

# FUNDNEWS 2 12



## IN THIS ISSUE –

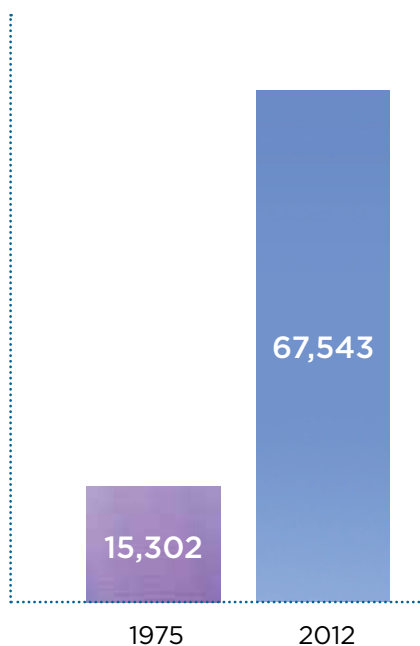
- 02** – *Welcome to Fundnews*
- 03** – *Changes to the LGPS*
- 04** – *Linking up: look into it now*
- 06** – *Telling us who you want to receive benefits after you die*
- 07** – *Using your annual benefit statement to check you don't breach tax limits*
- 08** – *Scheme year 2011 / 2012*
- 09** – *Investments*
- 10** – *Fund accounts*
- 11** – *Actuarial valuation*
- 11** – *Involving our stakeholders*
- 12** – *Thank you and goodbye*
- 12** – *Contacting us: please tell us if you move*

# WELCOME TO FUNDNEWS



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

NUMBER OF  
PENSIONERS



## IT PAYS TO STAY IN THE LGPS

This is my last newsletter for employee members as I am retiring soon.

In many ways it does not seem a long time since I joined SPFO in 1974, but the reality is that our office today is unrecognisable from those days.

One thing has not changed since 1974 though: the Local Government Pension Scheme (LGPS) is still one of the best pension schemes in the UK.

That fact will be all the more important after I retire because more changes are coming.

“Automatic enrolment” represents the biggest change to pensions in a generation.

If you work for one of our largest contributing employers, your employer will be writing to you about it in 2013. As it is being phased in gradually, your employer may not write to you about it for a couple of years if you work for a smaller employer.

At SPFO we are hoping that automatic enrolment will provide an impetus for those who have not taken advantage of the LGPS to join it. It should not affect you.

I had no choice about joining the LGPS in 1974, but I have never regretted joining, and, as I look back now, staying in the LGPS has been the best thing ever for my finances.

## 1974 - 2012

Another thing that has not changed since 1974: our desire to do our very best to make sure that:

- when you retire you have all the information you need about your pension
- we pay your lump sum as soon as you retire
- we add you to the pensions payroll from the next month

## THEN

- pensions administration was largely paper based
- pensioner members were a fraction of employee members
- men and women were treated quite differently

## NOW

- we are making increased use of digital communications, such as email and our website, and we plan to do more of this
- we pay 67,543 pensions each month
- all employee members can nominate a cohabiting partner

# CHANGES TO THE LGPS

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The Public Service Pensions Bill of September 2012 proposes changes to all public service pensions.

We expect the Bill to be enacted by April 2013.

After which we expect the following changes to have to be made to the Scottish LGPS from April 2015:

- **normal pension age** to rise from 65 to the individual's state pension age for service earned after April 2015
- final pensionable pay to be replaced by **career average pay** for service earned after April 2015
- **service before April 2015 to remain calculated on final pay at date of retirement**
- the introduction of a **cost cap** on employer contributions
- members who are compulsorily **TUPE transferred** to be able to retain membership of the LGPS

We expect that there will be **protection** for members who were within 10 years of 65 on 1 April 2012.

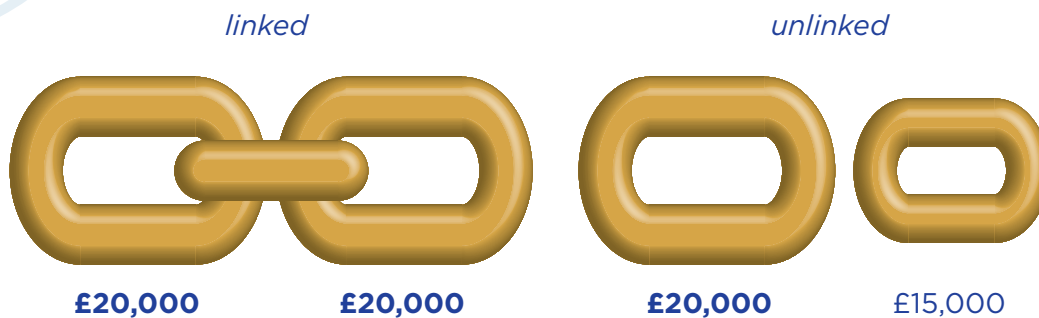
The new 2014 England & Wales LGPS has already been well received, as it not only has an excellent benefit structure but also **does not** increase average member contributions.

Keep checking our website for regular updates about the detailed changes proposed to the LGPS in Scotland.

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# LINKING UP: LOOK INTO IT NOW



## WHAT IS LINKING UP?

If you have a previous period of Scottish LGPS service, you can link that period to your current service.

### Linked

If you link up your deferred benefits to your current service, you will receive one set of retirement benefits, calculated using:

- your total membership (old job plus new job)
- your final year's pay in your new job

### Unlinked

If you do not link your previous deferred benefits to your current service, you will receive two separate sets of benefits on retirement.

The deferred benefits from your old job will normally be based on:

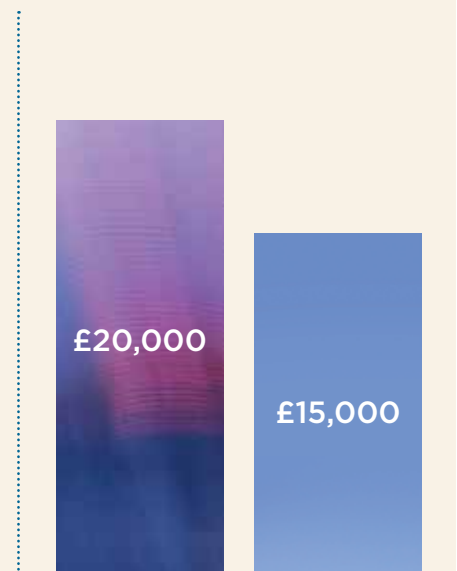
- your membership in your old job
- your final year's pay on leaving that job, increased in line with inflation

## An Example

Let's look at Mr Smith whose full-time equivalent pay in his new job is £20,000 p.a.

His full-time equivalent pay in his old job was £15,000 when he left last year.

In this example it is worth Mr Smith contacting us for more information about linking up. The pay rate in his new job is more than the pay rate in his old job after allowing for inflation.



Retirement benefits from your new job will be based on:

- your membership in your new job
- your final year's pay in your new job

It is not possible to link up a previous deferred benefit to another deferred benefit. You need to be a current active member of the Scottish LGPS to link up a previous deferred benefit.

## WHY SHOULD I LOOK INTO LINKING UP NOW?

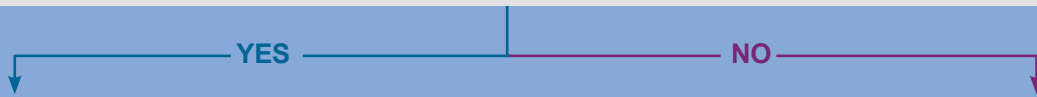
New legislation gives you the opportunity to link up previously unlinked Scottish deferred benefits to current employee membership of the Scottish LGPS.

**But you may lose the right to link up those unlinked benefits, if you do not elect to do so by 31 March 2014.**



**Excluding your current job, have you ever been an employee member of the Scottish LGPS and not linked that pensionable service to your current membership?**

Note: if you took a refund of contributions, follow the 'NO' path below.



**Are you earning more in your current job than in your old job?**

Note: if your deferred benefits have a “certificate of protection” protecting your pay in your old job, that protection will cease if you link up.



**You should look into linking up all of your deferred benefits by contacting us.**

Note: your deferred benefits can relate to any previous period of LGPS pensionable service with any Scottish LGPS Fund, not just previous LGPS service with us.

Remember to consider your own circumstances carefully before you make a decision to link up, as once an election to link up has been made, it cannot be reversed.

**Linking up may not be for you**

But you could look into linking up all of your deferred benefits by contacting us.

**LINKING UP:**

- will count towards your pension annual allowance
- may affect the date you can take your deferred benefits without reduction
- is a decision that should take account of possible changes to your circumstances, pay and inflation

**What about redundancy?**

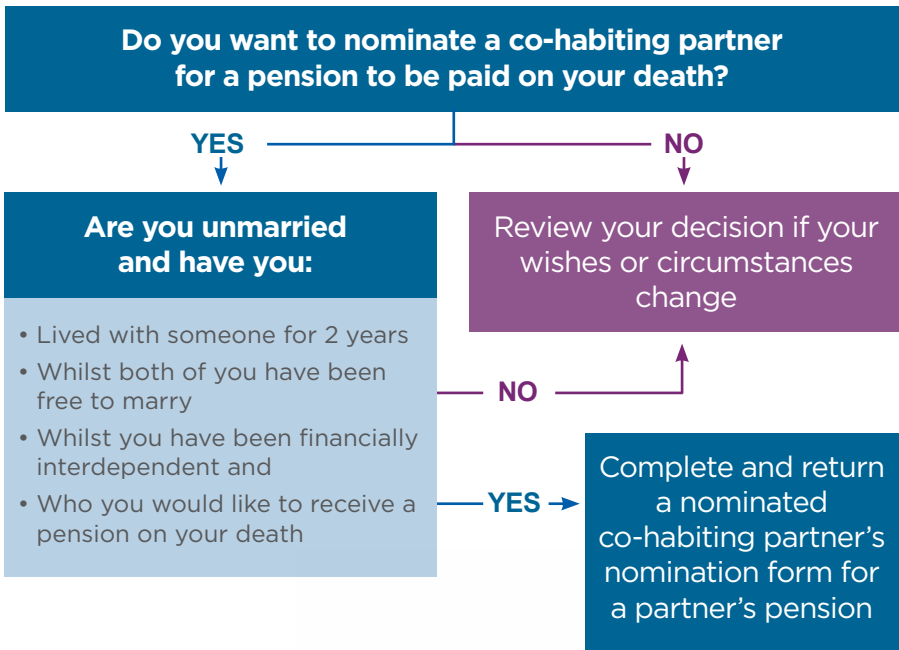
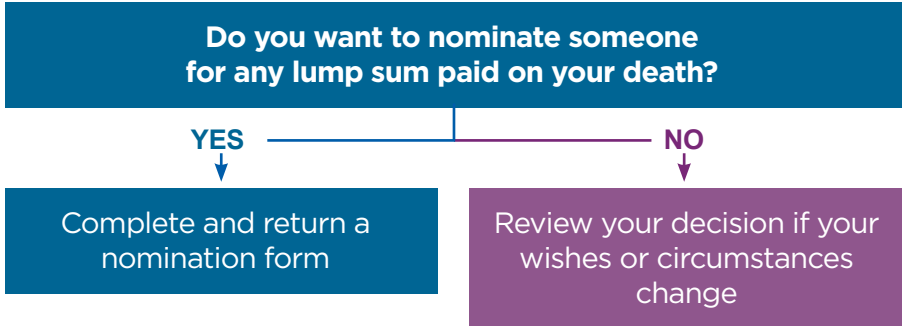
if you keep your deferred benefits separate from your current employee membership and you are offered the chance to retire on redundancy or business efficiency grounds with immediate payment of benefits:

- your benefits will be calculated and paid out on your current membership only
- your previous benefits will remain deferred until you are 60
- if you take your deferred benefits before 65, they may be reduced

# TELLING US WHO YOU WANT TO RECEIVE BENEFITS AFTER YOU DIE

We have ultimate discretion over payments, but you can tell us who you would like to receive any lump sum payable on your death.

If you die whilst in pensionable employment, three times your pensionable pay is paid out as a lump sum in addition to any dependants' pensions that are payable.



Any spouse or qualifying children are automatically entitled to a dependant's pension.

You need to nominate a co-habiting partner for a pension to be paid on your death.

You can guide us as to who you would like any death benefits paid to by completing our expression of wish (nomination) forms available from the employee members area of our website at

<http://www.spfo.org.uk>



# USING YOUR ANNUAL BENEFIT STATEMENT TO CHECK YOU DON'T BREACH TAX LIMITS

One of the many things that make being in the LGPS such a good deal is that you receive tax relief on your contributions.

But there are limits to the taxman's generosity.

These limits do not affect the vast majority of LGPS members.

However, you may be affected if:

- you are on a high salary or
- have had a large increase to either your salary or service or
- if you are making large additional voluntary contributions (AVCs)

Your 2012 annual benefit statement includes two new pieces of information to help you to understand if you are close to the limits:

- annual allowance
- lifetime allowance

You can check for any tax consequences of being in the LGPS by using the LGPS tax valuer on our website.

## ANNUAL ALLOWANCE

The annual allowance field shows the value that your LGPS benefits are deemed to have increased by over the year for tax purposes.

**You should add any AVCs you paid in the scheme year 11/12 to that figure and check the total does not take you over your £50,000 annual allowance.**

Even if it is over the £50,000 limit there may be no tax implications for you as you are able to use up unused annual allowances for 3 years.

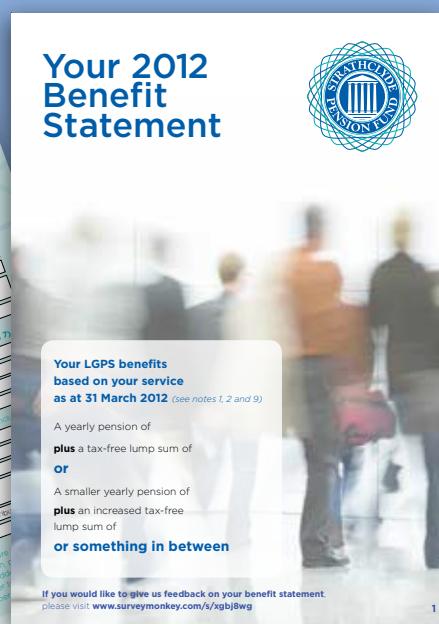
To help you to see whether you have unused annual allowances, we will provide you with more information by 31 Jan 2013 if you have used more than £50,000 of annual allowance in 2011/12.

## LIFETIME ALLOWANCE

The lifetime allowance field shows the total value of your LGPS benefits.

You should add the value of any other pensions to that figure and check the total does not take you near to your £1.5m limit (that is only a £1.8m limit if you applied for "fixed protection" of your lifetime allowance before 5 April 2012).

If it does take you near to your £1.5m limit, you should take financial advice about whether you should remain in the LGPS.





# SCHEME YEAR 2011/2012



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

## A NEW COMMITTEE

*Cllr Paul Rooney  
(Convener)*

*Bailie Philip Braat*

*Bailie Elizabeth Cameron*

*Cllr Stephen Curran*

*Cllr Liam Hainey*

*Cllr Pauline McKeever*

*Cllr Norman MacLeod*

*Bailie Allan Stewart*

The Fund's outstanding achievement during 2011/12 was the completion of the actuarial valuation as at 31st March 2011 confirming a funding level of 97.3%.

Given the economic backdrop against which the valuation was completed this is a very satisfactory position which gives substantial reassurance to scheme members.

The Committee also oversaw the following in scheme year 2011 / 2012:

- a shift from active to passive investment management
- the restructuring of our pensions administration teams
- the introduction of ill health liability insurance for employers

Over the 12 months to 31 March 2012 the Fund's total membership grew slightly from 195,052 to 195,339.

This includes:

- 81,522 employee members (85,261 a year earlier)
- 46,274 deferred members (45,384 a year earlier)
- 67,543 pensioners (64,407 a year earlier)

There was a clear shift from employee to pensioner membership as a result of widespread early retirement programmes.

The Fund's investments grew by 1.1% in 2011/12.

Net assets of £11,451m as at 31 March 2012 represented a new high water mark.

*The membership of the Strathclyde Pension Fund Committee, the key decision making body for the Fund, has changed following the May 2012 local government elections.*

*I remain the Chair and am joined by 4 new members.*

*The 3 continuing members give the Committee continuity and experience, so I'm confident we are well-placed to meet the challenges ahead of us.*

*Following the publication of the Public Service Pensions Bill, I expect that there will be some difficult discussions about public sector pension reform over the coming year. We will continue to be fully involved in these.*

*We will also be thinking carefully about how we manage the impact of the new workplace pensions law ("automatic enrolment").*



**Councillor Paul Rooney**  
Convener,  
Strathclyde Pension  
Fund Committee



# INVESTMENTS

## FUND RETURNS 2011/2012

NET ASSETS AS AT 31 MAR 2011

£11,320 million

NET ASSETS AS AT 31 MAR 2012

£11,450 million

EST NET ASSETS AS AT 31 JUL 2012

£ 11,383 million

## INVESTMENT MARKETS

The past year was once again a turbulent time in financial markets. The major economic event was the European sovereign debt crisis, but financial markets were affected by other developments, including political events in the Middle East and the US credit downgrade.

The UK did not escape unscathed. Continued fiscal austerity and the consequent fall in consumer spending, combined with high inflation, tipped the economy back into recession.

Against this backdrop, the Fund produced a total annual return of + 1.1% for 2011 / 2012.

## LONG TERM PERFORMANCE

Year to 31 March	Mar	Mar	Mar	Mar	Mar	Mar	Mar	Mar	Mar	Mar	3Yr	5Yr	10Yr
	03	04	05	06	07	08	09	10	11	12			
	%	%	%	%	%	%	%	%	%	%	%	%	%
Retail Prices	3.1	2.6	3.2	2.4	4.8	3.8	-0.4	4.4	5.3	3.6	4.5	3.3	3.3
Consumer Prices	1.5	1.3	1.7	1.9	2.9	2.4	3.0	3.2	4.2	3.5	3.6	3.3	2.6
Average Earnings	4.5	4.6	3.8	5.2	5.0	3.8	-2.1	6.1	2.0	0.2	2.7	2.0	3.3
Fund Return	-20.9	26.6	12.4	27.2	7.4	-2.9	-20.8	36.9	7.7	1.1	14.2	2.8	5.8
Benchmark	-22.1	28.0	12.9	26.6	8.1	-3.8	-21.0	41.3	8.6	1.8	16.0	3.5	6.2
WM Average	-18.5	22.6	11.6	24.2	7.0	-1.0	-18.1	30.3	8.1	6.2	14.3	3.9	6.0

Over 10 years, the Fund has achieved an average return of +5.8%, in line with the average UK pension fund and in excess of inflation and average earnings.

Over 3 and 5 years poor performance of the property portfolio and the unconstrained equity strategy has detracted most from returns.

## RESPONSIBLE INVESTMENT

We are established as one of the largest pension funds in the UK and employ a range of professional advisers. These include the UK's leading actuaries, investment managers and legal advisers.

Our current investment objective, strategy and structure are set out in our Statement of Investment Principles that is available from our website.

Our quarterly responsible investment reports are also available from our website.



# FUND ACCOUNTS 2011/2012

“Financial Year 2011/12 saw the Fund more than maintain its value in particularly challenging times, continuing to deliver security for our members”

Paul Murphy, Fund Finance Manager

## *For the years ending 31 March*

	2010/11 £000	2011/12 £000
<b>FUND INCOME</b>		
Contributions receivable from employers	331,702	332,001
Additional contributions from employers	95,384	66,707
Contributions receivable from employees	116,273	109,807
Transfers in	44,446	7,249
Other income	909	1,126
	<b>588,714</b>	<b>516,890</b>
<b>FUND PAYMENTS</b>		
Pensions	283,282	320,557
Lump sums	162,074	135,572
Refund of contributions	957	1,243
Transfers out	18,848	11,083
State scheme premiums	628	937
Administrative and other expenses borne by the Fund	5,353	4,376
	<b>471,142</b>	<b>473,768</b>
Net addition from dealings with members	<b>117,572</b>	<b>43,122</b>
<b>RETURNS ON INVESTMENTS</b>		
Investment income	140,574	154,467
Investment management expenses	(16,371)	(13,459)
Overseas tax	(3,476)	(4,471)
Change in market value of investments	664,826	(49,146)
<b>Net returns on investments</b>	<b>785,553</b>	<b>87,391</b>
<b>Net movement in the Fund during the year</b>	<b>903,125</b>	<b>130,513</b>
ADD: Opening net assets as at 1st April	<b>10,417,247</b>	<b>11,320,372</b>
EQUALS: Closing net assets as at 31st March	<b>11,320,372</b>	<b>11,450,885</b>

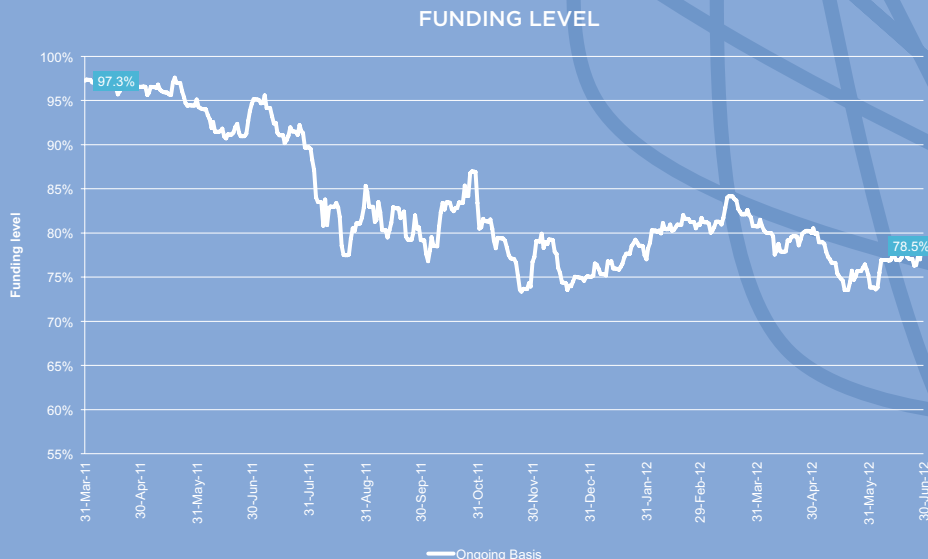
Our annual report provides detailed financial information about our scheme year 2011 / 2012 and is available from our website.

# ACTUARIAL VALUATION

Our actuary conducts an actuarial valuation of the Fund every three years. As at 31 March 2011 their valuation established that the Fund was 97.3% funded.

Our regular monitoring of our funding level indicates how this goes up and down over time.

The full 2011 valuation report is available from our website that also has quarterly updates on our funding level.



# INVOLVING OUR STAKEHOLDERS

We like to involve our stakeholders in everything we do:

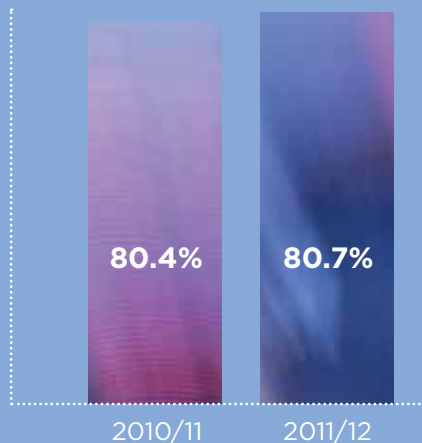
- Our annual meetings are attended by trade union representatives. A full set of the slides used at 2012's annual meeting is available from our website
- Our Representative Forum comprises 5 trade union representatives, 23 employer representatives and 2 pensioner/deferred member representatives.

# THANK YOU AND **GOODBYE**



**Andrew Knox**  
Chief Pensions Officer  
Strathclyde Pension Fund Office  
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## SCHEME JOINERS SURVEY SATISFACTION RATING



I retire knowing that:

- the LGPS will still be a great scheme for those working in local government
- our Fund is one of the best funded in the UK
- our office is in great shape to provide the services our stakeholders require of us

I would like to thank those of you who have taken the time to complete our survey forms, or our online benefit statement SurveyMonkeys or to contact us with suggestions.

We find your feedback invaluable in developing our services and take pride in your satisfaction ratings.

For example, this year's benefit statements detail who you have nominated for any benefits payable on your death, information which you asked for.

I'd like to finish off by wishing you all the best for your future in local government and with your own pension provision.



- ★ shortlisted for Professional Pensions magazine's public sector pension scheme of the year 2012
- ★ winner of the Pensions Research Accountants Group's award for best member newsletters 2012
- ★ special commendation by Engaged Investor magazine for best member newsletters 2012
- ★ special commendation by Engaged Investor magazine for team excellence in pensions administration 2012

## CONTACTING US

Please tell us if you move house

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Ref: Fundnews Oct 2012

**STRATHCLYDE PENSION FUND OFFICE**

MANAGING THE LOCAL GOVERNMENT PENSION SCHEME IN THE WEST OF SCOTLAND