the Regulator's approach, and the requirement for open DB schemes to invest in the same way as closed schemes is still being challenged. We understand that it is likely that a less restrictive regime, albeit more onerous in terms of justifications, will be available to schemes like the present TfL Fund. We believe this comment, and that in 7.5, is unnecessarily pessimistic.

8.3 In conclusion Forum members believe there are strong arguments that support the 'do nothing' option, which we note is mentioned by TfL but is not in the definitive Review document. Forum members believe that any potential savings made by changing the nature or structure of the TfL Pension Fund are very small, with longer term negative consequences for the effectiveness of an organisation which is critical to London's performance outweighing any short term benefit.

8.4 We speak for today's and tomorrow's TfL pensioners and make clear that the present Fund has given us mental, physical and economic stability. Many of the groups we represent have been informed of the review and without exception all strongly support the 'do nothing' option.

8.5 The Forum welcome the opportunity to contribute to this review and have based our responses on the questions asked and our understanding of the review to date. New considerations may arise at later stages of the review and therefore we would reserve our position to contribute further at a later point.

TfL Pension Fund

Pensions Review, Stage 1 Call for Evidence, August 2021

Joint Trade Union Response from the Staff Side of the Pensions Working Group

1. How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; farepayers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?

Pension schemes like TfL's are a long-term pooling of risks in the interests of all stakeholders and their sustainability must be measured over the long-term. As illustrated in the Call for Evidence consultation paper, over the years, the TfL Pension Fund has reacted to various events in the very same way as other Defined Benefit (DB) Pension Schemes. The events we allude to are changes in legislation, poor investment performance and improvements in mortality, to name just a few. However, while we acknowledge that these events have had at times impacted negatively on the TfL Pension Fund, its strong governance has meant that these challenges have been dealt with effectively. It is of the utmost importance to the TfL scheme, as will all schemes, that decisions are made on the basis of evidence and with the long-term sustainability of the scheme in mind and are not governed by short term and politically motivated decisions.

There is no case for this review. The Independent Review into the TfL pension arrangements is in our view not only badly timed but clearly politically motivated. We would ask why anyone would seek to review the TfL Pension Fund at a time when it's almost fully funded, and perhaps more importantly while the Trustee Board are carrying out a full Triennial Actuarial Valuation. The timescale for the Review is established in order to drive the Review to conclusions before vital evidence is available and at the whim of the government, without any internal rationale. In our experience the tried and tested method in dealing with similar pension arrangements is when the results of a triennial valuation reveal a deficit which needs to be addressed. Setting up a review panel is not only unnecessary it is also a waste of TfL's time and resources which would be better focused on ensuring and safe and sustainable increase in passenger numbers back onto the network. It also causes wholly unnecessary anxiety to employees who have risked their lives through the pandemic. Too many have died giving this service.

Neither is it legitimate to judge the long-term sustainability of the TfL pension scheme through quick and facile comparisons with other schemes. Comparisons to Network Rail and Local Government pension schemes, for example, are totally inappropriate. Each scheme has been established on the basis of different historic labour markets and reward packages, different mixes of public and private employment, different funding levels and assets and with differing precision, variations in the role of the state and the taxpayer. The taxes of our members, for example, contribute toward the pensions of government ministers. Each scheme needs to be judged on its own merits and not through a politically motivated imperative to drive a race to the bottom aimed at making our members poorer in retirement.

The TfL pension scheme has a well-established governance structure along with a very focused investment strategy based on the principle of diversification which is very well-equipped to manage the scheme in the interests of its long-term sustainability.

2. How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, farepayers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?

The sustainability of the TfL Pension Fund should be viewed in line with the scheme's liabilities and assets on a long-term basis considering the characteristics and obligations placed on the fund in providing benefits in retirement for all beneficiaries.

These characteristics and obligations are ingrained into three fundamental principles we believe are unremovable:

1. The pension fund must remain open. We believe that if the TfL Pension Fund is closed to new entrants this will create a spiral of decline in the scheme. The experience of closing schemes to new entrants over the last 20 years is that it reduces the investment horizon, refocuses schemes on cash and bonds with lower returns, and produces more pressure to raise contributions and cut benefits. Closing the scheme to new entrants must be avoided to escape such a spiral. Current benefits must be retained for current and new members.
2. Current contributing members have an expectation of a certain level of benefit not only for past service benefits but also for future accrual. These promises should be honoured in full. We do not accept that change is necessary for the sake of change and our members expect and deserve a certain level of benefit in retirement. Cutting benefits for future members will build inequity and instability into the scheme. Future members of the TfL Pension Fund should have the same expectations as existing members.
3. All pension schemes should be affordable and fit for purpose. We do not accept bald statements that the TfL Pension Fund is somehow outdated and must be modernised. This is, in our view, nothing more than political propaganda which aims to divide workers by using the narrative that DB final salary pension schemes are 'gold plated', unaffordable and must be closed.

From a member perspective, having new members contributing to the fund on a continuous ongoing basis is we believe is the most important element of long-term sustainability when combined with an effective diversified investment strategy that takes fully into account fluctuating investment markets. While it can be argued that using such investment strategies, such as Liability Driven Investment, can stifle investment growth, it is clear that over the last 18 months the TfL Pension Fund, like many similar DB schemes, has seen funding levels grow and not reduce which is primarily due to the protection provided by way of diversification as a cornerstone premise of the TfL Pension Funds Investment strategy.

3. What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?

All pension schemes pool risk and while we recognise the risks associated with DB pension schemes in general, we do not accept that they cannot be managed or indeed mitigated on a long-term basis. The challenges faced by the TfL Pension Fund are nothing new and the existing governance structures are entirely fit for purpose in managing those challenges. especially in the pursuance of its investment strategy. This investment strategy has been a great success story for the Fund since first embarked upon in 2009 following the global financial crisis.

The key risk we face now is that the TfL scheme is being reviewed as part of a reckless, opportunistic, politically motivated attack on workers who have put their lives on the line throughout the pandemic. Political pressure is being applied to remodel a scheme and potentially undermine the strength of the Employer Covenant without any inherent justification arising from the scheme itself. Pressure is being applied to find a 'solution' to a non-existent problem in order to cut our members' deferred pay. This is not only morally reprehensible, it is, pragmatically, a highly dangerous way in which to make policy regarding a substantial pension scheme.

However, while we do not accept the rationale of the review, we would like to comment on possible key risks mentioned.

The risks mentioned are of course a concern for all DB pension schemes but if there is good Trustee governance and strong employer covenant, when it comes to managing these risks over the long-term horizon these challenges can be mitigated.

This is exemplified by the crises which resulted from the Covid-19 pandemic which saw the leading index of both global and UK company shares plummet by 30% in the three months up to the end of March 2020, the largest quarterly fall in UK equities since Black Monday in October 1987. However, while we saw, for example, the FTSE 100 fall by almost 2,000 points, from 7,542 to 5,672 points, as we have experienced with other financial crisis the markets have since rallied and these leading stocks, in the FTSE 1OO as an example, are now valued by 7000 points.

While the above clearly was of some concern, as noted above DB pension schemes do not invest in the short-term but set their horizons much further out. Of course, in the short-term pension schemes will want to have liquid investments to react to such events and of course pay benefits. The TfL Pension Fund has diversified its investment portfolio to take into account the many different types of scenarios as well as taking advantage of the falls in different markets as mentioned above.

The good governance we mention above is in respect of the skill of investment advisors appointed by the Trustee and while you cannot always rely on this expertise due to certain events the TfL Pension Fund has and hedge its investments. to offset the risk of any adverse price movements or falls in markets. It is not by chance that the fund now finds itself almost fully funded based on the most recent valuation forecast despite financial market volatility and the turmoil experienced at the beginning of the pandemic.

It needs to be pointed out that the fact the Government has only offered a short-term funding agreement with TFL will consequentially negatively impact on the fund's investment strategy. This will result in the Trustees having to take a less aggressive or de-risking of investment approach due to the weakening of the sponsoring Employers Covenant. Therefore, the failure of the Government to agree a long-term funding agreement with TfL will therefore adversely affect potentially the current and continuous ongoing growth in investment returns and therefore damaging the fund in itself.

In respect of wage inflation and longevity, we also see these as being mitigated by the structure the existing, and still growing, investment portfolio and continued contributions being made into the fund. Experience taught us that most DB pension schemes now mitigate the pressure of an ageing population by matching their investments to the membership profile of the scheme. Investment concepts such as Liability Driven Investment are now used to manage the liabilities being built up by both active and pensioner members. While you can't always put faith in all these investment techniques all of the time, but it is crucial that the Trustees of the TfL Pension Fund are regularly monitoring their investments which we know to be the case based on the improved funding level of this pension scheme.

Additionally, these positive valuation outcomes are notwithstanding on going actuarial updates since 2018 which have been based on more conservative valuation criteria.

It is noteworthy, for example, that most of the still existing DB pension schemes that remain open to new members, including the TfL Pension Fund, have come out of the pandemic in very good financial shape.

4. How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?

As noted above, in our view easy and facile comparisons with other pension schemes should be resisted. Whether in the public or private sector, each scheme has developed its own benefits structure, membership profile, employer covenant, funding arrangements and so on to reflect the particular characteristics of the industry, workforce, employers, employment patterns and labour markets in question. The need for reform should be established with reference to the particular industry and the particular scheme in question and not through headline grabbling, politically motivated comparisons. That is why the best locus for discussions of any need for reform is within the existing governance structures of the scheme and not a review established as part of a politically motivated funding settlement.

We are aware that the Trustee Board of the TfL Pension Fund are currently carrying out the 31st March 2021 triennial actuarial valuation which we believe will indicate the financial position of the fund and that is where any discussion should be directed. The synopsis to the review frames the issue in a way that is highly revealing, asking the question of whether other workers, regardless of where they work, receive benefits similar to those of TfL employees. This is a direct and leading reference to the nasty, divisive mantra used to drive a race to the bottom in public sector pension schemes: that these schemes are somehow "gold plated". This is pure political propaganda, designed to pitch working people against one another in the interests of those who seek to drive down working class living standards while protecting the wealth of the super-rich and promoting the parasitic profiteering of big business.

Pension reform should not be established on the basis of a race to the bottom and we do not and will not accept workers being played off against one another.

5. What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?

We do not view the TfL pension fund as being unfair. TfL employees join the fund with an expectation of receiving a certain level of benefit at retirement in exchange for carrying out their employment duties as part of an overall remuneration package within a given industry. The sponsoring employer in return contributes to its employee's pension scheme on a balance of cost basis. There is no sleight of hand this is the contract both parties enter knowingly under a contract of employment.

This arrangement between TfL and its employees works no differently to any other agreement across UK industry. The contract between both parties only becomes unfair, in respect of pensions, when the workers' expectations are reduced or taken away.

Raising the question of how a scheme can share risk more fairly is almost invariably a thinly coded way of employers arguing for reducing their share of the risk and shifting it onto workers, by closing DB schemes and offering inferior DC schemes, reducing employer contributions and so on. By the very nature of DB pension schemes there is a risk which regardless of the contribution rates or benefit structure will still exist even if changes are made to members benefits. The key to this debate is how to manage risk and fairness. As noted throughout, we believe this can only be achieved by total transparency, evidence-based debate and negotiation within the governance structures of the scheme.

A fair balance of risks will certainly not be delivered by a government-mandated attack on workers' pensions, justified, cynically by the financial costs of a national covid pandemic crisis which has claimed the lives of a significant number of TfL employees.

6. How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?

This is a key question which we believe is a crucial to understanding why our members value the TfL Pension Fund. While we acknowledge that there may be some members of the fund who do not fully understand the benefits offered by the fund, it is our very firm belief that most employees across LUL are very much engaged when it comes to their pension scheme.

Members understand that they are given a promise that on conclusion of their work based career they will receive a certain level of income upon retirement, This of course is highlighted in their Annual Pension Statement which provides estimates of their retirement benefits at age 60 and 65. They also recognise that in the event they are no longer able to carry out their employment duties the fund will provide them with an income e.g. ill health and survivor dependant(s) benefits etc.. And lastly in the event of their death, whether that be during their employment or in retirement, their loved ones will be protected.

In respect of recruitment and retention the TfL Pension Fund is a fundamental reason why individuals join LUL and remain employed in the long-term. This is mirrored across many different types of industries where similar DB pension schemes are offered, the railway industry to name one where the turnover across Train Operating Companies is much lower when you compare it against other railway employers who don't offer their staff a DB arrangement.

Offering any type of inferior pension arrangement to existing or new staff would negatively impact recruitment, as well as retention, and undermine the morale of those workers choosing to remain. Pensions have never been so important when you consider the inadequacies or limitations of the Basic State Pension (BSP). Due to the State Pension Age progressively increasing from age 65 to age 68 many workers will continue to need a decent occupational pension scheme which will allow them to retire at a reasonable age to enjoy a long retirement. Also the current single persons BSP of £179.60 a week is not in the majority of cases going to give individuals financial stability. So building up a decent occupation pension is fundamental.

7. Are there other considerations or criteria the Review should consider?

We have already commented on the opportunistic, cynical and politically motivated timing of this Review. We would also note that the terms of reference of the review do not enable it to examine other questions that directly affect the issue. For example, the financial sustainability of the scheme for the employer would be boosted significantly it TfL were not wasting hundreds of millions every year on funding profiteering by outsourcing companies.

TfL's search for 'efficiency' has led it to continue using outsourcing to deliver key transport services. The failure of the Metronet and Tubelines PPPs led London Underground to take much of its maintenance work back in-house. Yet much maintenance work on the Underground is still performed by agency workers, so called "independent contractors", and external companies. In addition, cleaning across TfL is outsourced to the US facilities management company ABM. Bus services are delivered by the private transport companies under franchise agreements. Spending on these franchise agreements represents the largest component of spending on outsourced services. Finally, London Overground and TfL Rail services are delivered by private rail operators under Concession agreements.

Analysis of TfL's procurement spending on these outsourced services shows that around 50% of TfL's procurement spending is on services that could be brought in-house. Trade Union research has shown that:

- Between 2017 and 2021, TfL has spent on average around £6.3 billion every year on procurement.
- Of that spending, an average of £3.0 billion (50%) is spent on outsourcing contracts for services that could easily be brought in-house by TfL. These include contracts for agency staff, bus operation, operating the Overground and TfL Rail franchises, as well as catering, cleaning, maintenance and security work.
- The companies operating these contracts will all demand a commercial margin of profit. In maintenance and facilities management these can be conservatively reckoned at about 5% of costs. On the bus contracts they are around 9%.
- On average around £230 million is lost to London's Transport network every year in commercial profits from outsourcing.
- Bringing these services in-house would save TfL at least £230 million every year, around 7.6% of its total procurement spending, in commercial profits.

To give a sense of the scale of this outsourcing waste, £230 million represents almost 8% of TfL's total spending on procurement (across operational and capital budgets). It's also equivalent to 75% of the £300 million that the government demanded TfL cut from its operating budget in 2021/22. This happens to be also the equivalent to around 60% of what TfL reports that it spends on pensions each year.

The review should also consider the potential impact of establishing a Crown guarantee for the scheme's liabilities. The TfL Pension Fund is technically defined as a private sector scheme but this is more a technicality than a reality. The Covid crisis has for the moment *wrecked* the 'commercial self-sufficiency' funding model that fantasised about fare revenue covering operating costs, but it also revealed the extent of co-dependence between the state and the transport system. The continued running of the Underground, rail and bus networks, were essential for the continued running of essential services and the government's bailout demonstrated this clearly. The government's letters of comfort and continued access to the Public Works Loans Board are the only things that enable TfL to continue borrowing on the private bond markets. Whatever the technical appearance, the actual reality is that the government sits behind TfL as the funder and lender of last resort. A Crown Guarantee of historic liabilities for the TfL pension scheme would be nothing more than a recognition of this reality and, as the Independent Review of Financial Sustainability commissioned by TfL argued, would reduce TfL's contributions to the scheme and save the public sector money.

8. Is there anything else you would like to add?

The Mayor of London is clear that this review of the TfL Pension Fund is wrong. In June this year, he said "Boris Johnson's Tory Government is also forcing us to look at reforming TfL's pension scheme. I've made it clear that the Government's approach to try to rush through reforms is wrong and ill-judged when our transport key workers have done so much to keep our city moving during the pandemic." The Tory plans risk unnecessary industrial action, which would be extremely costly to our city's economy and entirely of the Tories' own making".

We agree with the Mayor's observations about the political ideology that has enforced this review. To launch a review on the basis of effecting a cynical, opportunistic and politically motivated attack on the future livelihoods of all essential workers employed by TFL and London Underground who have done their duty throughout one of the worst crises of recent times, is both deplorable and contemptible.

We should also not forget that as well as risking their lives and suffering illness, many TfL key workers have tragically lost their lives in the fight against Covid -19. Many of the dependants of those who have died have rightly been able to draw upon a "critical safety net" by way of some financial support from the benefits provided by the TfL Pension Fund Occupational Scheme in line with the longstanding current fund rules. It is sobering to reflect that had the government or some employers managed to translate their long-standing hostility to the TfL pension fund into regressive reforms prior to the pandemic, the families and dependents of the workers would have had less protection.

The joint unions' position is that this review should recommend absolutely no change to the TfL pension scheme and that future discussions on the financial sustainability of the scheme should be conducted on the basis of evidence through the appropriate mechanisms, not as a consequence of cheap, nasty and divisive political manoeuvre.

Staff Side of the Pensions Working Group

15th September 2021

Stakeholder individual written response to TfL Pension Fund Review Panel questions

Introduction: I am Joel Kosminsky, a pensioner with three occupational pensions – BOAC-British Airways [1969-1982], London Regional Transport / Transport for London (TfL) [1986-2000] and South West Trains [2000-2011], a rail privatisation franchise. The 1982-86 four-year gap was when I was a full time adult student with no facility to pay into a pension fund.

My circumstances prevented merging the three schemes into one fund; this today enables me to objectively compare the three schemes. The present TfL Pension Fund is far superior in operation, accountability and accessibility to the other two schemes. Neither of the other two offers pensioner and member forums to meet senior pension fund officers and trustees. Of the three, only TfL is a single fund in effect, and thus has no varying operational nor financial objectives.

1. *How should long term sustainability be viewed and how does this look from the perspectives of members; the employer; taxpayers; fare payers; the Trustee and others? What are the key features of long-term sustainability for the pension arrangements of TfL?*

As long as fare-payers are a major element of TfL funding, the risk to the pension fund will always be subject to uncontrollable external factors, such as employment levels and economic activity, thus TfL's ability to fund its share of employer contributions. The Fund must be independent of those external factors other than its investment strategies in relation to generating assets to cover liabilities.

Long-term sustainability of the Pension Fund must be based on stable contributions by the sponsoring employer and affordable contributions from members. Both of these demonstrably exist now, and have done for decades without key issue. No provable case exists for raising Pension Fund contributions. Terms in the Review Panel document show incorrect presumptions about future liabilities, longevities and investment returns.

The Fund must remain independent of the employer and as far as humanly possible immunised from external interference; **it must remain in a singular administration**, to generate manageable and controllable administration costs; as in my introduction, of the three occupational pension schemes I benefit from, only the TfL Fund has a single set of trustees, a single investment objective and a unitary management.

UK railways privatisation split a single pension fund into over 110 sectors, each with separate as well as co-ordinated management; this (*along with the five year pensions contributions holidays given to the original successful rail franchise bidders*) sent nearly all of the new pension fund segments into deficit. This must be avoided.
In the early days of the **privatised British Airways**, the main pension fund, 'Airways Pension Scheme' (APS) was split into two – that one continuing, and a massive 'bonus' offered to staff to transfer to a new scheme, also final salary index-linked, but with a cap on indexation in return for smaller contributions. The 'New APS' (NAPS) has never even been near to surplus. Members recognised the uncapped scheme as better value: APS has over-simply remained viable while NAPS has not.

Splitting pension funds, whether keeping the original open to new contributions or closing it, is a proven path to fund deficits.

2. *How should long term affordability be viewed, and how does this look from the perspective of members, the employer; taxpayers, fare-payers, the Trustee and others? What are the key features of long-term affordability for the pension arrangements of TfL?*

London is the sole world city without substantive external day-to-day funding of its public transport; this is not justifiable by any objective assessment, nor sustainable as the Covid epidemic has proved. Even in the United States of America, their major city urban transit operations (*buses, underground ['subway'] and light rail [tram]*) are municipally-owned, with fare-payers contributing an average 35% of the operators' revenues. London fare-payers are forced to support 70% of TfL revenue; if they do not travel, there is no revenue. This proves fare-payers must not be the key funders of TfL.

If this must continue, then the beneficiaries of passenger transport must also contribute. Businesses which depend on public transport to deliver their staff and customers pay nothing to TfL. Businesses' wellbeing is directly related to the availability of public transport. Pedestrianisations have had mixed results across the UK – in a few cases, the removal of traffic has enhanced footfall; in most cases, business activity has reduced. Footfall has reduced in those cases from population segments who have restricted mobility, which in turn has reduced use of public transport.

Pass holders indirectly fund TfL through compensating payments made by the pass-issuing authorities. The principle of 'third parties' paying for public transport therefore still exists in the UK, and needs to be expanded to stabilise TfL income. The Ile de France (*Greater Paris*) payroll tax is an hypothecated tax to fund the region's public transport; this could be successfully copied here, with an extra precept for populations and businesses on the immediate borders of Greater London, or as now a charge to the county authorities for the provision of TfL "out-county" services.

As long as fare-payers (*for whom there is no legitimate speaker, so who presents their case? How is 'fare-payer' defined for the Review, as Greater London Council Tax payers [who may not use public transport] also contribute to the costs of TfL, and financially support the localised issue of Freedom Passes…*) source 70% of TfL income, fares must rise disproportionately to resource infrastructure and renewals, and immunise TfL against a downturn in economic activity.
As a world city, London attracts visitors from globally; they now depend on sufficient other users of public transport to have those facilities. Fewer direct fare-payers means less public transport and less mobility, negatively affecting London's overall economic growth, stability and reputation.

Taxpayers now make a small contribution to TfL, after the 2015 deletion of the annual operating grant; this was purely political and had no operational justification. Per capita 'subsidy' of TfL was previously measurable in pence per taxpayer: as taxpayers have not paid less since the loss of the operating grant, central government has abstracted that income for other purposes, making TfL an indirect subsidiser of the UK economic state. This must be reversed. An independent cost-benefit analysis carried out some years ago showed that for every pound invested in UK public transport, over £1.65 of benefit was generated. Reducing the grant to TfL by £1bn annually has generated a disbenefit which needs to be reversed.

Which taxpayers' fairness is being identified - is this a national issue about support for London's transport? If only London's taxpayers are being considered, is this Council Tax payers? By the same token, who speaks for the taxpayers in this? All of these categories are within 'stakeholders' in this Review without definition. 'Taxpayers' are a national cohort, generically paying for things we (*I am a taxpayer too; no-one has yet asked for my position in that role nor said they are speaking for me*) may never use, locally or nationally, as taxes are for the greater benefit of Society – we all pay for libraries, schools, welfare provision. London's mobility is more than just a local benefit – it reflects nationally and internationally. Therefore, in reference to TfL how is 'fairness' equated across the taxpaying community, and who sets those criteria?

How is fairness to fare-payers and taxpayers objectively determined? As these are not defined in the Review documents, it is impossible to respond to unclear items. Therefore, **the Review is flawed and cannot be honestly completed as defined**.

3. *What do you consider to be the key risks and challenges in the short-, medium- and long-term in relation to the Scheme (for example, investment risk, salary risk, longevity risk) and how could these risks and challenges be mitigated?*

The key risk to the Fund is the continuing reduction in TfL staff numbers, generating less income for the Fund. While liabilities may reduce from fewer contributing members, these may not be in proportion. Longevity changes (*currently plateauing, foreseeably reducing in parts of the UK*) are affecting Pension Fund liabilities. The Fund needs to be sensibly immunised against longevity changes which go beyond 'marginal' or 'tolerance'. While I can't quantify these terms, I understand risk principles; I spent time in London Underground as a trained risk assessor for projects, worksites and administration, notably in the rebuild of Angel Underground station. I see **risk being created from Fund changes, not from maintaining it as now**.

Mitigation of Fund risk has a number of factors, but the key issue is creating funding stability, along with sustainable management of contributions from active members.

Employers were never forced to offer defined benefit final salary pension schemes – they voluntarily entered into these in the 1970s to recruit and retain staff. Some of this was competitive edge to find and to retain best staff. This gave way to 'The Club' which government, local authority and state-owned bodies' pension schemes all belonged to. The Club recognised the universal need for liveable retirement pensions. Threats to definable benefit in retirement pensions creates anxiety, instability, a tendency to gamble for that better future income, and transfers pension risk-taking to the fund member, who is often unskilled in these factors, with vulnerability to unscrupulous practitioners. This is shown by the controls now covering pension transfers. None of this must be lost – if it is, the future burden on the Welfare State will be intolerable.

4. *How should TfL's pension arrangements compare with other pension arrangements available elsewhere in the public sector?*

TfL's Pension Fund is not classed as a public sector pension, because there is no reference to it in any government document describing public service pensions – see later reference and link. Nor is our Fund underpinned by the taxpaying public as public sector pensions are. We should not be classed with them, nor compared to them. Any comparison is further invalid, as TfL's scheme is unique to TfL's requirements, just as other schemes are determined by their employers or providers.

Most public sector pensions are now on a 'CARE' (Career Average Related Earnings) basis, while TfL's scheme remains a stable and sustainable defined benefit final salary scheme. Most public sector schemes are funded on a 'pay as you go' principle, with no trustees, no investments to manage, and no accountability to scheme members; any shortfall of liabilities in those funds automatically falls on taxpayers nationally, unpredictably and indiscriminately, whereas TfL has a funding strategy approved by the Pensions Regulator. An unexpected call on taxpayers cannot exist from a Trustee-led independent pension fund.

Public sector pensions are by definition national schemes, while TfL is specific to Greater London. **No fair comparison exists between TfL and public sector schemes**.

5. *What are your views on how TfL's pension arrangements can be fair to all going forward, including different cohorts of members and the sharing of risk between the employer and the employee?*

The present Fund is provably fair and sustainable; it has only been cast into doubt through government intervention following the collapse of fares income, on which TfL is so uniquely and forced to be dependent. The Review document misleadingly implies that our Fund needs re-management throughout. This is not proven; pejorative terms in the Review document do not represent the truth nor show objective understanding of the Fund.

What is "different cohorts of members"? We only have contributors, deferred pensioners and pensioners? Apart from an administrative listing by employer, no other division exists.

TfL has a legal obligation to produce a "balanced budget" [*a term which may have more than one legal and accounting definition – which one is in use here?*], and it also has a legal obligation to ensure our Pension Fund is suitably and sustainably resourced. Therefore, the Pension Fund needs fall within the balanced budget. Given the 'pensions promise' to past and present members of the Fund, as well as the need to recruit and retain, the Fund must stay attractive as now to current and future employees.

The Review's criteria fail to mention a crucial aspect of the TfL Pension Fund, its legally-binding 18 page "**Contingent Funding Framework Agreement**", which guarantees support money from TfL in any year where the previous year's interim valuation has triggered a need for a payment. This plan must be protected, kept applicable to the TfL Pension Fund, or Funds if the unwanted outcome is to set up new schemes. The Plan obliges TfL to continue as the beneficial owner of assets which could be meaningfully converted into cash to transfer to the Fund if needed.

Fairness to all must especially include scheme members with long service in TfL and relevant predecessors, who are starting to plan their retirement. As contributing members receive annual statements of pension benefits, retirement income is broadly defined, allowing plans to be made. This Review has caused members' uncertainty about their future pension benefits (*only seen as a reduction – the government's own evidence is that a move from final salary to 'CARE' loses up to one-third of pension income*), which at such a critical point in their lives may cause health issues. This alone is already 'unfair' when the basis of the Review, when we have all been assured of the stability and viability of our Pension Fund, is not just contradictory but also frightening. Please therefore define the range of fairnesses to be applied in this Review.

No substantive evidence exists that seeking a higher salary in the years before retirement has a significant effect on the Fund. This occurs in every final salary pension scheme. It is dangerously misleading to single out TfL, especially with restricted promotion opportunities contemporarily.

6. *How are the current pension arrangements valued by TfL's staff? How important are the current pension arrangements in recruiting new staff and retaining existing staff?*

As a retired member of the TfL (*and two other*) Pension Fund, I am a grateful recipient of the scheme's stable benefits. I paid for that (*Buses and Underground, 1986 to 2000*) on a not-substantial wage, plus making Additional Voluntary Contributions. These payments gave me security for the future and enabled planning my stable retirement. This has mental and physical health benefits – I do not have 'heat or eat' issues, a post-work roof over my head is affordable, a dignified life happens, and I continue to be well enough to continue contributing to the wider world through volunteering in retirement.

While mental and physical health may vary in monetary value terms, the savings to the NHS and the Welfare State are demonstrable. The cost-benefit analysis of stable pension systems must consider the widest possible horizon.

London's population tends to retire away from London, so a stable pension earned from working in London generates new economic activity in other locations, often where living costs are lower, thus disposable income rises and more is spent in that new community. London always benefits (*subject to living costs*) from new population – births and migration from elsewhere in the UK and abroad, produce new economic activity in the capital. **Examining the TfL Pension Fund fairly must go beyond a simplistic 'money in' against 'money out' myopia**.

An attractive pension scheme, with determinable outcomes is a major recruitment tool. Many 'traditional' pension funds are closed or closing, failed employers' schemes falling into the Pension Protection Fund, which automatically reduces pension payments in return for guarantees of continuity. Surviving employers are finding it not only hard to recruit / retain suitable candidates, but also the lack of those is forcing automation, which in turn reduces wage-related economic activity.

The Keynesian 'multiplier' effect diminishes as fewer people are gainfully employed, with less money circulating in local, regional and national economies. J M Keynes posited that for every pound earned (*in pre-decimal days*) 95% equivalent was re-spent in the wider community, repeating ad infinitum to the smallest amounts. Fewer people with disposable income affects the net multiplier effect, and reduces overall economic activity. Disposable income is the real key to economic growth, not innovation. **Generating disposable income, while in work and in retirement is a national benefit**.

7. Are there other considerations or criteria the Review should consider?

Undeclared criteria in this Review are unacceptable. Several terms used in the Review document are unclearly or not defined, also unacceptable. A fair rationale must be given for terms and criteria used. These demonstrable absences must be rectified.

This Review is one step in a three-stage process. No objective basis has been shown for the Review. A 'Do nothing' option for the Fund is valid, to be presented openly and fully to decision-makers, 'stakeholders' and pension fund members.

How persuasive will the outcome(s) of this Review be, given the political elements in play? If the Review concludes 'Do nothing', who will decide at the next stages whether to take that into account, fairly or even at all, and what criteria will they be guided by?

Longevity issues described in the call for evidence is not a full picture – TfL's Pension Fund adviser, Willis Towers Watson has issued a report on post-Covid mortality – see https://www.willistowerswatson.com/en-GB/Insights/2021/08/pension-scheme-longevity-after-covid-19 .
The report states: "Sponsors may reasonably decide that longevity is, on balance, going to fall and so reduce the value of defined benefit liabilities in their accounts. In doing so, they accept the risk they may have to reverse this at a future date should the opposite evidence emerge. For funding and journey planning, trustees in conjunction with the sponsor may show more caution and hesitate from weakening funding targets until that evidence emerges, consistent with the Pensions Regulator's annual funding statement. A possible corporate challenge might be to ask how long they must wait, given that longevity improvements had already been seen to slow-down significantly for several years pre-COVID."
It is therefore a reasonable proposition that future liabilities for the present TfL Pension Fund will reduce in the long-term. This makes the scheme even more sustainable than now, adding to the proposition that no 'Review' is necessary.

Longevity data in the Review's Call for Evidence differs from data in 'Public Services Pensions: facts and figures" published by the House of Commons library: https://mail.google.com/mail/u/0?ui=2&ik=eb3679cafc&attid=0.1&permmsgid=msg-f:1709601233968657568&th=17b9b943b24574a0&view=att&disp=inline&realattid=f_kszvmutk0 –in the TfL Review document, no mention of longevity reduction after 2060. The Review focus seems to be solely the short-term rise in pension fund liabilities around 2030-2035, while the Pension Fund has to adopt a long-term view of at least 70 to 80 years, to cater for the 18-year-old employee joining the scheme today. Please explain.

8. Is there anything else you would like to add?

Under the 1993 **Hatt et al v London Regional Transport** judgement, three legally constituted bodies (*TfL Pensioners' Forum, TfL Pensions Consultative Council and TfL Pensions Working Group*) each have an absolute right to be involved and consulted in any and all proposed changes to the TfL Pension Fund. All three bodies feel they have been side-lined until late in the consultation timetable, preventing a fuller analysis of the Review criteria, terms of reference and the supporting material provided.

In the case **"British Airways plc v Maunder and Others"** where British Airways unsuccessfully sued its own APS Pension Fund trustees, the judge observed that the 'pension promise' to airline recruits, and thus in generic principle for any employer, is a substantive incentive and inducement to employment.
Ms Bayliss when **director of TfL Corporate Affairs** [*exact role title not certain*] in the early 2000s made frequent public reference to TfL's 'pension promise'.
TfL in all of its debates with trade unions over pay and reward always emphasises the "overall reward package" of pay and pensions.
The occupational pension is a critical part of recruitment and retention in a competitive environment, enabling selection of the best candidates and keeping them. Attacking that offer is a disincentive to employment with TfL.

The call for evidence says all Review processes will be open and transparent - this must include fairly and non-selectively minuting all meetings and consultations. Those records must be available without redaction to all interested parties, beyond 'stakeholders'. No claim of 'commercial' nor 'operational' confidentiality is acceptable.

All Review participants must declare in whose interests they are acting, and any conflicts of interest (*and how they are being managed*), and whether they have been pressured to supply material or withhold it. I am responding as a TfL pensioner, with a working knowledge of several occupational pension schemes, and an active participant in age-related issues at the National Pensioners' Convention and other bodies.

The Panel's Terms of Reference clause 3C refers to "all legal aspects" - this is not explained, and therefore cannot be examined within the deadline for submissions. I need to see what that term specifically means or is meant to, and insist on the right to respond to that, and to have it considered.

While the Call for Evidence and the attached material does not express it, TfL accepts 'Do Nothing' as a valid option. This option must be taken into account fairly and impartially at all stages of examining the Pension Fund, on the broadest cost-benefit basis, not merely a 'money in v money out' calculation.

The Review timing is questionable – we await the results of the Fund Triennial valuation. No objective analysis can be made without understanding of the latest funding position, nor without the Pensions Regulator's input into that outcome.

Low-earners have low pensions. Many TfL Pension Fund members are on low salaries – only the overall package of TfL reward is 'market comparable'. Opportunities for advancement are limited by the 'flattened organisational pyramid', so many will never achieve those. Therefore, the fairness of the Pension Fund becomes extra-critical for them. Low salaries cannot easily part with bigger contributions, let alone on the miserable promise of paying in more to receive less in retirement. For very, very few, the myth of 'gold plated pensions' is true – an unachievable dream for most Fund members. Many Fund members have partners and/or dependents – the survivor pension is a proportion of the member's pension. To have even less income in a time of grief and coping is a difficult burden, easily avoidable.

No risks exist for our TfL Pension Fund which do not apply to other UK Pension Funds – to single us out is disingenuous. Arising from unfair and unreasonable implications against our Fund, this Review has given capacity for pan-TfL industrial action. As the Fund must sustainably support current and future pensioners, and the Review uses undefined and often unquantified terms, a walk-out would be understandable and would have my sympathies.

The net result of responding to all these questions is clearly that there is no valid case for a review of the TfL Pension Fund.

END

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ILLUSTRATIONS OF THE POSSIBLE RANGE OF PENSION REFORMS

APPENDIX 3

INTRODUCTION

- This document provides examples of the range of pension provision and reforms to that provision undertaken across a sample of organisations in the public and private sectors.
- While in the Review's Terms of Reference nothing is ruled in and nothing is ruled out this appendix illustrates, with examples, the spectrum of possible reforms available for future service for consideration by the Independent Review.
- Separate consideration will also need to be given to the impact of any future changes on the past service liabilities and whether any options for reform could give rise to a significant maturing of the scheme, with adverse consequences for the required level of employer contributions.
- It is noted that the pension reforms initiated elsewhere, and described here, reflect the specificities of that employer's labour market and the financial health of its pension arrangements. Therefore, none of these options may be right for TfL.
- It is further noted that, in line with the Independent Review's Terms of Reference, there is a requirement to protect members' benefits built up to date.

	DB	AMENDED DEFINED BENEFIT			HYBRID			PURE DC	
	DB FINAL SALARY (AS IS)	DB FINAL SALARY	DB CARE + TIERED CONTS	DB CARE	DB CARE +DC	CDC	CASH BALANCE	DC	AUTO-ENROL'T
Accrual Rate	1/60th	1/60th	1/49th	1/60th	1/75th to salary cap then DC	1/80th	Targets pot of money at retirement	n/a	n/a
Salary cap[1]	£170,400	Yes	£172,800	Annual increases to pensionable pay capped at RPI	£59,884	-	n/a	Base salary	Band earnings[13]
Member Contribution	5%	5%[4]	Tiered (5.5%-12.5%)	7.24%	9.8%	6%	3%	5-8%	5%[14]
Employer Contribution[2]	26.9%	39% (min 5%)	19%[6]	10.86%	21.4%	13.6%	Balance to meet target pot	5-10%	3%
Basis	BoC[3]	BoC	BoC	Shared cost	Shared cost	Shared cost	BoC	n/a	n/a
Indexation – pensions in payment (cap)	RPI (5%)	CPI	CPI	CPI	CPI	Depends on funding position	n/a	n/a	n/a
NRA (paid unreduced from)	65 (60)	65 (60)	SPA[7]	65[8]	65	67	60	TRA[11]	TRA
EXAMPLE ORGANISATIONS	TfL	NATIONAL GRID[5]	LGPS	NETWORK RAIL	USS	ROYAL MAIL[9]	BARCLAYS (legacy)[10]	BBC (LifePlan)[12]	NEST

MORE RISK WITH THE EMPLOYER — RISK — MORE RISK WITH THE MEMBER

Footnotes

1. Salary cap – we have used this term to describe a variety of arrangements present in pension schemes whereby benefits may cease or be different for members above (or below) a certain salary level.
2. Excludes any special deficit repair contributions paid by the employer.
3. BoC - Balance of Costs. Members contribute a specified amount; the employer pays the balance to fund the scheme. For shared cost schemes, contributions are split between the member and employer on a fixed proportion, eg 1/3rd member & 2/3rds employer.
4. Refers to The National Grid Electricity Group (NGES) of the Electricity Supply Pension Scheme which was closed to new members in 2006.
5. Pensionable salary increases capped by the lower of 3% or RPI since 1 April 2013. Used as basis for calculating benefits.
6. Average employer contributions across the LGPS. Subject to a cost cap – if employer contributions exceed the cost cap, member contributions or benefits must change.
7. SPA – subject to a min of 65, depending on when member joined the scheme.
8. For benefits earned post 2012. Benefits earned prior to 2012 can be taken on an unreduced basis from age 60 down to a minimum of age 50, depending on category of membership.
9. Expected to be introduced in 2022.
10. Closed to future accrual.
11. Target Retirement Age – member will select a retirement age but may retire before or after that age. This will often be state pension age.
12. Available predominantly for staff who joined after 1 December 2010.
13. Band earnings - £10,000-£50,270 for 2021/22.
14. Includes 1% via tax relief. Total statutory minimum contributions are 8% of ‘band earnings’.

DEFINITIONS

DEFINED BENEFIT

FINAL SALARY

Under a final salary scheme, the member is guaranteed a certain level of income each year (usually increased with inflation) at retirement and/or a guaranteed lump sum. The amount a member is guaranteed to receive is determined by a formula set out in the scheme's rules and is usually based on the period of a member's pensionable service and final salary at retirement.

In the private sector, employers are required to make contributions and are ultimately responsible for ensuring that there are sufficient assets within the scheme to pay each member their guaranteed retirement income (the scheme's liabilities). Ordinarily, this means that the employer takes on the risk that the cost of providing these benefits is greater than anticipated. This could happen, for example, if investment returns are lower than expected; inflation is higher than expected; there are changes in regulation that increase the cost of the benefit provision; or members live longer than expected. Depending on the scheme rules, a member may also contribute to the scheme. Contribution levels are commonly fixed between the employer and the members (eg with the employer paying 2/3rds and the member paying the remaining 1/3rd). Final salary pension schemes in the private sector are funded schemes.

The scheme's rules will define what is meant by "salary" and years of "service" and will define the formula for determining the level of benefits to be paid. This is typically a fraction (for example, 1/60th known as the accrual rate) of a member's pensionable pay for each year of pensionable service. The pension is usually payable at a Normal Retirement Date (NRD) and the benefit will usually be reduced if it is taken before this date to reflect the fact that the pension will be paid for longer.

Each DB scheme will take a different approach to defining salary and service, may use different accrual rates and may have different retirement ages, different approaches to indexing retirement income (for example, by reference to RPI or CPI sometimes only to a maximum rate or at a fixed level), different levels of member contributions and so on.

As well as providing a member with a guaranteed pension income on retirement, most DB schemes also provide a tax-free cash lump sum in exchange for a reduced ongoing pension income. DB schemes typically also offer pension incomes to dependents on a member's death.

CARE

A Career Average Revalued Earnings (CARE) scheme is a different type of defined benefit scheme. The guaranteed pension income a member will receive is based not on the member's final salary at retirement but on their average earnings over their period of pensionable service, increased with inflation. The benefits will also be calculated by reference to an accrual rate. In a CARE arrangement, the extent of salary related risk the employer takes is reduced in comparison to a final salary arrangement. In the private sector, CARE schemes are funded schemes, whereas in the public sector, CARE schemes are often unfunded.

DEFINITIONS

HYBRID

DB + DC

Schemes may also combine elements of DB and defined contribution (DC). For example, schemes may provide a DB arrangement up to a certain level of income and a DC above that level of income. These schemes aim to provide members with a certain level of guarantee (particularly those at lower levels of incomes) whilst at the same time limited the sponsoring employer's level of risk.

CASH BALANCE

In a cash balance arrangement a member is guaranteed a minimum cash value on retirement or, in some cases, a member is guaranteed a minimum level of investment return on their contributions. It is then up to the member how they choose to take their pension on retirement – for example, to buy a retirement income (annuity) or to take a lump sum or a combination of both.

These arrangements aim to provide some guarantee to members whilst providing employers with more certainty and limiting employer contributions.

Cash balance schemes are rarely used.

COLLECTIVE DEFINED CONTRIBUTION (CDC)

Collective Defined Contribution schemes (CDC, also known as Collective Money Purchase Schemes) are a hybrid of a DB and a DC arrangement whereby the employer's contributions are fixed as a percentage of salary and the member is offered a target level of benefit at retirement rather than a guaranteed income (as in a DB scheme).

If a CDC scheme is under (or over) funded, then the level of member benefits can be adjusted down (or up) so that the assets of the CDC arrangement are equal to the target liabilities relating to the target incomes in retirement. This means that the employer takes less risk, and its level of contributions is more certain, whilst members receive a guarantee of benefits, though that guarantee is less strong than in a pure DB arrangement.

In a similar way to DC arrangements, the contributions an employer pays are a fixed percentage of a member's salary and the member takes the risks relating to investment returns, inflation, salary, how long they will live and so on. However, for a given contribution rate, the expected CDC pension benefits for a member are expected to be higher than the benefits payable from a DC pension pot so is more attractive from an employee perspective than a DC arrangement.

CDC arrangements are relatively new in the UK. The Pension Schemes Act 2021 contains enabling provisions for CMP arrangements and Governmentis expected to progress the required secondary legislation before the end of the year.

DEFINITIONS

DEFINED CONTRIB-UTION

DEFINED CONTRIBUTION

Defined Contribution (DC) pensions are arrangements where members do not receive a guaranteed level of income at retirement. Instead, members receive an income at retirement that depends upon the levels of contributions paid by the member and the employer during the period of membership, investment returns achieved on those contributions, charges and taxes and the cost of purchasing (or otherwise drawing down) the chosen benefits at retirement. The pension pot may also be taken as cash.

Contributions made by the employer and the member are defined as a fixed percentage of pensionable salary. The percentage the employer and the employee contribute may vary; for example, in some DC arrangements the employer may match member contributions up to a cap. For large, FTSE100 employers, contributions typically stand at 8.3% (employer) and 2.5% (employee). For schemes where an employer 'match' is available, core employer contributions were, on average, 6.8% with employee contributions at 2.9% with employer and employee matches of 4.5% and 3.2% available on average, giving a total contribution of around 17.4%. However, overwhelmingly members are defaulted into the minimum contribution levels, not the maximum matched level of contributions. (Source Willis Towers Watson *FTSE 350 DC survey 2021* published July 2021.)

Unlike DB arrangements, in DC arrangements all risks affecting the benefits a member will ultimately receive (such as the risk of lower investment returns, higher inflation, lower salary levels and member's living longer than expected) are taken on by the member. While this makes a DC arrangement more predictable and affordable than a DB arrangement for the employer, it can make it more difficult for members to plan their retirement and there is a risk that a member's benefits may ultimately be inadequate to meet their needs in retirement. DC schemes are now the most common form of pension provision in the private sector.

AUTO-ENROLMENT SCHEMES

Auto-enrolment schemes are the legally required minimum level of pension provision in the UK. These are DC schemes into which the employer must contribute 3% of "band earnings" (currently £10,000-£50,270 for 2021/22) and the member 4%. An additional 1% is provided through tax relief on the contributions (brining the statutory minimum level of contribution to 8% of band earnings).

As with DC schemes above, employers limit their risk though certainty in respect of their level of contributions whilst members carry risk in relation to lower than expected investment returns, inflation, longevity and charges. In addition, given the low level of statutory contributions, there is an additional risk for members of the final pension 'pot' being too small to provide an adequate level of benefit.

All employees or workers aged over 22 and earning over £10,000 a year have a right to be auto-enrolled into a pension arrangement with an employer contribution. Contributions become payable on earnings in excess of £6,240.