

Pensions Bulletin

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Turbulent and troubled markets hit pension schemes

All readers of this Bulletin must be only too well aware of the major financial crisis facing the global banking system, the reaction of Government in terms of rescue and regulation, and the probability of a significant slowdown in global growth. The effect has been that – over the last two months – UK pension schemes have experienced significant losses in the value of their investments.

The Pensions Trust's assets have not been immune to these turbulent and troubled financial conditions, with our portfolio losing value in equities, property and some bond markets. However, the Trust has focussed on the safe-keeping of assets and is able to report that there have been no significant losses as a result of the failure of financial institutions such as Lehman Brothers.

The response of the Trust's Investment Committee was to:

- ascertain the exposure to troubled financial institutions such as Lehman, Merrill Lynch, AIG and HBOS – this was found to be small and no individual holding relating to the troubled institutions exceeds 0.1% of the value of our Global Equity Fund (GEF);
- ascertain whether there have been any failed trades resulting from these troubled institutions – it was found there were none;
- look at the trading of over-the-counter instruments such as swaps, where it was found that no losses had occurred;
- look at the securities lending programme; this was suspended in September 2007 and there is now only a very small amount still out on loan; none of this was with Lehman Brothers; and
- determine whether any of our bond managers has any direct exposure to the US sub-prime sector – it was found that none have.

In addition, our Money Market Fund has no exposure to either US banks or Icelandic banks and we continue to monitor the exposure to European banks.

As employers participating in the Growth Plan will know, The Pensions Trust has recently invested in a buy-in policy with Paternoster UK Ltd. Paternoster have advised that their investment portfolio underlying this policy has a minimal amount of exposure to troubled financial institutions. It has also not suffered any losses resulting from swap agreements.

To summarise, the Trust is a long-term investor and we have to accept that there will be periods when markets fall. The Trust also remains committed to monitoring the structure of its funds and its investment managers with the aim of delivering good performance over the longer-term.



For more details about the background to the recent market turbulence and the effect of this on The Pensions Trust, please refer to Fact Sheet I, [click here](#), available on our website (details on page 4).



The Pensions Trust

Employers don't make the effort to explain pensions

40% of staff believe that their employer does not do enough to explain the pension scheme they offer; a recent survey from the National Association of Pension Funds (NAPF) reveals.

The survey shows that this number increased to 56% for those employees who had the opportunity to become a member of the pension scheme but had decided not to join.

Other findings of the NAPF Workplace Pensions Survey show that:


- 29% of all employees with access to a workplace pension scheme are unaware that tax relief is available on pension contributions. This increased to 42% of employees where they were not members of the pension scheme.
- 22% of all employees are unaware of how much their employer contributes to the pension scheme on their behalf. This increased to 37% of employees where they were not members of the pension scheme.

In conjunction with the survey, the NAPF notes that this lack of understanding presents the opportunity for employers to re-emphasise the benefits of a workplace pension scheme. The NAPF also states that this knowledge gap should be addressed through regular and jargon-free communication.

The Pensions Trust provides user-friendly literature in plain English to assist participating employers in promoting their staff pension schemes. These are all readily available from our website.

In addition, it is possible for The Pensions Trust to provide a staff presentation on site, together with individual 'one-to-one' sessions if required. This service is provided free of charge, with a requirement to have a certain number of non-pension scheme members present.

Should any employer wish to arrange a presentation for staff, they should contact Ruth Yates on either 0113 394 2686 or email at ruth.yates@thepensionstrust.org.uk

 For more details about the NAPF Workplace Pensions Survey, go to www.napf.co.uk and click on 'Newsroom'. The relevant document is entitled 'Poor Pensions Understanding Offers Opportunity'.

New transfer value regulations

New regulations that govern the calculation of transfer values for members of defined benefit (DB) pension schemes came into force on 1 October 2008. The regulations:

- require transfer values to reflect more closely the cost to a DB scheme of providing members' pension benefits; and
- make the scheme trustees responsible for these calculations rather than, as previously, the scheme actuary following a set standard.

At its last meeting, the Trustee of The Pensions Trust agreed the details of the assumptions to be used when calculating transfer values. These are subject to review at each scheme's triennial actuarial valuation. The relevant Pensions Committees will set the transfer policy for our multi-employer schemes.

The effect of the new regulations varies between schemes, though the intention was that transfer values should remain broadly at the same level as they would have done under previous legislation. Our experience suggests that transfer values for younger people have improved whilst those for older people have slightly reduced.

 More details about the new transfer regulations can be found in Fact Sheet 2, [click here](#), available on our website.

PPF structure is unfair

94% of pension scheme trustees and employers believe the current Pension Protection Fund (PPF) levy structure does not represent a fair sharing of costs, a survey from actuaries Barnett Waddingham reveals. This is despite the fact that 61% of respondents support the existence of the PPF as a means of providing security.

More than 300 schemes were invited to participate in the survey. Responses were received from 40 schemes, including The Pensions Trust. The findings have been shared with the PPF.

Alongside this, the PPF has recently engaged a firm of consultants, Oliver Wyman, to help it to develop a new levy formula. The Pensions Trust will continue to press for more equitable treatment of 'multi-employer last-man-standing' pension schemes, such as the Social Housing Pension Scheme and the Growth Plan.

The PPF has also made three announcements as part of its consultation on the 2009/10 levy. These are:

- to recoup £700 million via the levy (up from £675 million last year);
- that a scaling factor to use in the calculation of the levy is 2.22 (compared to a factor of 3.77 for 2008/09); and
- confirmation that Dun & Bradstreet have been reappointed as the PPF's insolvency risk provider for the next three years.



More details about the PPF can be found in Fact Sheet 3, [click here](#), available on our website.

Regulator retreats over mortality proposals

The Pensions Regulator has announced that it will not use mortality assumptions as a reason to investigate pension scheme valuations.

The proposals, had they been implemented, would have reduced funding levels and delayed the finalisation of valuations that are currently being undertaken at The Pensions Trust.

As reported in Issue 2 of the Bulletin, the Regulator had proposed that mortality assumptions should not be weaker than a certain level and that they should also include allowance for future improvements in life expectancy.

The Regulator has now confirmed that mortality assumptions will only be scrutinised where a scheme is already under investigation.

The Pensions Trust welcomes this news and it is a decision that is backed by industry. It means that schemes can adopt mortality assumptions that reflect their own demographic profile instead of a standard set by the Regulator.



Updated information about developments in the assessment of mortality trends can be found in Fact Sheet 4, [click here](#), available on our website.

Employer debt - a reminder!

As reported in Issue 1 of the Bulletin, changes to the regulations that apply when an employer withdraws from a multi-employer defined benefit scheme came into force in April this year. The regulations apply to all employers that participate in The Pensions Trust's multi-employer schemes.

An employer is considered to have withdrawn on the date that it ceases to employ any active members. However, the regulations introduce a 'period of grace' that can be used before a withdrawal debt becomes payable.

Employers are reminded that in order to take advantage of the 'period of grace', notice **must** be given to The Pensions Trust within one month of their last active member leaving the scheme. Giving notice can be done by completing the standard form that is available on our website.



More details about the employer debt regulations can be found in Fact Sheet 5, [click here](#), available on our website.

Changes to your scheme

From now on The Pensions Trust will publish – via Pensions Bulletin – a list of schemes that have had recent changes. This should ensure that all employers, particularly those in our multi-employer schemes, are kept informed of significant rule amendments and updates to scheme literature.

Recent updates have been made for the following schemes at The Pensions Trust:

- CARE;
- Flexible Retirement Plan;
- Growth Plan – Series 4;
- Social Housing Pension Scheme; and
- Unitised Ethical Plan.

Fact Sheet 6, which contains brief details of the changes to each of these schemes or literature relating to them, can be found on our website. Employers who do not have internet access can request a hard copy of this Fact Sheet together with an updated version of the relevant scheme literature.

Employers should get in touch with their usual contact in our Customer Services Team on 0845 608 5252 if they wish to discuss any scheme changes.

Growth Plan 4 - have you decided?

Employers in The Pensions Trust's Growth Plan are reminded that the next chance to switch to Series 4 is 1 January 2009. After this date, switching is only possible on any future 1 October.

In June, we wrote to all employers who participate in Series 3 about the introduction of Series 4. We explained that employers can choose to continue with Series 3 or offer Series 4.

A decision form – available on our website – should be completed and sent to the Trust to formally record your organisation's decision. This should be done even if the decision is to remain in Series 3.

Queries about Series 4 can be sent to **GP4enquiries@thepensionstrust.org.uk**

Are you being served?

The Pensions Trust achieved a satisfaction score of 79.3% from employers in its latest customer survey. This compares to a score of 79.4% in 2005.

Whilst the score suggests that we have not made any progress, it is still a good score when compared against other customer service providers. We were also encouraged to learn that over 57% of employers surveyed, said they have recommended The Pensions Trust to someone else.

Employers identified some concerns about the service they receive from the Trust, namely:

- Accuracy of information recorded
- Accuracy of responses provided
- Quality of information and guidance provided

Measures to address these points will be introduced next year. For instance, we will:

- roll out stewardship reporting to more of our employers;
- hold employer forums for employers' HR representatives; and
- encourage employers to provide contributions data electronically.

In addition, a peer review checking process has already been implemented within the Customer Relations Team. This means that correspondence containing figures or technical information is always independently checked before being issued.

The survey was based on responses received from 230 employers who participate in the Trust's multi-employer pension schemes.



More details about the results of the employer survey can be found on Fact Sheet 7, [click here](#), available on our website.

The Pensions Bulletin is a quarterly newsletter from The Pensions Trust. It can be viewed electronically on our website www.thepensionstrust.org.uk > Document Library > General > Pensions Bulletin.

The content of Pensions Bulletin is a summary of recent developments and is not intended to be comprehensive. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances or refer to source material, as appropriate.

Email your enquiries to bulletin@thepensionstrust.org.uk