

# Fundnews

NEWSLETTER FOR CONTRIBUTORS



## Current Conditions Good - Outlook Uncertain

Welcome to the 2005 edition of Fundnews. Pensions and the Local Government Pension Scheme have attracted a huge amount of publicity in the last year - here we review the situation.

In this issue of Fundnews we try to present an up-to-date picture of the current state of Strathclyde Pension Fund (SPFO) and the Local Government Pension Scheme.

You'll be pleased to know that our Accounts present a very healthy picture. At just under £7 billion, the Strathclyde Fund is bigger than it's ever been - largely thanks to a second consecutive year of strong investment returns in 2004. For a detailed analysis see the investment report on page 3.

However, on a less positive note. The 2005 actuarial valuation (a three-yearly "health check" of the Fund) which is underway, will highlight that, even with almost £7 billion of assets, the Fund is not currently big enough to pay all of the future pension rights which have been built up by members. The valuation result will be a deficit, and employer contribution rates, which have increased every year since 1993, will continue to climb.

However, we are not alone. Local Authority Pension Funds throughout the UK face the same issues. In fact, Scottish funds, including the Strathclyde Fund are generally in a

stronger position than those in England, but funding deficits and continually rising costs are a common theme. This forms the financial background to the 'Stocktake' review of the Local Government Pension Scheme which has generated much controversy in the last year. The 'Stocktake' is not just about cost; it is also driven by government policy, European law, changing working practices, and in particular long-term economic and demographic changes in the UK.

On pages 2-4 we look at the background and current position, but it's a complex and ever-changing situation and even as we go to press we are unsure of what future course the review will take and when changes will be introduced.

But rest assured staff at the SPFO will do their best to keep members informed through future editions of Fundnews and through updates on our website.

Richard McIndoe  
Head of Pensions



### ANNUAL MEETING

The Fund's 2005 Annual Meeting was held at the Glasgow Royal Concert Hall on 24th June.

Around 250 delegates from trade unions and the Fund's employers attended. The agenda covered presentations and discussion of the various items included in this edition of Fund News including presentation of the accounts and investment report, and a keynote session on possible changes to the Local Government Pension Scheme.

### THIS ISSUE INCLUDES...

- ✧ 2004 Investment Report
- ✧ 2005 Fund Accounts
- ✧ Annual Meeting Report
- ✧ Stocktake Report
- ✧ Combined Benefits Statements insert
- ✧ Your Pension: what you should know
- ✧ Actuarial Valuation
- ✧ AVC information
- ✧ New Chief Pensions Officer
- ✧ Contact information



WHERE SERVICE COUNTS

# 'Stocktake'

Changes to the Local Government Pension Scheme (LGPS) and progress of the "Stocktake" review

## BACKGROUND

The 'Stocktake' review began in 2001. Initially it was the LGPS response to the ongoing increase in average life expectancy and its likely impact on the sustainability of the scheme. The review has largely run alongside the progress of the Government's 2002 Green Paper 'Simplicity Security and Choice: Working and Saving for Retirement' which became the Pensions Act 2004.

The latter stages of the 'Stocktake' will ensure that the requirements of the Pensions Act 2004, the Finance Act 2004 and forthcoming age discrimination legislation are all incorporated within the LGPS.

The review started in England and Wales, but has followed a broadly similar path in Scotland, though with later implementation of the proposed changes.

## PROPOSED CHANGES

Three phases of change were originally planned:

**Phase 1** Simplification, from 1 April 2005

**Phase 2** Revised Retirement Provisions, from 1 April 2006

**Phase 3** the New Scheme, 2008.

### PHASE 1

This focused on the simplification of some of the existing regulations, and introduced some additional requirements including:

- ✦ Each Administering Authority to prepare a Funding Strategy Statement in accordance with guidance prepared by CIPFA;
- ✦ The actuary to take the Funding Strategy Statement into account when setting the common rate of employer contributions; and
- ✦ Benefit statements to be issued annually to all members.

The Phase 1 regulations in Scotland also contain some miscellaneous 'catch-up' provisions to reflect various amendments previously made in England and Wales but not yet enforced here.

### PHASE 2

Included two proposals representing significant changes to existing early retirement arrangements:

- ✦ An increase in the earliest age at which LGPS benefits may be paid (other than on the grounds of ill-health), from 50 to 55
- ✦ Standardising the Normal Retirement Age (NRA) at 65 (including removal of the 'Rule of 85').

### PHASE 3

Launched in Scotland in November 2004 when the Scottish Public Pensions Agency (SPPA) issued a Paper entitled 'Facing the Future – Propositions and Principles for an Affordable and Sustainable Local Government Pension Scheme in Scotland'. This sets out a number of principles and proposals for a 'new-look LGPS' which could be introduced from April 2008. The proposals are wide-ranging and encompass some fundamental changes in areas considered at previous stages of the Stocktake but not included within the first two phases.

## THE PROPOSED NEW SCHEME

This is still a 'Defined Benefit, Final Salary' arrangement with proposed changes including:

- ✦ Increased employee contribution rates
- ✦ Flexible retirement arrangements

You'll be aware of the ongoing 'Stocktake' (or review) of the Local Government Pension Scheme (LGPS). Here Chief Pensions Officer, **Janet Cassidy**, explains what's been happening and looks at the proposed amendments (at the time of printing). But please remember there's still a lot of uncertainty - so things may still change.



- ✦ Revised ill-health retiral arrangements
- ✦ A revised accrual rate (i.e. rate at which pension entitlement is built up)
- ✦ Addition of a defined contribution 'top-up' arrangement.

On adoption of the new scheme it is likely that the existing scheme would terminate and existing LGPS members would be automatically transferred.

The SPPA requested responses to this initial consultation paper from interested parties - employers, trade unions and pension administrators. Glasgow City Council responded formally in its role as administering authority for the Strathclyde Pension Fund.

It's still an ever-changing situation and no doubt there are more changes ahead. It's very likely that the current proposals will be substantially modified before any new scheme is introduced - but we'll keep you up to date through Fundnews and our website [www.spfo.org.uk](http://www.spfo.org.uk). More detailed information on the Stocktake is also available from:

- ✦ [www.lg-employers.gov.uk/pensions/index.html](http://www.lg-employers.gov.uk/pensions/index.html) (the Employers Organisation);
- ✦ [www.xoq83.dial.pipex.com](http://www.xoq83.dial.pipex.com) (Office of the Deputy Prime Minister)
- ✦ or from your Trade Union website.

If you have any concerns or queries contact our Communications Team (postal address on back page) on 0141 287 7416 or e-mail [alistair.gray@fs.glasgow.gov.uk](mailto:alistair.gray@fs.glasgow.gov.uk)

## CURRENT STATE OF PLAY

At the time of going to press the latest position regarding each of the Stocktake phases was as follows.

### PHASE 1

Introduced in Scotland with effect from 30 June 2005.

### PHASE 2

Not introduced in Scotland. Introduced in England and Wales with effect from April 2005, but subsequently revoked in August 2005.

### PHASE 3

Initial consultation closed. Further developments awaited.

## THE WAY AHEAD

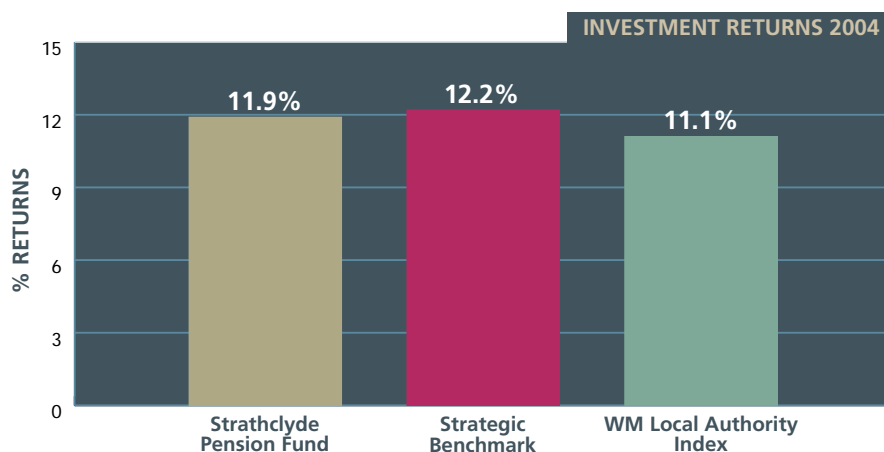
There has already been a substantial re-think of the Stocktake proposals (including revocation of Phase 2 in England and Wales). The review is now being taken forward as follows.

In England and Wales, a committee convened by the Deputy Prime Minister, John Prescott, with input from the Government, trade unions and local government employers, is leading the review. This will have a significant influence on the Scottish position, though in Scotland a separate agreement has been reached between COSLA and the trade unions to work together with the Scottish Public Pensions Agency, to develop future pensions arrangements for Scottish local government which remain both financially sustainable and a valued benefit to the workforce.

# Investment Report

## 2004 Performance

After the negative investment returns of 2000 (-2.5%), 2001 (-9.7%) and 2002 (-15.4%), it is pleasing to report that 2004 produced a second positive investment return for the Strathclyde Pension Fund of +11.9%, following on from the 2003 return of +19.9%.



The Fund's return for 2004 was marginally behind its strategic benchmark return of +12.2%, but was ahead of the average UK local authority pension fund (as measured by the WM Company) which returned +11.1%.

The graph opposite details the performance of the different investment categories in 2004. Property was the strongest performing, returning over 20% for the year. UK Equities had a good year, returning +13.5%. Overseas equities did very well, especially Emerging Markets and the Pacific Rim. Bonds, while reverting to the long-term expectation by returning less than equities, nevertheless produced solid positive returns. All categories produced positive returns for the year.

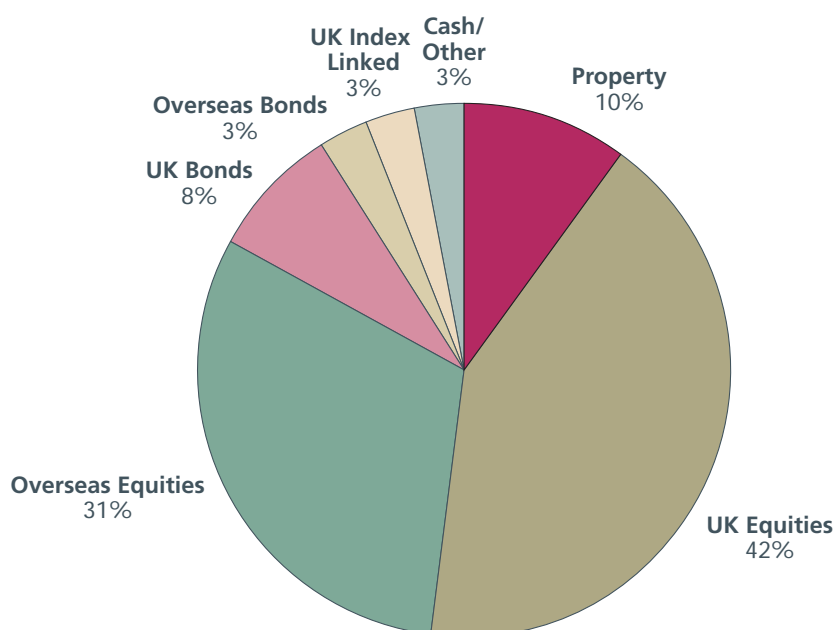
The Long Term Performance table opposite details the performance of the Fund over the last ten years. In the earlier years returns were very strong but the Fund struggled to keep up with the average UK Fund, which was its benchmark at the time. (A ranking below 50 means it was in the bottom half of UK funds.) Since 1999, the Fund has performed better in comparison to the average fund, but the negative returns between 2000 and 2002 mean that all funds have experienced very

## MARKET BACKGROUND

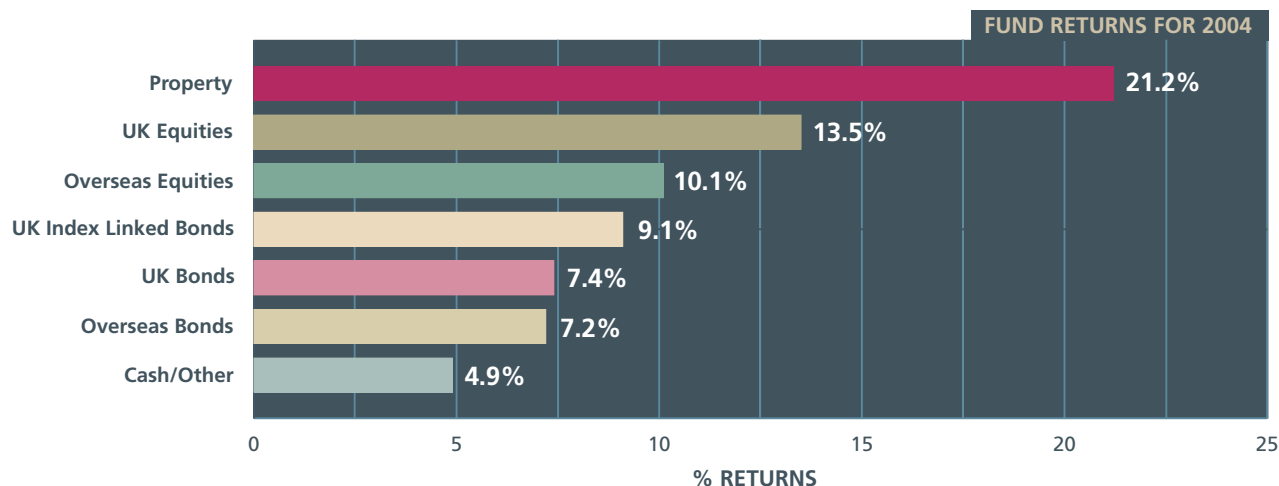
Some of the main themes from 2004 were:

- ✦ Global equity markets made steady progress for most of 2004, then finished with a flourish, to record a very satisfactory year
- ✦ Investors were encouraged with the continuing recovery in many of the world's major economies
- ✦ A rise in oil prices to record highs and central banks increasing interest rates were two factors of concern to investors
- ✦ Throughout the year the US dollar weakened, reaching new lows against the Euro and falling sharply against many other currencies including Sterling
- ✦ Bond markets rallied during the year, largely due to demand for US bonds from Asian central banks regardless of price
- ✦ Bonds issued by companies again outperformed government bonds
- ✦ UK Commercial Property had another exceptional year.

## FUND STRUCTURE AS AT 31 DECEMBER 2004



AS AT 31 DECEMBER 2004  
THE FUND VALUE STOOD AT  
£6,676 MILLION



low growth over the last 3 and 5-year periods. Over the entire 10-year period returns remain pretty good, well ahead of both price and wage inflation and in line with the average pension fund return.

Looking ahead, a further review of the investment strategy and structure is planned once results of the 2005 actuarial valuation are finalised.

Regular reports on the investment performance and management of the Fund are considered by the Strathclyde Pension Fund Sub-Committee and are available from the SPFO and Glasgow City Council websites [www.spfo.org.uk](http://www.spfo.org.uk) and [www.glasgow.gov.uk](http://www.glasgow.gov.uk)

## INVESTMENT STRATEGY

The fund runs a diversified investment strategy - i.e. it spreads its investments very widely to reduce risk.

Investments are spread across different asset types, countries, sectors, companies and investment managers. The investment objective is to deliver long-term returns which exceed the growth in liabilities - i.e. the cost of pensions. The strategic benchmark is designed to achieve this.

Day-to-day investment decisions are made by external investment managers. The Fund currently has 11 investment manager appointments.

There were no changes in the last year.

## STRATHCLYDE PENSION FUND

### FUND ACCOUNTS

2003/04 £000	FUND INCOME	2004/05 £000
79,460	Contributions receivable from employees	86,011
181,888	Contributions receivable from employers	204,686
15,534	Additional contributions from employers	12,080
41,121	Transfers in	31,494
219	Other income	235
<b>318,222</b>	<b>Total member income</b>	<b>334,506</b>
	<b>FUND PAYMENTS</b>	
192,325	Pensions	200,462
31,344	Lump sums	33,461
1,548	Refund of contributions	1,860
25,272	Transfers out	23,948
2,728	Administrative and other expenses	3,047
<b>253,217</b>	<b>Total member payments</b>	<b>262,778</b>
<b>65,005</b>	<b>Net addition from dealings with members</b>	<b>71,728</b>

*Pensions and other payments continue to be met from current income, so there was no need to draw down cash from investment portfolios during the year.*

### RETURN ON INVESTMENTS

163,690	Investment income	164,444
(9,889)	Investment management expenses	(12,184)
(1,313)	Overseas tax	(2,139)
1,125,545	Change in market value of Investments	601,297
<b>1,278,033</b>	<b>Net returns on investments</b>	<b>751,418</b>
<b>1,343,038</b>	<b>Net decrease in the Fund during the year</b>	<b>823,146</b>

### ASSETS STATEMENT

4,823,390	Opening net assets of the Scheme	6,166,428
1,343,038	Asset movement during the year	823,146
<b>6,166,428</b>	<b>Closing net assets of the Scheme</b>	<b>6,989,574</b>

*The Fund recorded a closing balance of just under £7 billion.*

Overall the Fund accounts are very positive with strong income flow, very strong capital growth and a closing value higher than at any time previously. It should be noted, though, that the pension fund accounts show assets only. Liabilities are not shown in the accounts but in the three-yearly actuarial valuation.

## PERFORMANCE - LONG TERM

											Annualised		
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	3yrs	5yrs	10yrs
Retail Prices	3.2%	2.5%	3.6%	2.8%	1.8%	2.9%	0.7%	2.9%	2.8%	3.5%	3.1%	2.6%	2.7%
Average Earnings	2.9%	4.9%	4.7%	4.1%	6.2%	4.5%	2.1%	4.1%	3.4%	3.5%	3.7%	3.5%	4.0%
Fund Benchmark	-	-	-	-	28.3%	-4.3%	-10.0%	-16.5%	20.9%	12.2%	3.9%	-0.7%	-
Fund Return	16.9%	10.4%	14.8%	13.0%	28.2%	-2.5%	-9.7%	-15.4%	19.9%	11.9%	4.3%	0.0%	7.9%
WM All Funds	19.1%	10.7%	16.8%	14.0%	21.3%	-1.3%	-8.9%	-13.9%	17.0%	11.2%	3.9%	0.1%	7.9%
Fund Ranking	91	68	73	57	7	64	43	35	18	23	19	40	-

# Actuarial Valuation



**Lynn Brown is Glasgow City Council's Director of Financial Services. With responsibility for the financial wellbeing of the Fund, Lynn explains what's involved in the three-yearly actuarial valuation of the Local Government Pension Scheme, which is currently underway.**

"Conducting the valuation is a massive exercise. It involves analysing data for each of the 160,000 plus members and estimating the future cash flow income from contributions, and outflow on pensions which the Fund will experience. The valuation looks a long way into the future. We don't have perfect foresight so the process is based on best estimates rather than absolute certainty.

The detailed results won't be available before the end of this year, but we know already that the overall

result will be a deficit funding position – the first time since the 1970s. We also know that the actuary's recommendation will be that employers, who already pay 2A times as much as employees, continue to increase their contributions into the Fund and employers have already been advised of the likely increase."

**Full details of the valuation results will be published in next year's Fundnews.**



## Your Pension

### WHAT YOU SHOULD KNOW

**Pensions have been a 'hot topic' in the news for some time now. And as you probably know the rules and regulations (issued by the Scottish Executive) relating to the Local Government Pension Scheme are currently being reviewed.**

Alistair Gray and his Communications Team, based at the Pension Fund Office in Queen Street, Glasgow, regularly respond to enquiries and meet contributors and employers to keep everyone informed and up-to-date with what's going on. Here Alistair reveals some of the most frequently asked questions about the review and highlights what you should know about your pension.

#### **Why is the Local Government Pension Scheme (LGPS) under review?**

The objective is to ensure the long-term affordability and sustainability of the Scheme.

#### **Why now?**

The review, known as the 'Stocktake', started in 2001 when it was becoming clear that the Scheme was going to run into difficulties. So far there have been various rounds of discussion and consultation. These have already led to some rule changes, but more can be expected.

#### **What's the problem with the Scheme?**

The LGPS remains a very good scheme for members. The problem is that it has become more and more costly for employers for two main reasons. General improvements in health have meant that people are living longer which means they receive a pension for longer, so the cost of providing the pension is greater. And, as inflation has been brought under control, investment returns

have reduced (in the same way as interest rates on savings accounts have been cut). So the Fund that pays the pensions has to be bigger. So far, these increased costs have been met by employers who have paid more into the Fund each year – but this presents some problems.

#### **In what way?**

The employers are mostly Councils so the increased costs have to be met either from Council Tax, from increased government grant or from reduced spending elsewhere.

#### **What's the alternative?**

The cost base could change either by reducing the pension benefits payable, paying them later, or transferring some of the cost on to employees. The review has looked at all of these options and proposed elements of all three (and also some improvements).

#### **But what about the "pensions promise"?**

**I thought my pension rights were fixed and couldn't be changed.**

This is where it gets difficult. The rights you have paid for to date shouldn't change, but I'm not sure there was ever a guarantee that nothing would ever change. Clearly there are issues about the timing of changes and protection of existing members' rights, and that's why the Government is reconsidering the original proposals. But change at some point still seems likely.



#### **So what happens next?**

Right now it's hard to know. The Government has now revoked the main changes, which had come into effect in England and Wales (they were never implemented in Scotland), and has promised to take a fresh look at the proposals. The Deputy Prime Minister has begun to convene discussions between employers, trade unions and the Government. Also still on the table is a proposed 'New Scheme' to take effect from 2008.

It's likely to be a while before things become clearer or before anything changes. But there will certainly be changes at some point and we'll do our best to keep scheme members informed.

#### **What about the Strathclyde Pension Fund? How's it doing?**

The Fund's investments are doing pretty well 2003 and 2004 were good years. The Fund has recovered all the losses it made when markets were falling in the previous three years, and has a current value of over £7bn. But the real 'health-check' comes in the actuarial valuation, currently being conducted which will confirm the funding level and the future employer contribution rates. It's not possible to predict the exact outcome of the valuation, but the results for English and Welsh local authority funds, which were valued last year, have been falling funding levels and further increases in employer contribution rates because of the factors mentioned above. These factors will also have an impact on this year's valuations in Scotland.

#### **Who should I contact for more information?**

Contact me, **Alistair Gray, Senior Communications Officer, Strathclyde Pension Fund Office, Charlotte House, Floor 2, 78 Queen Street, Glasgow G1 3DN. Phone: 0141 287 7416. E-mail: [alistair.gray@fs.glasgow.gov.uk](mailto:alistair.gray@fs.glasgow.gov.uk)** And if I'm not available one of my team will be able to assist you.



WHERE SERVICE COUNTS

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## Do you have a shortfall in your pension service?

Will your retirement income be sufficient?

Do you know that with the maximum 40 years' pensionable service with the Local Government Pension Scheme (LGPS) you can expect to retire on half your final salary? If you're not on track to achieve that goal you might want to take action now.

Says Senior Communications Officer, Alistair Gray, "During the last six months over 500 members have taken action to boost their pension at retirement by applying to make additional voluntary contributions (AVCs) to our selected AVC provider, Prudential. That means over 4,000 members are now taking this course of action to improve their pension.

The increased uptake may be partly due to the new easy-to-join facility allowing you to join quickly over the phone."

To join, or to request an information pack call the Prudential AVC helpline on 0845 607 0077. (Calls are charged at local rates and lines are open between 8am-9pm Monday-Friday and 9am-1pm on Saturdays).

### LOOKING AHEAD

Future changes to the rules governing AVCs are imminent and could lead to the following:

- ✦ No more restrictions on the amount that can be paid as AVCs
- ✦ Members, previously unable to make AVCs because their benefits at retirement were at, or close to, the maximum allowed by the Inland Revenue may be able to do so
- ✦ Members may be able to take at least 25% of the accrued AVC fund as tax-free cash at retirement (presently the whole fund must be used to buy a pension either from the Fund or an annuity provider).

Alistair and his Communication Team will keep members informed of any changes.

## New Chief Investment Officer



With the rules and regulations relating to pensions becoming increasingly complex, the Fund last year created a new post of Chief Pensions Officer (Investments). In July, David Crum was appointed with responsibility for overseeing the Fund's investment arrangements. Says David, "It's been a very interesting year, with the profile of pensions having never been higher. It's also been a very busy year for me, working on a number of reviews of policy and process. While the Investment Report covers 2004, our main focus remains on the long-term investment performance of the Strathclyde Pension Fund."

## Help us improve

If you have any comments or suggestions that you feel will help improve the content of our newsletter please let us know. Feedback from Fund members is very important to us and will enable us to shape future issues of Fundnews to your requirements.

Please write to:  
Alistair Gray, Senior Communications Officer,  
Strathclyde Pension Fund Office, Charlotte House,  
Floor 2, 78 Queen Street, Glasgow G1 3DN

E-mail: [alistair.gray@fs.glasgow.gov.uk](mailto:alistair.gray@fs.glasgow.gov.uk)

## Benefit Statements

Chief Pensions Officer, Janet Cassidy, has overall responsibility for all areas of pensions administration within Strathclyde Pension Fund Office.

Janet has enclosed a separate letter with this edition of Fundnews, and explains "In recent years we have adopted the practice of issuing regular Benefit Statements to all members advising of their likely future pension from the Strathclyde Fund. We now plan to issue these statements annually to all members, and to improve them by also providing details of each member's likely state pension. To allow us to do this we have to issue the enclosed notice to all members.

You should only respond to the notice if you do NOT want to receive a Combined Benefit Statement."

 [www.spf.org.uk](http://www.spf.org.uk)

## Moving House

If you have moved house recently did you notify the Strathclyde Pension Fund Office?

As the Pension Fund Office is committed to keeping you fully informed about your pension rights, we need to have your current home address on file.

All changes of address should be notified to:  
Strathclyde Pension Fund Office, Charlotte House,  
Floor 2, 78 Queen Street, Glasgow G1 3DN.

Alternatively you can e-mail the Strathclyde Pension Fund Office: [spfo@fs.glasgow.gov.uk](mailto:spfo@fs.glasgow.gov.uk)

**PLEASE REMEMBER TO QUOTE YOUR NATIONAL INSURANCE NUMBER ON ANY CORRESPONDENCE, AS THIS IS THE KEY TO YOUR PENSION RECORD.**

## Any Questions?

If so please contact the Strathclyde Pension Fund Office.

To try to prevent you being passed from one phone extension to another please use the phone number listed for your employer. If employer is not listed then use the General Enquiries number.

 **0141 287 7420 (General Enquiries)**

If you work in:

- ✦ Glasgow City Council
- ✦ East Dunbartonshire Council
- ✦ East Renfrewshire Council
- ✦ Strathclyde Fire Brigade
- ✦ Strathclyde Buses
- ✦ Scottish Water.

 **0141 287 7341**


If you work in:

- ✦ South Lanarkshire Council
- ✦ North Ayrshire Council
- ✦ South Ayrshire Council
- ✦ West Dunbartonshire Council
- ✦ Strathclyde Police.

 **0141 287 7342**

If you work in:

- ✦ North Lanarkshire Council
- ✦ Argyll & Bute Council
- ✦ East Ayrshire Council
- ✦ Renfrewshire Council
- ✦ Inverclyde Council
- ✦ Strathclyde Passenger Transport.

 **0141 287 7343**