

# FUNDNEWS



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# WELCOME TO FUNDNEWS

*I am delighted to introduce Fundnews 2010 from our new offices in Glasgow's International Financial Services District.*

Our new building will make the SPFO family even closer knit as we are on a single floor.

It has also helped us to make a large stride towards becoming a paperless office. We have used the move as an opportunity to take time out from business as usual to assess how we can work more efficiently.

One example is that we now have dual computer screens on our desks. This technology lets us more easily work on individual pension records that by their nature comprise many different and often long electronic documents.

To keep things as simple as possible for you, our telephone numbers, emails and website address are the same. Our new postal address is shown on the back page of this Fundnews.

As well as moving we are shrinking. In the last 12 months 6 of my colleagues have retired from SPFO. And over the next couple of years there will be about 20 more taking advantage of Glasgow City Council's voluntary severance package.

Whilst all of these colleagues will be missed by the smaller SPFO family, I would like to make a special mention of the recent retirement of Alistair Gray. I worked with Alistair for over 30 years, and as many of you will know he was a larger than life character. I'd like to thank him for leading our communications team with great distinction ever since it was established.

Finally despite the difficult economic times and the temptation to stop contributing or to take a refund of contributions, bear in mind that the Local Government Pension Scheme (LGPS) provides you with unrivalled benefits for you and your loved ones.

Ceasing membership means that you will be missing out on your employer contributing an extra 18.2% of your salary towards your future wellbeing and towards your loved ones' financial security.



**Andrew Knox**  
Chief Pensions Officer  
Strathclyde Pension Fund Office

## ***Pathfinder: your chance to provide feedback***

*Pathfinder is a project looking into the 11 Scottish LGPS funds. It seeks to...*



establish if there are any opportunities to rationalise and improve the management of the LGPS.



As a member of the LGPS you can provide the project with your views by completing a brief online survey at: <http://web.questback.com/theimprovementservice/survey>

# SCHEME YEAR 2009 / 2010

The Fund produced a total annual return of 36.3% for 2009 / 2010. The average UK pension fund returned 30.3 % in the same period.

As at 31 March 2010 the Fund's total asset value was £10,307m and the Fund was estimated to be 89.8% funded.

The Fund's membership has grown slightly to 193,488 comprising:

- 89,109 active members.
- 43,090 deferred members / undecided leavers.
- 61,289 pensioners.

Significant decisions by the Strathclyde Pension Fund Committee over the last year included:

- Approving our Administration Strategy. This new document sets out how we will work in partnership with our scheme employers and our respective roles and responsibilities.
- Making a number of changes to our investment strategy and approach including reappointing Hymans Robertson as our investment consultants.

Looking ahead, I am confident that we will continue to deliver an excellent pension scheme for you, with strengthened investment, governance and operational structures.



**Bailie James McNally**  
Convener, Strathclyde Pension Fund Committee

## ***Pensions politics and the press***

I can well understand that the last year has been very worrying pension-wise, with:

- The emergency budget in June announcing the intention to inflation-link pensions to CPI (Consumer Prices Index) instead of RPI (Retail Prices Index).
- A number of high profile stories about the growing "pensions apartheid" between the public and private sectors.
- A wealth of proposals to reduce the burden on tax payers by introducing specific changes to public sector pensions.
- Proposals to tax high earners on the extra LGPS pension they accrue in the tax year it is accrued as well as taxing their pension in retirement.

Please don't believe everything you read in the press, but I do agree that change appears inevitable. But remember that being in the LGPS means that you are a member of one of Scotland's best pension schemes. More about how we think any changes to the LGPS will unfold is on the next page.



Away from politics we are continuing to do what we should be doing to the best of our ability and our "Are you in with the in crowd?" multi-media campaign has reassured local government workers that there has never been a better time to be in the LGPS.

**Richard McIndoe**  
Head of Pensions

*2009 / 2010 was a year of phenomenal and unadulterated success for the Fund.*

*The Fund's value at 31st March 2010 was a new high water mark and an increase of over £2.5 billion over the year.*

*The year's investment return was one of the best ever and certainly the best in real (inflation adjusted) terms.*

*The year was also one of the best years ever for the benefits administration side of the Fund, starting with the very successful implementation of the New Scheme at 1st April 2009 and carrying on with business as usual throughout the year.*

*One measure of how good 2009 / 2010 was is our success in winning various industry awards.*

*So whatever challenges lie ahead, I'm confident that we have strengthened ourselves and positioned ourselves extremely well to face them.*



**Lynn Brown**  
Executive Director of Financial Services  
Glasgow City Council

# CHANGES TO THE LGPS?

## *As you will be aware from:*

- The change of government.
- The grim economic outlook for UK PLC (“austerity Britain”).
- The emergency Budget in June.
- The clear political desire to cut costs in the public sector.

change in the public sector and in public sector pensions appears inevitable.

We have already been processing a large volume of redundancy retirements from our employers facing up early to the public sector recession.

More change lies ahead.

## **RPI / CPI**

The Budget on 22 June announced the intention to inflation link public service pensions using CPI (Consumer Prices Index) as opposed to RPI (Retail Prices Index) from April 2011.

Although both indices are measures of inflation, RPI and CPI are calculated using different methods and include different items. One major difference between RPI and CPI is that CPI does not include mortgage interest payments, meaning that CPI will generally rise less than RPI.

## **PENSIONS COMMISSION**

Just before his emergency Budget, the Chancellor of the Exchequer set up a commission to review pensions arrangements across the public sector.

Chaired by Lord Hutton, the commission produced an interim report in October and will publish a final report in time for the 2011 Budget.

Key points from the independent Public Service Pensions Commission’s October interim report:

- The UK public sector continues to play a vital role.
- A good standard of pensions provision remains important.
- But reform of the current system is needed.
- In the short term there is a strong case for increasing employee contributions.
- For the longer term a range of alternative (to final salary) scheme structures will be considered.
- The rights that have already been accrued must be protected.



## TAX

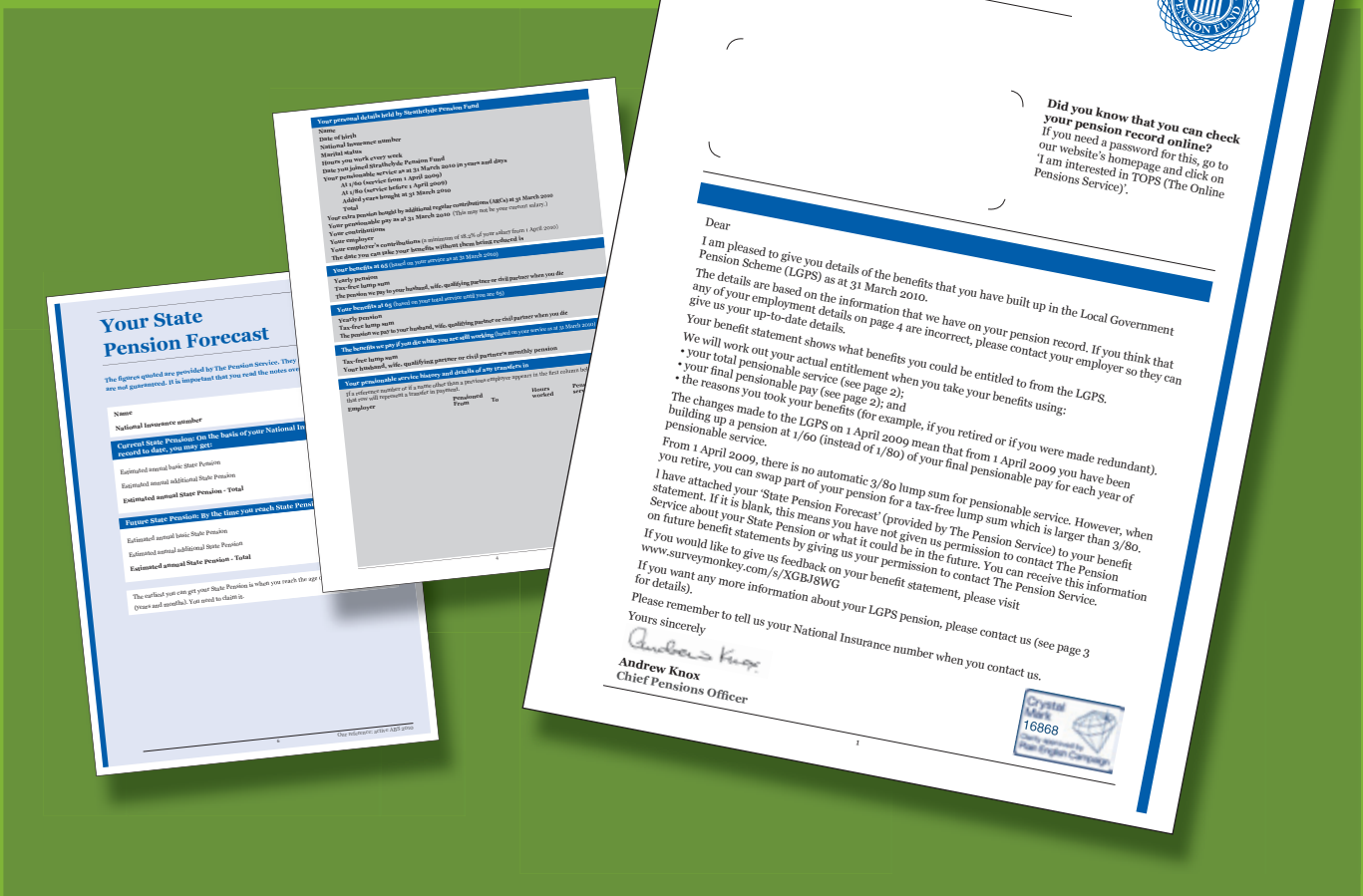
The June budget announced that the previous government's proposals for restricting pension tax relief for high earners would be reviewed. Since then a consultation on taxing high earners on the LGPS pension accrued in the tax year as well as taxing their pension in retirement has been issued.

We don't know for sure what pension changes may be ahead. We think though that it is more than possible that, following John Hutton's Commission's report, the CPI change and the proposals to tax high earners on the LGPS pension accrued in the tax year may be made from April 2011.

Further changes are likely to follow.

We will continue to put the latest news on our website.

We will also delay the issue of your 2010 annual benefit statement until 2011, so that we are able to accompany it with a detailed insert about any changes that could affect your pension.



# PROTECTING YOUR LOVED ONES

*The LGPS provides a great package of benefits, but to protect your loved ones fully you need to ensure that you have completed the right nomination forms, particularly if:*

- You are living with someone that you are not married to.
- You have children from a previous relationship.
- You have not made a will.
- There may be many interested parties claiming a share of your assets.

By completing our nomination forms you can ensure quick and accurate payment of benefits after your death to the person or persons that you would like the benefits to be paid to.

## **Lump sums on your death**

We pay out over £6m a year in lump sums after deaths.

When you consider that a lump sum death grant of three years pensionable pay is payable from the Fund if you die whilst you are a contributing member, the amount involved is likely to be considerable.

This lump sum is in addition to any dependants' pensions that are payable.

In many cases the member has not nominated someone to receive this lump sum using our nomination form.

This can mean the beneficiaries having to wait a long time before payment can be made if it is at all unclear to whom the payment should be made, as we cannot pay anything out that is not in line with our strict guidelines.

It can also result in us paying out the lump sum to someone the deceased member would not have wanted it paid to.

This could be a problem if, for example, you owe money on your death or if money is needed quickly for your funeral.

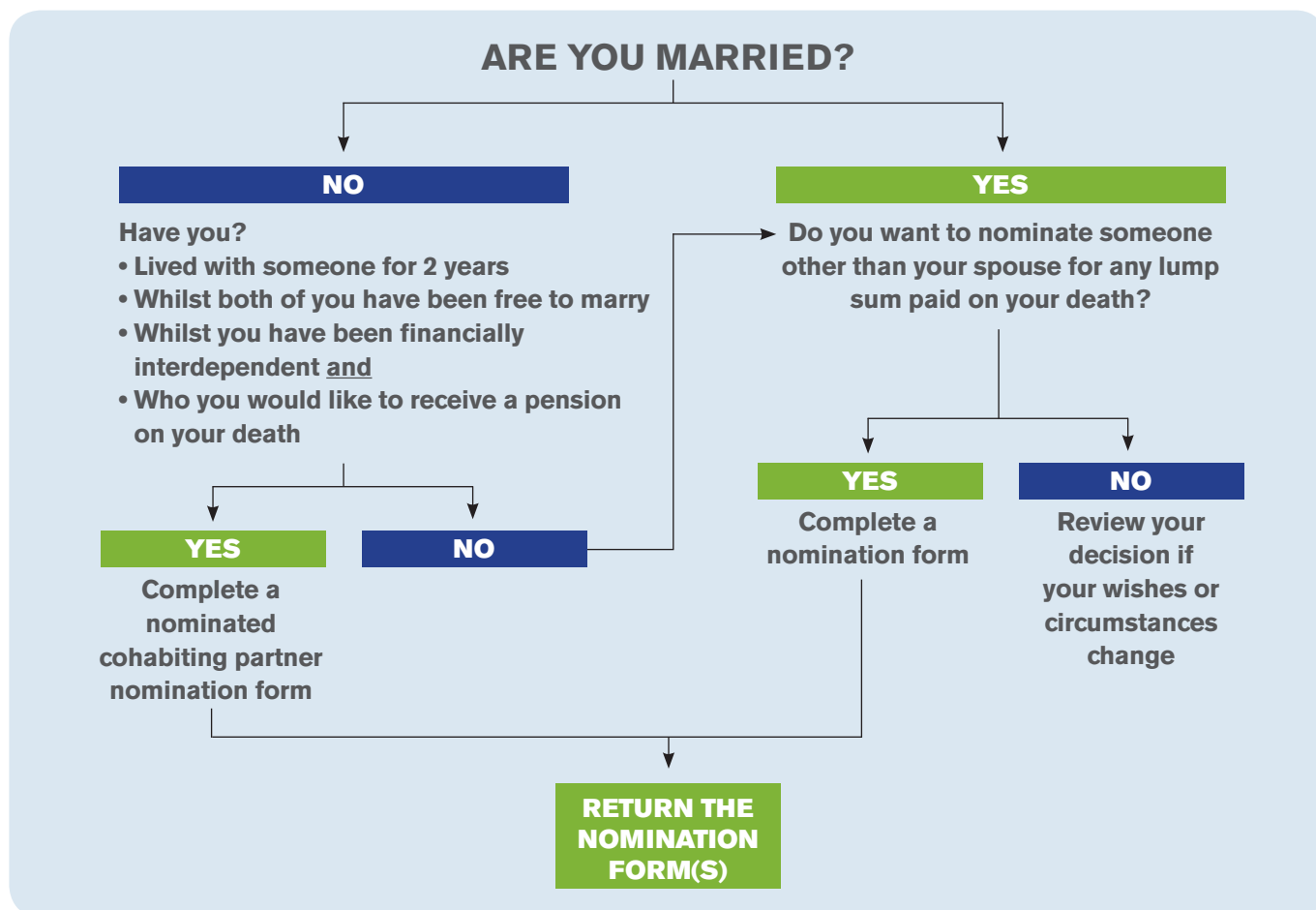
It could also create ill feeling amongst your loved ones.



## **Unmarried partner's pension**

We experience cases where members who were free to marry have died whilst in a long term, unmarried relationship that is not legally recognised but have not completed our nominated cohabiting partner nomination form.

If this is the case the pension that could (provided they have lived together for at least two years) have been paid to their partner on the death of the member will not be paid.



**Completing the right nomination forms**

There are two nomination forms available:

- Nomination form for lump sum death benefit.
- Nomination form for a nominated cohabiting partner to receive a survivor’s pension.

If you have not completed a nomination form or want to change your nomination, please visit our website or contact us and we will send you the appropriate form to complete.

To nominate an unmarried partner you will need to have been living together for at least two years and have been free to marry.

We will acknowledge any nomination that we receive, so if you do not receive an acknowledgement you should contact us or use TOPS (The Online Pension Service that you can obtain a password for from our website) to check your nomination record online.

# TRANSFERRING PREVIOUS PENSIONS

**We will only accept transfers in provided that they are:**

- From public sector schemes AND
- Requested within a year of joining the Fund.

Your employer can extend the one year limit to two years. Although you cannot bring all previous pensions into the LGPS, we would suggest that you keep track of all pension schemes which may be holding benefits belonging to you from previous employment.

For help with this you can, contact  
**Pension Tracing Service**  
**The Pension Service**  
 Tyneview Park  
 Whitley Road  
 Newcastle upon Tyne NE98 1BA

Telephone: 0845 6002 537  
 Website: [http://www.direct.gov.uk/en/Pensionsandretirementplanning/PlanningForRetirement/AboutToRetire/DG\\_10027189](http://www.direct.gov.uk/en/Pensionsandretirementplanning/PlanningForRetirement/AboutToRetire/DG_10027189)

# INVESTMENTS

## STRATEGY

Over the last year we have:

- Increased our holdings in US and UK equity market indices.
- Reviewed our property strategy.
- Restructured our bond portfolios, giving them an absolute return objective and replacing Henderson and Western with two new managers (PIMCO and Threadneedle).
- Increased the frequency and depth of our monitoring.
- Continued to build our private equity programmes.
- Terminated one currency mandate.
- Reinstated our securities lending programme on a more selective basis than previously.
- Created a “New Opportunities” portfolio of up to the lesser of 3% of total Fund assets or £300m at the time of any new investment on an opportunistic basis to provide access to areas not covered by the existing strategy.

Our website has a Jargon Buster that explains some of the terms we use.



**Jacqueline Gillies**  
Chief Pensions Officer (Investments)

ASSET CLASS	(%)
UK Equities	18 - 53
Overseas Equities	14 - 49
<i>North America</i>	11 - 26
<i>Europe (ex UK)</i>	0 - 35
<i>Japan</i>	0 - 35
<i>Pacific</i>	0 - 35
<i>Emerging Markets</i>	1 - 36
Private Equity	5 - 10
<b>Total Equities</b>	<b>73</b>
<b>Property</b>	<b>12</b>
Index Linked Securities	1.5
UK Gilts	3
Corporate Bonds	3
Absolute Return Bonds	7.5
<b>Total Fixed Interest</b>	<b>15</b>
<b>TOTAL</b>	<b>100</b>

## STRUCTURE

Our current investment structure includes a variety of specialisms. In each case we use best-in-class specialist managers to make the most of the potential of the investments.

MILLENIUM		RECORD	
LEGAL & GENERAL	BAILLIE GIFFORD	JP MORGAN	
	ALLIANCE BERNSTEIN	GARTMORE	
	EDINBURGH PARTNERS	GENESIS	
	CAPITAL INTERNATIONAL	PANTHEON	
	INVESCO	PARTNERS	
	LAZARD	THREADNEEDLE	
		PIMCO	
		ABERDEEN	

MULTI ASSET PASSIVE

GLOBAL EQUITY

SPECIALIST MANDATES

CURRENCY OVERLAY

## PERFORMANCE

The Fund has achieved a 10 year annualised return of 4% over the last ten scheme years that run from 1 April to 31 March.

This is below (-2.1%) the Actuary's current assumed return of 6.1% per annum and illustrates that, despite the recovery in financial markets, the turmoil caused by the credit crunch has still had a negative impact on the long term performance of the Fund.

Year to 31 March	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	3Yr	5Yr	10Yr
	%	%	%	%	%	%	%	%	%	%	Annualised		
											%	%	%
<b>Retail Prices</b>	2.3	1.3	3.1	2.6	3.2	2.4	4.8	3.8	-0.4	4.2	2.6	2.9	2.7
<b>Avg. Earnings</b>	4.9	3.0	3.4	3.9	4.4	3.9	4.3	4.9	-0.4	4.5	2.9	3.4	3.7
<b>Fund Benchmark</b>	-9.5	-1.1	-22.2	28.0	12.9	26.6	8.1	-3.8	-21.0	41.3	2.4	8.0	4.0
<b>Fund Return</b>	-8.6	-0.2	-20.8	26.6	12.4	27.2	7.4	-2.9	-20.8	36.3	1.6	7.4	4.0
<b>WM All Funds</b>	-6.8	-1.0	-18.5	22.6	11.6	24.2	7.0	-1.0	-18.1	30.3	1.8	7.0	3.7
<b>Fund Ranking</b>	56	23	34	25	18	10	30	8	71	24	56	34	36

## RESPONSIBLE INVESTMENT

We have been active in pushing the responsibility agenda, recognising that shareholder activism has moved on from just voting.

We want to know that managers are engaging with companies.

We are looking for assurances from managers that they are really looking at the potential financial impact of labour policies, employment policies and environmental policies.

# FUND ACCOUNTS 2009/10



"We are constantly looking for ways to reduce our costs and have seen 6 of our staff of just over 100 retire over the last year without being replaced. And we now only produce our Annual Report electronically saving £4,000 a year on printing and distribution and reducing our carbon footprint"

Alison Duffy, Fund Finance Manager

*For the year ended 31 March 2010.*

	2008/09 £000	2009/10 £000
<b>FUND INCOME</b>		
Contributions receivable from employees	104,829	115,861
Contributions receivable from employers	292,381	317,430
Additional contributions from employers	20,090	46,555
Transfers in	22,616	22,891
Other income	377	427
	<b>440,293</b>	<b>503,164</b>
<b>FUND PAYMENTS</b>		
Pensions	247,481	267,802
Lump sums	72,050	120,289
Refund of contributions	970	998
Transfers out	16,008	31,754
State scheme premiums	1,466	689
Administrative and other expenses borne by the Fund	4,085	5,709
	<b>342,060</b>	<b>427,241</b>
Net addition from dealings with members	<b>98,233</b>	<b>75,923</b>
Pensions and other payments during the year were met from current income, so there was no need to draw down cash from investment portfolios.		
<b>RETURNS ON INVESTMENTS</b>		
Investment income	231,619	155,175
Investment management expenses	(17,495)	(13,392)
Overseas tax	(3,345)	(3,277)
Change in market value of investments	(2,177,802)	2,604,903
<b>Net returns on investments</b>	<b>(1,967,023)</b>	<b>2,743,409</b>
<b>Net movement in the Fund during the year</b>	<b>(1,868,790)</b>	<b>2,819,332</b>
ADD: Opening net assets as at 1st April	<b>9,466,705</b>	<b>7,597,915</b>
EQUALS: Closing net assets as at 31st March	<b>7,597,915</b>	<b>10,417,247</b>

It should be noted that these accounts show assets only. Liabilities are shown in the actuarial valuation. Our annual report provides detailed financial information about our scheme year 2009/2010 and is available from the Governance/Reports/AnnualReportAndAccounts area of our website.

# ACTUARIAL VALUATION

Our actuary carries out a formal actuarial valuation of the Fund every three years.

The latest, formal triennial actuarial valuation established that the Fund was 95% funded as at 31 March 2008, higher than almost any other Local Government Pension Scheme fund in the UK.



**Average LGPS fund 72% funded**      **SPF 89.8% funded**

Source: Hymans Robertson Navigator Report as at 31 March 2010

Since 2008 the funding level has worsened due to investment conditions and as at 31 March 2010 we were 89.8% funded.

However we are confident that the funding deficit is manageable through a combination of increased employer contribution rates and a relatively aggressive investment strategy.

Although the details of how the emergency budget proposals for CPI indexation of benefits are unclear, they are likely to improve our funding position, as CPI usually grows by less than RPI.

You should be aware that, whatever the funding position is, your benefits are guaranteed by legislation.

## ANNUAL MEETING 2010

Our annual meeting is a formal set piece that reports more widely on the decisions taken at quarterly Strathclyde Pension Fund Committee and Representative Forum meetings.

We invite a wide range of trade union, employer and pensioner representatives to listen to our account of the progress we have made over the past year.

We also make all of our key staff available to answer questions and to discuss all aspects of our performance.

This year over 150 delegates, representing contributing employers, members and trade unions, attended our annual meeting on Friday 18 June.

The guest speaker was Sir Tom Farmer who gave the meeting an interesting, inspirational and thought-provoking insight into the subjects of success and achievement.

Annual meeting organiser, Doreen Shannon, picked out a couple of comments from the feedback questionnaires to sum up the event:

***“Always worth coming along to”***  
***“Easy to understand and humorous”***

A full set of the slides used at the meeting, together with a list of delegates and biographies of the speakers, is available from the news story about our annual meeting in the “News” area of our website.



# Setting the pace in pensions...

Over the last year we have been set more challenges than ever before.

A massive increase in voluntary redundancy programmes by a number of our employers has been accompanied by significant reductions in our staff.

Looking back over 30 years we can't recall a year with so many things being added to our plans at the start of the year.

Despite the scale of change we have risen so successfully to the challenges that we retained our prestigious crown of **Public Sector Scheme of the Year** at this year's Pension Scheme of the Year Awards ceremony on 16 September 2010.



To ensure that we are setting the pace in pensions, we constantly monitor our performance.

## Customer Satisfaction

	Joiners	Leavers	Deferreds	Retirals
Forms issued 09/10	5,405	2,506	2,911	2,763
Response 09/10	1,064	813	134	686
Response rate (%) 09/10	19.7	32.4	4.6	24.8
"Satisfaction rating" 09/10	79.3	79.9	79.8	91.4
"Satisfaction rating" 08/09	77.9	78.7	79.8	91.1
"Satisfaction rating" 07/08	78.1	75.6	78.4	91.5

## CONTACTING US

We are committed to keeping you fully informed about your pension rights.

To help us do so, please ensure that we have your current home address and personal details on file.

You can check the details we hold about you online by going to our website and requesting a password to access your pension record online. Whenever you contact us, please remember to quote your national insurance number on any correspondence with us, as this is key to your pension record.

## VISITING US

We will no longer be operating a drop-in visiting facility, as the new building will not accommodate this. Instead, you can visit us by appointment made either with your individual SPFO contact or via our switchboard on 0845 213 0202.

Web: [www.spfo.org.uk](http://www.spfo.org.uk)

Email: [spfo@glasgow.gov.uk](mailto:spfo@glasgow.gov.uk)

Tel: 0845 213 0202

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