

# PENSIONNEWS



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**Tom Hammond**  
Payroll Team Leader  
Strathclyde Pension Fund Office



**Tom Hammond**  
Pensions Assistant  
1976

# WELCOME TO **PENSIONNEWS**

*I am delighted to introduce Pensionnews 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 Pensionnews.

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 including me: I shall be our next to retire in December and like to think that the years have been kind.

Whilst all of these colleagues will be missed by the smaller SPFO family, I am sure that we will be able to maintain the high standards of service that we have established.

Paying pensions has always been the highest priority at SPFO and that will never change.

## **RPI / CPI**

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

*On page 4 we look at the impact that this could have on your pension in more detail.*

# 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

*2009 / 2010 was a year of phenomenal 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

## **TOPS (The Online Pensions Service)**

Did you know that you can now do the following on our website at [www.spfo.org.uk](http://www.spfo.org.uk)

- Amend your contact details.
- Check your personal details.
- Check your previous pension payslips.
- Change your nominated beneficiaries.

To request a password for online access, go to our website's homepage and click on "I am interested in TOPS (The Online Pensions Service)".

# CHANGES TO YOUR PENSION

## *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.

## *Pension increases are back*

For pensioners the most immediate change is the Chancellor’s decision, announced in the June budget to inflation link public service pensions using CPI (Consumer Prices Index) as opposed to RPI (Retail Prices Index).

As CPI rose by 3.1% in the year to 30 September 2010, this should be the increase to your pension from April 2011.

To put this in context, those still working in local government received a 0.65% pay increase this year and are likely to see no increase for the next 2 years.

### **RPI / CPI**

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.

Both the RPI and the CPI are calculated by National Statistics, and these are explained on their website at

[http://www.statistics.gov.uk/downloads/theme\\_economy/cp\\_brief\\_guide\\_2004.pdf](http://www.statistics.gov.uk/downloads/theme_economy/cp_brief_guide_2004.pdf)

### **STATE PENSIONS**

CPI will also be used when determining any increases to be made to state pensions and other state benefits in April 2011.

However the basic state pension will enjoy the “triple guarantee” of being increased by the higher of earnings, prices (CPI) or 2.5 per cent **from** April 2011.

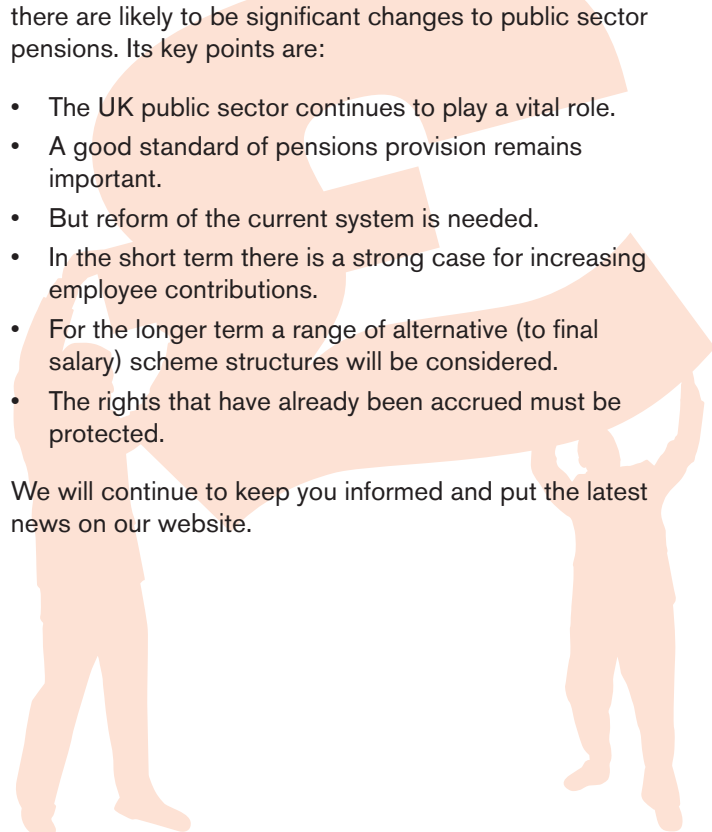
In addition, in order to ensure that the value of the basic state pension is at least as generous as under previous uprating rules, the Government is expected to increase it in April 2011 by at least the equivalent of the **4.6%** increase in the RPI.

### **PENSIONS COMMISSION**

The independent Public Service Pensions Commission’s October interim report indicates that for those still working there are likely to be significant changes to public sector pensions. Its key points are:

- 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.

We will continue to keep you informed and put the latest news on our website.



# RETURNING TO LOCAL GOVERNMENT WORK?

## Abatement of Compensatory Added Years (CAY)

If you were retired on redundancy or efficiency grounds and your employer granted you additional service, you must notify us in writing if you return to local government work.

That's because your CAY pension may be reduced or suspended, if you start another job in local government or with an organisation that participates in the LGPS.

We will apply two tests to your pension if you return to local government work.

Firstly we will test that your pension (including CAY) when you recommence employment plus your new rate of pay is less than your final pay at your date of retirement. If your new rate of pay plus your pension



is greater, your CAY pension will be reduced or suspended.

Secondly we will ensure that the service you build up in your new employment, plus the total service used to calculate your first pension, does not exceed the service you could have built up in the scheme had you worked continuously until age 65. If this total is exceeded, your CAY pension and lump sum will be permanently reduced.

## NATIONAL FRAUD INITIATIVE (NFI)

NFI has generated significant savings for Scottish public bodies.

NFI in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

Strathclyde Pension Fund is again participating in this exercise, as we are required by law to protect the public funds we administer. We are providing details of our pensioners, so that they can be compared with information provided by other public bodies.

This will ensure, for example, that no pensions are being paid to persons who are deceased or no longer entitled, and that Local Government Pension Scheme pension income is being declared when benefits e.g. housing benefit are applied for.

Sometimes wrong payments are made because of a genuine error. Previous exercises have uncovered instances of pensioners receiving too little pension, resulting in the payments to pensioners being increased.

These exercises, therefore, help promote the best use of public funds. You may be contacted again in the future if the exercise suggests you are not receiving the correct amount of pension.

If pension payments should have ceased or reduced, we will take steps to recover these payments.

Sharing our data with other public bodies will also ensure that your pension from us is being taken into account for any Social Security benefits you have applied for.

**Please therefore remember that, when you are asked for details of your income when applying for a benefit, you must declare all of your pensions, even ill health pensions from the Local Government Pension Scheme.**

# PROTECTING YOUR LOVED ONES

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*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.*

## **Lump sums on your death**

LGPS pensions are guaranteed to be paid for at least 5 years (10 years if you became a pensioner after 31 March 2009).

If you die as a pensioner, the balance of your guaranteed pension payments can be paid out as a lump sum to your loved ones.

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

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

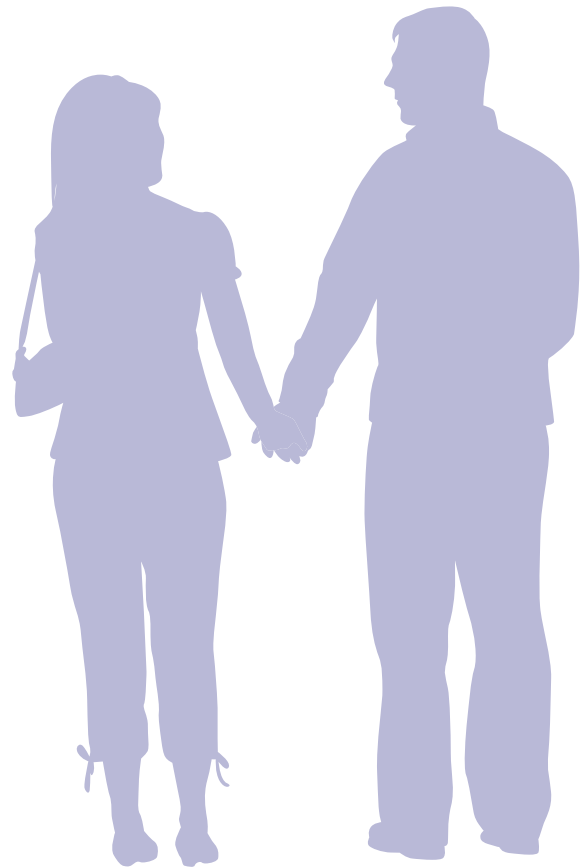
In many cases the member has not nominated someone to receive this lump sum using our nomination form.

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.

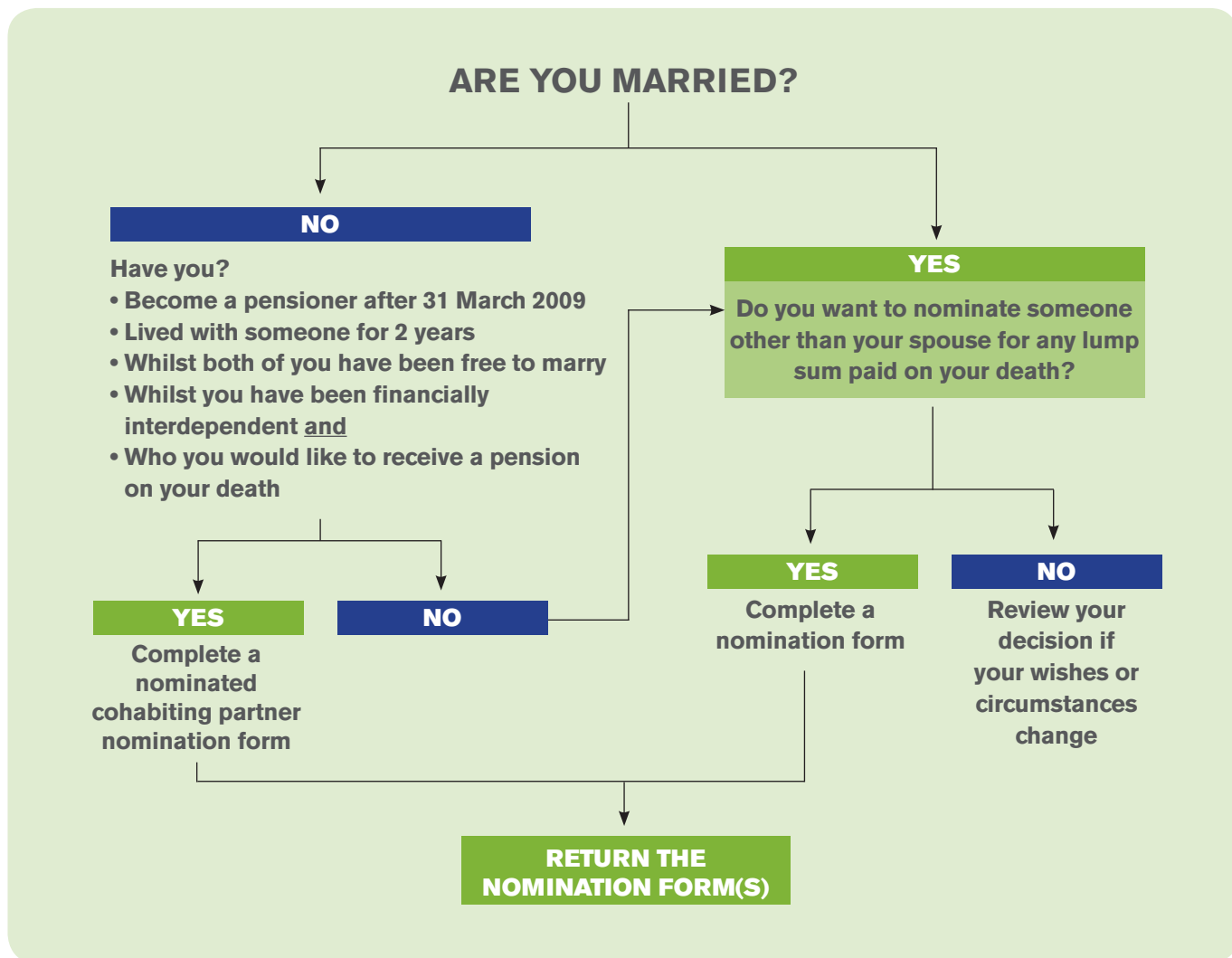


## **Unmarried partner's pension**

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 have been paid to their partner on the death of the member (provided the member became a pensioner after 31 March 2009 AND they have lived together for at least two years) will not be paid.

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# POWER OF ATTORNEY

It's now easier than ever to organise a Lasting Power of Attorney thanks to shorter and simpler forms launched by the Public Guardian.

A Lasting Power of Attorney gives the person you choose the power to make decisions about your property or personal affairs if you have an accident or illness that stops you being able to make decisions for yourself – for example a brain injury or a degenerative disease.

This can be particularly useful in ensuring that you continue to receive your pension.

If you are worried about losing mental capacity and want to know that someone you trust will be making the important decisions about your health, welfare and finances, more information is available at

[www.publicguardian-scotland.gov.uk](http://www.publicguardian-scotland.gov.uk)

or by telephoning the

Office Of The Public Guardian on

**01324 678300**

# 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.

MILLENNIUM		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 2.1% below 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

**STOP PRESS:** The value of the Fund was £10,469m as at 31 October 2010, having rallied following May's sovereign debt crisis.

## RESPONSIBLE INVESTMENT

The Fund is a signatory to the United Nations Principles for Responsible Investment (UNPRI), and we have been active in pushing the responsibility agenda.

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.



## 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.

Whenever you contact us, please remember to quote your pension reference number or if unavailable 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 an 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

Strathclyde Pension Fund Office,  
P.O. Box 27001, Glasgow G2 9EW

Ref: Pensionnews 2010 11/10

STRATHCLYDE PENSION FUND OFFICE - MANAGING THE LOCAL GOVERNMENT PENSION SCHEME IN THE WEST OF SCOTLAND

## CHANGED PERSONAL DETAILS?

Name ..... Pension ref no. (or if unavailable N.I. no) .....

Signature .....

## ADDRESS CHANGE

NEW address ..... OLD address .....

.....

.....

## CHANGE OF BANK/BUILDING SOCIETY

Details of NEW account ..... Details of OLD account .....

Bank/Building Society name .....

Sort code .....

A/C no .....

Roll no (B/Society only) .....

Name of account holder .....

