



# The SFHA Pension Scheme Review of the Year 2002

## Chairman's Statement

**The Context:** In some past years, writing this Chairman's Statement has been made difficult by a lack of noteworthy events and a lack of public interest in pensions matters – no such difficulties this year (but for the wrong reasons).

Events and issues in the pensions field in 2001/2002 were so numerous that they are listed elsewhere, and I shall simply reflect on the main implications for our scheme.

**Investment Fund Values:** The collapse in stock markets following events on September 11th 2001 continued and deepened during the year. In the long term this puts pressure on pension scheme viability, but there is plenty of time for action if required. In the short term it affects ability to comply with regulatory funding ratios, but the current situation is considered acceptable.

The position was materially improved when, following our major scheme financial review, the Committee's decisions on contributions and scheme changes became effective on 1st April 2002.

The good news is that the first of the new interim valuations of assets and liabilities as at that date confirmed that the action taken was adequate, and that even with the fall in investment market values no further changes were required at present.

The bad news is that stock markets continued to decline. The harmful effects are mitigated, however, by our scheme being relatively 'young', with a very strong cash flow. We therefore do not need to sell assets in these depressed markets to pay current pensions. Indeed, the low share prices increase prospective yields on new investment.

So I can simply repeat the mantra that pensions finance is a long-term issue. The present position is being watched very carefully, but gives no cause for fundamental concern.

**The Pensions Environment:** The prominence given by the media to pensions problems during the year has raised pensions issues to the forefront of public and trade union concerns.

Continuing news of the flight from 'final salary', an increasing distrust of financial institutions and stories of pensioners facing acute financial hardship following scheme closures and company liquidations have all caused fear and uncertainty about financial wellbeing in retirement.

Scare stories abound. The Government has finally admitted that there is a 'pensions crisis', although giving little confidence or prospect of effective future pensions strategies.

The recent revelation of pressures on public finances eliminates any hope of reversal of the ill-judged tax increases from 1997 which took billions of pounds from pension schemes and helped to precipitate and aggravate the current 'pensions crisis'.

The Government's year was marked with a series of pension and investment reviews, reports and consultations, although the promised autumn Government Green Paper and tax proposals had not appeared by our September year end.

**The Pensions Committee's Response:** The Pensions Committee agreed a strategic approach to the continuing protection of 'final salary' status and core benefits in preparation for anticipated changes in Government and Inland Revenue

## Chairman's Statement continued...

policies. It applied to join the National Association of Pension Funds (NAPF), to assist its assessment of proposed changes in tax and regulation.

**Security of Pension Provision:** Analysis and professional advice indicate that the position of the scheme remains satisfactory. The Pensions Committee and its advisers are monitoring matters very closely. It will act promptly to address any concerns.

It may be reassuring to bear in mind that a collective housing association pension scheme like ours has structural aspects which increase security. The collective principle avoids dependence on a single employer. Housing associations normally have good residual asset values, are highly regulated and are socially responsible. In any last resort there can be merger or transfer of properties and staff, and our scheme enables members to move freely between participating employers with full protection of their 'years of service' entitlement. So the structure within which the scheme operates reinforces the security offered by careful and responsible pensions management.

The collective nature of the scheme also offers advantages to employers in their compliance with FRS17 accounting requirements.

In view of current media concern about pension scheme closures, I can point out that the indicated total of SFHA Pension Scheme members at 30th September 2002 was 5,478, and of these only 18 were members of schemes which were closed – mainly as a result of transfers and mergers.

This bears witness to the continuing support of participating employers, whose number has increased to 192, and who should be given full credit for their commitment to this crucial element in staff care.

**The Future of Pensions:** In this area almost the only certainty is future uncertainty. As the year ended we awaited the issue of the Government's Green Paper and Inland Revenue tax proposals,

which could fundamentally affect the future pensions environment.

These documents were issued in December 2002, against a background of continuing falls in stock markets. We therefore include with this annual review a 'Postscript' section to bring members right up to date on current issues.

**Thanks and Appreciation:** I record my thanks to fellow Committee members, employees of The Pensions Trust, employers and others who have helped and supported the pension scheme during an eventful year.

In particular I express my thanks and appreciation to Jacki Johnston, our former Scheme Secretary, and a welcome to Susan Wardlaw, who succeeded her in the post.



Jim Wilson, April 2003

### Summary of Key Points:

- Keen media and government interest in pensions matters.
- Stock markets continued to decline.
- SFHA Scheme Review changes effective 1st April 2002.
- Interim valuation confirmed position satisfactory.
- SFHA Pension Scheme cash flow very strong.
- No need to sell scheme assets in depressed markets.
- Scheme gives no cause for fundamental concern.
- Committee strategy to protect 'final salary' status.
- Housing association context adds to security.
- 5,478 members (only 18 in closed schemes).
- Participating employers increased to 192.
- Green Paper and tax proposals awaited at year end.

## What happened during the year?

### External Events

- Stock market collapse continues
- Asset values and funding ratios affected
- Continuing flight from 'final salary' principle
- High profile pension scheme closures
- Low uptake of stakeholder pensions
- Increasing media attention to pensions problems
- Government admits 'pensions crisis'
- Public finances under pressure
- Public concern over pension security
- Trade Union concern; talk of industrial action
- Myners Review of Institutional Investment
- Sandler Review of Savings Products
- Pickering Report on Pensions Simplification
- Still awaited at year end:  
Government Green Paper  
New Inland Revenue tax proposals

### Internal Events

- The Pensions Trust continues its services as Scheme administrators. Transfer of Scottish operations to new premises at Haymarket, Edinburgh, has been completed and staffing and systems development continue.
- The SFHA Pensions Committee has negotiated a new service agreement with The Pensions Trust. The new agreement, for five years from October 2002, will offer stability to both parties, while providing for the Scheme to benefit from potential cost savings during the period. Terms of the agreement have been referred for endorsement by external consultants.
- Jacki Johnston, who as Scheme Secretary has made a valued contribution to the pension scheme for several years, has been promoted to a new post within The Pensions Trust. We record our thanks and appreciation.
- We welcome Susan Wardlaw who has been appointed as the new Secretary of the SFHA Pension Scheme.
- The SFHA Pension Scheme joined the National Association of Pension Funds (NAPF) to help maintain a close watch on pension developments.

## Fund Statement

Brackets denote negative figures.

	2002	2001
	£000	£000
Contributions paid by members and employers	12,266	11,002
Group and individual transfers in	1,882	1,092
<b>Total money in</b>	<b>14,148</b>	<b>12,094</b>
Benefits paid (pensions and lump sums)	(2,514)	(2,092)
Payments to leavers	(606)	(609)
Administrative costs	(574)	(480)
Specific expenses allocated	(80)	(53)
<b>Total money out</b>	<b>(3,774)</b>	<b>(3,234)</b>
<b>Net new money available for investment</b>	<b>10,374</b>	<b>8,860</b>
<b>Return on investments</b>		
Investment income (after management expenses)	1,703	1,649
Change in market value of investments	(17,153)	(20,127)
<b>Net returns on investments</b>	<b>(15,450)</b>	<b>(18,478)</b>
<b>Net decrease in the fund during the year</b>	<b>(5,076)</b>	<b>(9,618)</b>
<b>Fund summary</b>		
At the beginning of the scheme year	119,064	128,682
At the end of the scheme year	113,988	119,064

In considering the changes in fund values shown in the above statement, it should be kept in mind that the year 2001/2002 saw large and continuing falls in stock market share prices, with substantial effect on relevant investment market values.

As noted elsewhere in this report, the SFHA Pension Scheme is a relatively 'young' scheme, with a strong cash flow. The scheme does not need to sell assets to pay current pensions and is therefore not compelled to realise investments at current depressed market prices.

*The SFHA Pension Scheme is a 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 Trustees on 12th December 2002.*

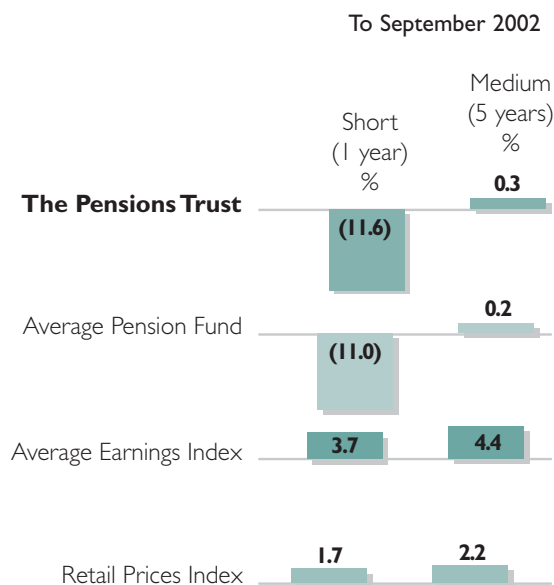
*This summary report is not intended to be a summary financial statement within the term defined by SORP (Statement of Recommended Practice for Pension Schemes). The full Report & Accounts of the Trust and the scheme are available on request.*

## Investment Results

The one-year performance has been below benchmark.

Performance over the medium-term compares favourably with the average pension fund. The Pensions Committee continues to monitor investment performance.

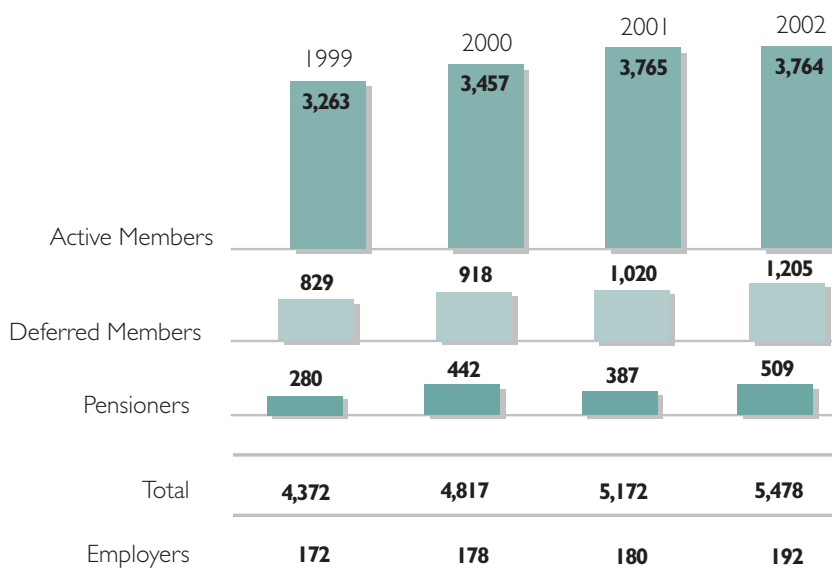
## Annualised Investment Returns



## Membership Growth

Total membership continues to increase steadily, and showed growth of 6% between 2001 and 2002. Total membership at 30th September 2002 was 5,478.

In view of current media concern about pension scheme closures, it should be noted that the indicated total membership of 5,478 includes only 18 who are members of schemes which are closed – mainly as a result of mergers or transfers.



## Your scheme benefits include:

- a pension payable from retirement for the rest of your life, related to your salary at retirement;
- guaranteed pension increases in retirement;
- the option of a tax-free lump sum on retirement as well as a pension;
- partner's and/or children's pensions if you die before or after retirement;
- life assurance if you die whilst contributing to the scheme;
- an immediate pension if you retire due to ill health (in defined circumstances).

## What has happened since 30th September 2002?

There have been significant developments since the scheme year end:

- The stock market decline has continued to the point where the asset ratios of even major life assurance companies are under pressure.

As indicated in the Chairman's Statement, we have a 'young' scheme with a strong cash flow, and do not need to sell investments to fund current pension payments. Stock market price falls, while serious if prolonged, in the short term offer prospects of increasing potential yield on investment of new funds in a lower market.

- The Government Green Paper and Inland Revenue proposals for tax simplification were issued in December 2002. They envisage radical changes in regulatory and tax regimes, with prospects of major savings in administration costs and greater freedom to structure benefits.

In anticipation of these proposals the Pensions Committee had agreed to re-examine benefit and cost structures to evaluate prospects of combining existing 'final salary' and other core benefits with possible 'add-ons' to tailor provisions to individual members' requirements and circumstances.

- Parallel to such examination the Pensions Committee decided to conduct market research, with professional input if necessary, into members' and employers' views, priorities and attitudes to potential scheme changes.

We emphasise that no specific changes are presently under consideration, but wish to ensure that members' and employers' views and requirements are identified and respected in any proposals for adapting the present pension scheme to a new environment.

- We consider that the costs of such research and increased communication are essential to ensure that the scheme evolves to meet market pressures and its members' changing pension needs.
- The main implications in the Green Paper and tax simplification documents are listed on the next page.

- The SFHA Pension Scheme joined the National Association of Pension Funds (NAPF), an employers' organisation which examines current pensions issues and makes proposals to government. Our scheme therefore benefits in its evaluation of changing requirements. To maintain balance we are also in discussion with relevant trade unions on current pensions issues.

## What are the implications for the Scheme?

The Green Paper and tax proposals were issued in December 2002 setting out government suggestions for encouraging and simplifying non-state pension provision. After consultation, reforms are due to be implemented in April 2004 and 2005.

**The Green Paper** is intended as a radical rethink of the way pensions are provided, to make choices more straightforward. The proposals are too technical to detail here. The theme is to encourage new approaches and a new market in pension products, with regulation reduced and administration simplified.

As these proposals are evaluated, the reaction tends to be disappointment at the lack of detail or of real attempt to address the fundamental problems of future pension provision.

**Inland Revenue tax proposals** are a more profound shift in policies, to permit more freedom in structuring pension provision within Inland Revenue limits and restrictions. They offer a simplification of existing highly complex rules, with a reduction in arbitrary limits and costly administration, and are very welcome on that basis.

**The Pensions Trust**, like most pensions professionals, is very enthusiastic at prospects of reduced regulations and restrictions. It anticipates major savings in administration costs and the freedom to explore a greater diversity of pension provision.

**The SFHA Pensions Committee** is required to be cautious in its approach to such changes, as its fundamental duty is maximising benefit without

endangering security. While cost savings will be very welcome, the reduction in imposed restrictions may remove some legislative protection, and scheme rules and policies will need to be reviewed to ensure that interests of all members are fully protected.

An open market in new pension products may offer more individual choice but it may tend to undermine the collective mutual security and economies of scale in our present scheme, and we can all remember the mis-selling scandals over 'money purchase' pensions in past years.

The task of the Committee will be to maintain protection of core benefits while tailoring structures to individual requirements, under government proposals which do little to alleviate the difficulties of the present pensions environment.

The implications of these government initiatives fully justify the Committee's commitment to expenditure on market research, analysis and communication with members and employers, to ensure that the scheme evolves to meet changing pension needs.

On a positive note, our scheme enjoys sound finances, expert administration and continuing support from employers and members. The Committee considers that we are well placed to meet future challenges resulting from these present proposals.

# Caring for your Scheme

## Your Committee

The 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 Committee is made up of:

- Three individuals elected by members
- Three individuals elected by employers
- Two co-opted members

The Committee members currently are:

**Jim Wilson** (Chair) – Member nominated

**Malcolm MacDonald** (Deputy Chair)

– Member nominated

**Neil Hall** – Co-opted member

**Alison Massie** – Member nominated

**Jim Michael** – Employer nominated

**David Molyneaux** – Employer nominated

**Ann Scott** – Employer nominated

**Christine Murphy** – Co-opted member

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

## Professional Advisers and Bankers

### Investment Consultants

Watson Wyatt LLP

Mercer Human Resource Consulting Ltd

### Scheme Actuary

Peter Lofthouse of Watson Wyatt LLP

### Auditors

KPMG LLP

### Solicitors

Mayer, Brown, Rowe & Maw LLP

McGrigor Donald

### Bankers

The Royal Bank of Scotland plc

### Property Managers

Insignia Richard Ellis Ltd

Atlantic Fund Management

### Measurement of Investment Performance

The WM Company

### Investment Managers

Legal & General Investment Management Ltd

Fidelity Pensions Management Ltd

Barclays Global Investors Ltd

Capital International Ltd

Henderson Global Investors Ltd

### Custodians

The Northern Trust Company

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

### Pension Consultant

SBJ Benefit Consultants Ltd

*Administered by*



**The Pensions Trust**

for Charities and Voluntary  
Organisations since 1946

Verity House, 19 Haymarket Yards, EDINBURGH EH12 5BH  
Tel: 0131 341 1200 Fax: 0131 341 1299

[www.thepensionstrust.org.uk](http://www.thepensionstrust.org.uk)  
e-mail: [efs@thepensionstrust.org.uk](mailto:efs@thepensionstrust.org.uk)

