

Annual Review

Social Housing Pension Scheme



Year to 30 September 2003



Chair's Statement

Welcome to the Annual Review of the Social Housing Pension Scheme (SHPS) for the year to 30 September 2003.

Over the past year pension schemes have continued to encounter a range of important issues. People are living longer and their pensions are therefore payable over an extended period. This involves additional costs. However investment performance in recent years has been disappointing.

Within SHPS, your Scheme, concerted action is being taken to address these issues and to meet the associated challenges.

Key positive features of the past year include:

- an 8% growth in membership, bringing total membership to 41,922
- strong investment performance (0.6% ahead of the benchmark)
- a major consultation with Members and Employers
- an increase of 13.5% in contributions
- growth of 24.9% in Scheme assets to over £800 million.

The consultation on benefits and funding, undertaken with Members and Employers, provided important results. There is strong support to maintain the present range of benefits, but a clear understanding that the related costs must be shared. However concerns are now evident regarding any further cost increases. It is therefore pleasing to report a return to positive investment performance in the first year following the Scheme's valuation. The return of 15% has helped to stabilise our solvency position. It is hoped to report a continuing positive trend in the next Annual Review.

The SHPS administration team remains committed to high quality and performance. Service targets were 100% achieved during the year; and the agreed service standards have been further improved for 2003-04 (copies available on request). Our customer surveys demonstrate high satisfaction levels. We shall endeavour to respond positively to requests for better information provided in clear easy-to-understand terms.

Finally, I would like to thank my fellow Committee members for their time freely and willingly given. At the year-end Edward Russell and Joy Uings formally retired from the Committee; however Joy will be continuing as a co-opted member of the Committee from October 2003. We express our sincere thanks to Edward who served on the Committee for six years.

A warm welcome is extended to Douglas Cuthbertson and Richard Sheppard as new elected members from October 2003.

The Committee looks forward to working with you in the coming year to consolidate and build on the established strengths of the Social Housing Pension Scheme.



Alister Green
Chair, SHPS Pensions Committee

Other Issues

Scheme Valuation

During the year a formal valuation of the Scheme, which is undertaken every three years, was completed. The valuation measures the Scheme's liabilities i.e. the future costs of providing Members' pensions and other benefits. The Scheme's assets are then valued to determine if these are adequate to meet the liabilities. At 30 September 2002, the date of the valuation, there was a 15% shortfall (funding deficit), equivalent to £117 million.

There were two main reasons for this position. Due to the decline in world stock markets the value of the Scheme's assets (investments) had fallen. However another important reason is that life expectancy is improving and people are living longer. Pensions therefore need to be paid for extended periods. This significantly increases the liabilities or costs of the Scheme. These are difficulties which are being experienced by many pension schemes.

In recognition of the major issues a full and open consultation was held with Members and Employers during May and June 2003. The Committee was delighted with the level of response and thanks all those who took time to reply. We received a strong mandate to retain current benefits. There was agreement to share the additional costs between Members and Employers.

The Members' contribution rates will increase by 1.1% from April 2004. The new rates will range from 4.1% to 6.1% dependent on age. The Employers' contribution rate will also increase by 1.1% to 11.7%.

Looking to the Future

One option put forward in the consultation was to reduce future costs by limiting the basis for calculating the ill health early retirement pension. The feedback received was mixed and no final decision was taken. However further consideration is to be given to the provision of this benefit.

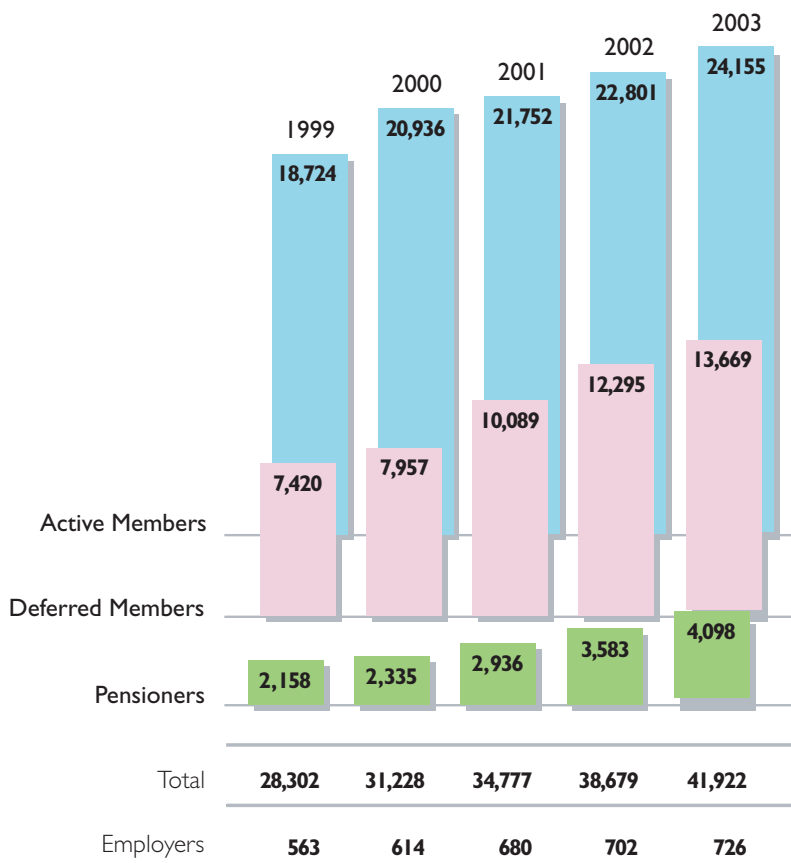
Additionally a number of Members have raised issues suggesting greater flexibility and choice in Scheme benefits. The Committee will review these issues in greater depth. Account will also be taken of the important changes to pensions to be introduced by Government in 2005.

Your Committee will keep you updated on all these matters.

Benefits of the Scheme

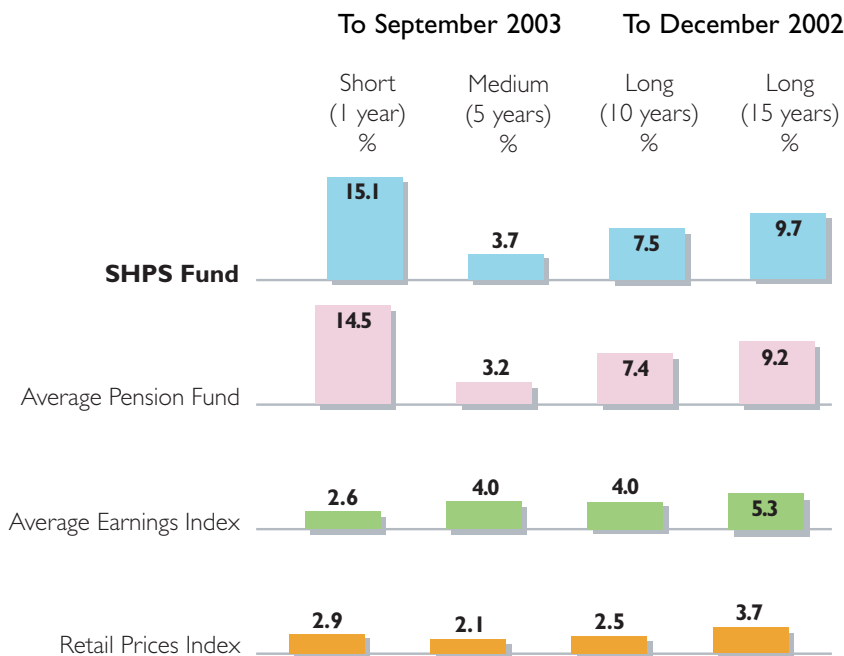
As a contributing member of the Social Housing Pension Scheme you will benefit from the following:

- a pension payable from retirement for the rest of your life, related to your salary at retirement
- 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
- the option to exchange some pension for a tax-free lump sum – you may choose the amount (within limits) that best suits your needs
- annual pension increases in retirement in line with inflation up to 5%
- a 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 retiring.



Membership of the Scheme

Total membership of the Scheme continues to grow and has increased by 8% to 41,922 members.



Investment Results

The table shows the investment performance of the Social Housing Pension Scheme over the 12 months to 30 September 2003 and the longer term.

The one-year performance is above benchmark.

Performance over the medium and long-term continues to compare favourably with the average pension fund.

The Committee will continue to monitor the investment performance of the Scheme.

Fund Statement For the year ended 30 September 2003

The Social Housing Pension Scheme is an integral part of The Pensions Trust. This statement summarises the transactions of the Scheme and its proportionate share of expenses, investment return and investments. The figures shown in the statement have been extracted from the audited accounts of The Pensions Trust which were approved by the Trustees on 16 December 2003. *This summary report is not intended to be a financial statement within the terms defined by SORP (Statement of Recommended Practice for Pension Schemes).*

	2003	2002
	£000	£000
Contributions paid by members and employers	73,574	64,795
Transfers-in	16,294	37,354
Total money in	89,868	102,149
Benefits paid (pensions and lump sums)	(17,158)	(14,452)
Payments to leavers	(6,804)	(6,951)
Administrative costs	(3,090)	(2,785)
Total money out	(27,052)	(24,188)
Net additions from dealing with members	62,816	77,961
Return on investments		
Investment income (after management expenses)	10,048	9,587
Change in market value of investments	89,162	(99,636)
Net returns on investments	99,210	(90,049)
Net increase/(decrease) in the Fund during the year	162,026	(12,088)
Net assets of the Scheme		
At the beginning of the Scheme year	649,519	661,607
At the end of the Scheme year	811,545	649,519

Transfers-in for 2002 include £24,234,000 arising from the transfer into the Scheme of Notting Hill Housing Trust.

Looking after your Scheme

The SHPS Pensions Committee (as at 30 September 2003)

Alister Green

Chief Executive,
Bield Housing Association

Colin Small

Group Finance Director,
Festival Housing Group

Edward Russell

Pensioner

Hugh Jones

(Nominated by the WFHA)

Ian Wheeler

Care Manager,
Granta Housing Society

Joy Uings

Finance Manager,
People First Housing Association

Nick Horne

Managing Director,
Knightstone Housing Association

Stephen Duckworth

(Nominated by the NHF)

Tiyani Behanzin

Independent Housing Management and
Development Consultant

Professional Advisers & Bankers

Actuarial Consultants

Watson Wyatt LLP
(to 30 September 2003)

HSBC Actuaries and Consultants Ltd
(from 1 October 2003)

Scheme Actuary

Peter Lofthouse of Watson Wyatt LLP
(to 30 September 2003)

Steven Robinson of HSBC Actuaries
and Consultants Ltd
(from 1 October 2003)

Auditors

KPMG LLP

Solicitors

Mayer, Brown, Rowe & Maw LLP
McGrigor Donald

Bankers

The Royal Bank of Scotland plc

Investment Managers

Legal & General Investment
Management Ltd

Fidelity Pensions Management Ltd

Barclays Global Investors Ltd

Capital International Ltd

Henderson Global Investors Ltd

Property Investment Managers

CB Richard Ellis Investors Ltd

Investment Consultants

Watson Wyatt Investment Consulting

Mercer Human Resource Consulting Ltd

Custodians

The Northern Trust Company
(inc Illinois)

Mayer, Brown, Rowe & Maw LLP
(for property deeds)

Measurement of Investment Performance

The Northern Trust Company
(inc Illinois)

The WM Company Ltd

Custody Consultants

Chatham Partners

Pension Consultants

SBJ Benefit Consultants Ltd

Administered by



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