

# Annual Report 2007



SFHA Pension Scheme

## Chair's Statement 2007

I am pleased to present this Annual Report on behalf of the SFHA Pensions Committee.

### **A difficult year – pensions just got even more exciting!**

This last year has been a difficult one for members of the SFHA Pensions Committee and I would like to thank them all for their support, hard work and commitment to serving the interests of the SFHA Pension Scheme and our members and employers. In particular, I would like to thank Jim Michael, who resigned from the Committee in 2007, for his valued contribution to the Scheme over 12 years.

The SFHA Pensions Committee had to complete a major review of the pension scheme, oversee significant change to comply with legislation, and also take difficult decisions to best protect the long-term interests of members and employers. Perhaps the most difficult and certainly the most emotive decision was our agreement to The Pension Trust's proposal to reduce its long-term costs by closing the Edinburgh office – with obvious attendant human cost for the staff involved. As well as these scheme specific issues we have had to be vigilant and react to broader changes affecting the pensions industry and the general economy, particularly the unfolding global 'credit crunch' and stock market declines.

This year's report will concentrate on the following key issues that impact on the future direction of your pension scheme:

- outcomes of the major review of the Scheme;
- results of the 'health check' provided by our latest funding update to 30 September 2007;
- investment performance; and
- closure of the Edinburgh office.

Before turning to these issues, I will review the performance of the Scheme during the past year to 30 September 2007.

### **Another year of growth**

It is pleasing to report that this has been another year of growth and development for our pension scheme and investment performance was also good, as shown below:

- Total membership continued to increase by 3.2% to 7,145 members.
- Net assets of the Scheme rose 15.5% to £310 million.
- Annual contributions receivable increased by 3.1% to £19.8 million.
- A good investment return of 10.5% increased net assets by £28 million.
- Our latest 'health check' funding update to 30 September 2007 indicates that the funding level of the Scheme has improved significantly to 91.8% from 83.4% in the last full actuarial valuation carried out a year earlier.

The improvement in the Scheme's funding level to 91.8% is particularly welcome news as this has significantly reduced the Scheme's deficit.

### **A ringing endorsement!**

Employers in the Scheme have shown strong support for the final salary benefit structure during the major review – a commitment for which the SFHA Pensions Committee wishes to thank them. 100% of employers have elected to retain the final salary 60ths accrual of benefit for their existing employees. 84% of these have elected to retain the final salary for new employees from 1 April 2008, with the remaining 16% electing one of the CARE benefit options.

The provision of decent pensions for our members remains one of the key priorities of the SFHA Pensions Committee and with the continued support of employers our final salary scheme remains open to the majority of new members, while many other final salary schemes in the UK have closed to new members, or indeed, closed even to existing members.

With the major review now complete, the SFHA Pensions Committee and staff of The Pensions Trust have begun the detailed work of implementing the changes.

## **‘Health check’ indicates recovery is ‘on track’**

The funding level of the Scheme is very important. To be clear what this means, with a funding level of 90% the Scheme has a 10% deficit, with a funding level of 80% the Scheme has a 20% deficit, and so on.

Last year I said “it is pleasing to report that the long-term viability of the Scheme, measured by the funding level, strengthened to 83.4% in the latest triennial valuation at 30 September 2006, compared with a rate of 80% three years earlier at 30 September 2003. The funding level measures how much of the pension scheme’s liabilities are covered by its assets, expressed as a percentage. Although this improvement in the funding level may appear small, it is nonetheless significant and encouraging as it marks the first time since the ‘pensions crisis’ beset us that we have witnessed improvement in the Scheme’s long-term funding position. Improvement in the funding level is critical to ensuring the long-term viability of our scheme and the future payment of pensions”.

The news is even better this year! Our latest ‘health check’ funding update to 30 September 2007 indicates that the funding level of the Scheme has improved significantly to 91.8%, from 83.4% at the last full actuarial valuation carried out a year earlier. When the last full actuarial valuation to 30 September 2006 was agreed, and new increased contributions set, it was envisaged that it would take 13.5 years to clear the deficit and reach a 100% funding level. Based on our latest ‘health check’ funding update to 30 September 2007 recovery in the funding position appears well ‘on track’ and the deficit on the Scheme has reduced significantly during the year from £53.5 million to £27.7 million.

However, before too rosy a picture is portrayed we must look at the position post 30 September 2007, as the funding level since then is heavily influenced by stock market movements and bond yields (interest rates) which change daily.

During 2007 an era ended. Gordon Brown, who became Chancellor of the Exchequer in 1997, succeeded Tony Blair as Prime Minister on 27 June 2007. During that era we witnessed a number of

events that had a significant adverse impact on our scheme: a massive stock market bubble and crash – ‘dot com’; the abolition of ACT tax credits on dividends, which cut our scheme’s income significantly – fondly referred to in the media a ‘stealth tax’ on pensions; and an unfolding ‘pensions crisis’. Since 30 September 2007 the new era, with Alastair Darling as Chancellor of the Exchequer, has got off in an inauspicious start. A ‘credit crunch’ has been unfolding, leading to declines in stock markets and a banking crisis with the first ‘run’ on a UK bank in more than 100 years – Northern Rock.

This latest financial turbulence has had an impact on our scheme, but pensions are long-term investments and short-term financial storms can be overcome and pass. Over the next year, or so, the outlook for financial markets and for our funding level appears ‘choppy’, but in the longer term we expect recovery in financial markets and continuing recovery in our funding level.

## **Investment performance**

Our investment performance during the year was good in absolute terms. The return we achieved on the investments of the Scheme outperformed the actuarial assumptions upon which the long-term viability and funding of the Scheme is modelled. This is good news as this outperformance improved the Scheme’s funding level significantly and in turn reduced its deficit.

However, our investment performance was also disappointing, as we underperformed comparative market benchmarks. Our overall return on investments in 2007 was 10.5%, compared with a market benchmark of 11.9%. Members should, however, also remember that we outperformed comparative market benchmarks for all categories of assets in which your money was invested in the previous year with an overall return on investments in 2006 of 12.5%, compared with a market benchmark of 12.2%.

The SFHA Pensions Committee is not responsible for making investment decisions, that is the responsibility of the Trustee Board of The Pensions Trust and, specifically, its Investment Committee. We are, however, responsible for monitoring their investment performance on your

behalf and making sure it is 'up to scratch'. It's not – and in answer to your next question, here's what The Pensions Trust is doing about it.

During the year, The Pensions Trust's Investment Committee reviewed the structure, composition and performance of the managers of the global equity, fixed interest and property funds. As part of this review, the number of managers increased, giving greater diversification to the funds, and some managers were also replaced during the year.

The Pensions Trust informed us that they are hoping for improved levels of performance in the year to 30 September 2008. We will be keeping a close eye on their progress, but we do understand that a turnaround in investment performance takes time to feed through. We also understand that the long-term nature of pension investment requires avoiding exacerbating current difficulties by short-term overreaction.

### **Closure of the Edinburgh office**

The SFHA Pensions Committee reviews the performance of The Pensions Trust periodically, roughly every five years. We have in the past used independent consulting actuaries to confirm that we are receiving a high quality service at a competitive cost from The Pensions Trust, in respect of both administrative and investment services. It goes without saying that we are demanding in achieving excellent service and value for money on behalf of our members and employers.

In the past, The Pensions Trust has reacted to our cost consciousness and that of like-minded customers by investing in more effective IT systems and relocating from London to Leeds and Edinburgh. We benefitted from the reduction in their operating costs which were passed on to us as savings in charges.

The Pensions Trust has a major IT project underway and is implementing a new administration system. The first phase has already been implemented to specification, on time and below budget. This investment has provided scope for significant improvement in efficiency, service to members and employers, and also in costs though the reduction in administration staff numbers.

The SFHA Pensions Committee was asked to accept the reality that efficiency gains from IT investment meant that a large number of administrative staff employed by The Pensions Trust, including staff in Leeds, could be reduced and that all staff could be accommodated in one office – their intention being the Leeds office and the closure of the Edinburgh office. We also accepted that employment, or otherwise, of The Pensions Trust's own staff was a matter for them to decide. Their alternative was to keep the Edinburgh office open and for the cost to be met by the SFHA Pension Scheme, its members and its employers.

We took the decision to agree to the closure and sale of the Edinburgh office. A much smaller office will now be leased in Edinburgh with a small number of staff to maintain customer service to our Scottish-based employers.

Our primary responsibility as a voluntary committee is to ensure the long-term viability of the Scheme and also that our members get a decent pension when they retire. Part of this process is to drive down costs on behalf of members and employers.

### **The road ahead and our priorities**

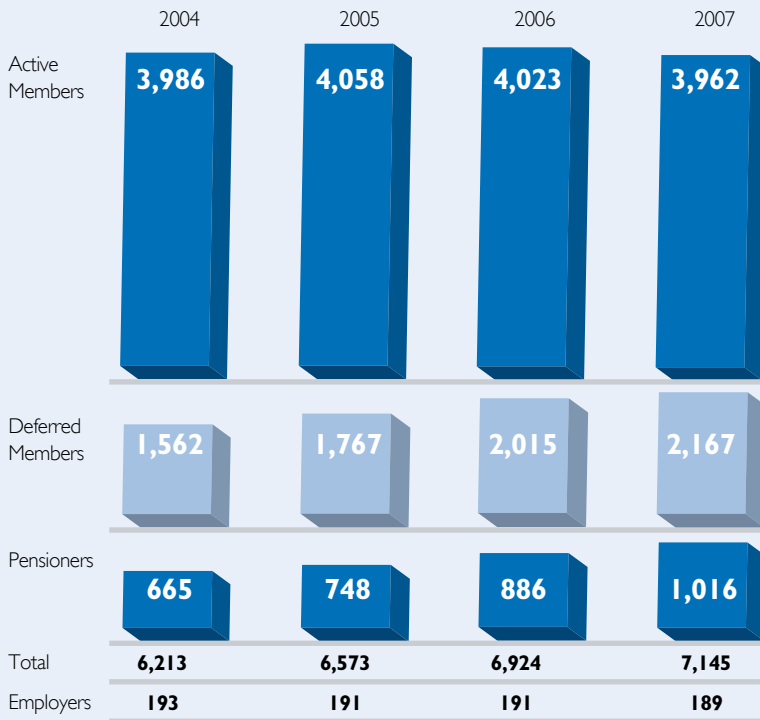
Finally, I would like to thank the staff of The Pensions Trust for the continued progress and successful growth of the Scheme during the year and also a special thanks to our employers and members for their support. This remains a challenging time for pensions. Although difficulties lie ahead, we have made good progress over the past year, and your scheme is more favourably placed to cope with these difficulties than many other pension schemes.

Members can be assured that protection of your scheme and the provision of decent pensions for our members will remain the highest priorities of the SFHA Pensions Committee in the year ahead and beyond.



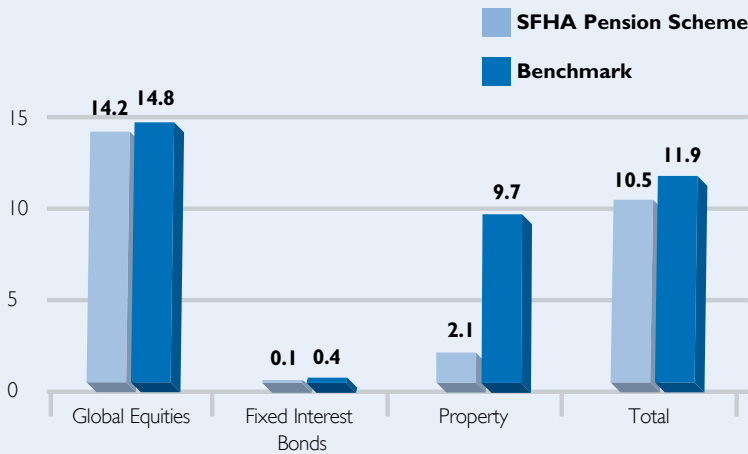
Malcolm MacDonald  
Chair  
27 February 2008

## Membership Growth



The Scheme continues to grow despite general trends pointing to a decrease in pension scheme membership. Membership has increased by 3.2% to 7,145 as at 30 September 2007.

## Annualised Investment Return



The total benchmark shown is the weighted average return of the benchmarks of the component funds. The SFHA Pension Scheme has an investment strategy that is invested 75% global equities, 17.5% in fixed interest bonds and 7.5% in property.

## Fund Statement for the year ended 30 September 2007

	2007	2006
	£'000	£'000
Contributions paid by members and employers	19,818	19,176
Group and individual transfers in	1,548	2,526
<b>Total money in</b>	<b>21,366</b>	<b>21,702</b>
Benefits paid (pensions and lump sums)	(5,938)	(5,184)
Payments to leavers	(873)	(387)
Administrative costs	(705)	(677)
Specific expenses	(97)	(101)
Pension Protection Fund	(152)	(88)
<b>Total money out</b>	<b>(7,765)</b>	<b>(6,437)</b>
<b>Net new money available for investment</b>	<b>13,601</b>	<b>15,265</b>
<b>Return on investments</b>		
Investment income and gains	28,616	28,638
Investment management expenses	(638)	(542)
Net returns on investments	27,978	28,096
<b>Net increase in the fund during the year</b>	<b>41,579</b>	<b>43,361</b>
<b>Fund summary</b>		
<b>At the beginning of the Scheme year</b>	<b>268,418</b>	<b>225,057</b>
<b>At the end of the Scheme year</b>	<b>309,997</b>	<b>268,418</b>

## Net Asset Statement at 30 September 2007

	2007	2006
	£'000	£'000
Global Equities	229,628	198,709
Fixed Interest Bonds	53,862	48,946
Property	22,908	16,649
Total Investments	306,398	264,304
Other Assets	3,599	4,114
<b>Net Assets at end of Scheme year</b>	<b>309,997</b>	<b>268,418</b>

The SFHA Pension Scheme is part of The Pensions Trust and this statement summarises the transactions of the Scheme and its proportionate share of expenses, investment returns and investments. The figures shown in the statement have been extracted from the audited accounts of The Pensions Trust, which were approved at a meeting of the Trustee on 11 December 2007.

The summary report is not intended to be a formal financial statement according with the terms of the SORP (Statement of Recommended Practice) for Pension Schemes. The full Report & Accounts of the Trust and the Scheme are available on request.

## Benefits of the Scheme

As a contributing member of the SFHA Pension Scheme you benefit from the following:

- A pension payable from retirement for the rest of your life, related to your final pensionable earnings at retirement or (for some members) your average earnings in employment.
- Annual pension increases in retirement.
- The option to exchange some pension for a tax-free lump sum on retirement; you may choose the amount (within limits) that best suits your needs.
- Partner's and/or children's pensions if you die before or after retirement.
- Life assurance (of three times your pensionable earnings) if you die whilst contributing to the Scheme (not applicable once contributions cease).
- An immediate pension if you retire due to ill-health (in defined circumstances).
- Retirement age of 65, with the option to take early retirement.
- Lump sum payment to your nominee(s) if you die after leaving the Scheme but before you start to receive your pension, or if you die within five years of commencement of your pension.

## Your Feedback

We welcome members' feedback, if you have any questions, comments or ideas of how we could improve the Annual Report please contact Susan Wardlaw at the address below or email [sfha@thepensiontrust.org.uk](mailto:sfha@thepensiontrust.org.uk)

The Pensions Trust  
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152 Morrison Street  
The Exchange  
Edinburgh  
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## Your Pensions Committee

The Pensions Committee meets at least four times a year to monitor the Scheme. It has responsibility for the successful management and operation of the Scheme in the interests of all members.

The Pensions Committee includes:

- Three individuals elected by members
- Three individuals elected by employers
- Up to three co-opted members

The Pensions Committee members are currently:

Malcolm MacDonald, Govanhill Housing Association

Christine Murphy, Elderspark Housing Association

Kathryn Miller, Manor Estates Housing Association

Sally Inkster, Orkney Housing Association

Ken Tudhope, Atrium Homes

Ahsan Khan, Loreburn Housing Association

Glen Waddell, Ark Housing Association

The Scheme Secretary is Susan Wardlaw, who is based in The Pensions Trust's Edinburgh office.

## Electronic Annual Report

In considering our responsibility to the environment, together with reducing our Scheme costs we are giving members the opportunity to in the future receive a copy of the Annual Report electronically, if you wish. Please email your membership details noted below, to [sfha@thepensiontrust.org.uk](mailto:sfha@thepensiontrust.org.uk)

- Membership Number
- Name
- Email Address
- Date of Birth (if you do not have your Membership Number)



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