

Growth Plan Bulletin

August 2006 Issue 2

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Welcome to the second issue of our Growth Plan (GP) Bulletin

We trust that you found our first issue in May 2006 to be useful. Please remember that The Pensions Trust cannot provide either financial advice to members or investment advice to employers and these bulletins are provided for information and guidance. If you require any advice as to what is the best course of action for your organisation in any given situation then you should take appropriate advice from your own legal or pension advisers.

In our last issue of the GP Bulletin we advised you that the employer debt on withdrawal figures for your own organisation would be available by the end of June. We sent these to all employers in mid-July. Please accept our apologies for the delay in issuing this letter.

As mentioned in the employer debt on withdrawal letter, this issue of the GP Bulletin contains information about the preliminary results of the 2005 triennial valuation. We urge you to read this and, as with all articles included, if you have any questions please contact Pam Jenkinson: pam.jenkinson@thepensionstrust.org.uk

If you have any topics that you would like us to address as part of one of the future GP Bulletins, we would be happy to hear your views and take these into consideration. Please address any suggestions to Pam Jenkinson, Client Relationship Manager at: pam.jenkinson@thepensionstrust.org.uk



Growth Plan Valuation 2005

As the Growth Plan (GP) has deferred annuity benefits (Series 1 and 2), it is subject to similar statutory funding requirements as final salary schemes.

An actuarial valuation of the GP was made as at 30 September 2005 and the Scheme Actuary presented the preliminary results to the Trustee in June 2006.

Background

Since the last valuation in 2002, events affecting pension schemes have mostly been detrimental to the funding position. The most important of these are:

Improving life expectancy

For all of us, the prospect of living longer has its attractions. But, to enjoy our longer retirement, we need an income to live on for a longer period.

Continuing expectations of low bond yields

Investment in Government bonds is seen as the standard prudent investment for pension funds once members pensions have become due for payment.

These bonds have become more expensive in recent years meaning it costs more to buy a pension now.

The Actuary has strengthened his valuation assumptions to take these factors into account. These assumptions look to the long-term future. They are a professional assessment of whether we will continue to live even longer and how much investment income The Pensions Trust might expect to earn on the assets backing the GP.

In September of last year the Scheme Actuary did some ad hoc calculations as at March 2005 which showed that the GP was reasonably well funded at 95% on what is called the “best estimate”



basis. The “best estimate” basis means that whilst there is a 50% chance of remaining reasonably well funded there is also a 50% chance that this position will get worse.

New Funding Regime

New funding regulations came into force on 30 December 2005. These set out the framework for funding pension schemes and replace the Minimum Funding Requirement (MFR) regulations.

Under the MFR regulations the basis for calculating liabilities was set out in regulations and was therefore the same for all schemes. Under the new funding regime the trustees of each individual scheme must set a prudent basis for valuing the scheme benefits taking into account the strength of the employers’ covenant and the Actuary’s advice. The value of the liabilities on this basis is known as the Technical Provisions.

On the advice of the Scheme Actuary the Trustee has adopted a prudent measure of the Plan’s Technical Provisions. The Trustee has decided to accept the risk that there is a 60% chance of remaining reasonably well funded and only a 40% chance that this will get worse. The Trustee believes that this provides greater security for the GP in the long-term.

Results Summary

Based upon this more prudent assumption, the market value of the assets as at 30 September 2005 was approximately 96% of the value of the Technical Provisions (i.e. the liabilities). However, it is important to note that this figure excludes the impact of the Pensions Protection Fund (PPF) levy. The PPF will not be able to tell us of the size of the levy until late summer. This premium will have to be paid from the assets of the GP and will reduce the level of funding accordingly.

Had the Trustee not been as cautious with the annual bonus declarations in the last 3 years, the current funding position would have been much worse.

In order to provide a comparison with the estimate of the funding level provided last year, the funding level on the "best estimate" basis as at 30 September 2005 had improved to 102%.

The key reason for the improved results is better than expected short-term investment returns. Despite the poor market conditions during 2002 and 2003, over the 3-year period from 2002 to 2005, the market value of the Plan's assets has risen from £418m to £675m. Allowing for a net positive cash flow into the GP, this implies an average actual return over the period of approximately 15.4% per annum (p.a.). This compares with the assumed long-term return of 6.7% p.a. from the 2002 valuation report.

One note of caution concerns the employer debt, in the event of withdrawal from the GP. In calculating this particular figure, the Actuary has to value all the GP benefits as the cost of "buying out" these benefits with an insurance company.

This is very expensive. On this basis, the market value of the assets at 30 September 2005 represents only about 75% of this "buyout" cost.

The Pensions Regulator and the Recovery Plan

The new funding regulations now require, that where a scheme's assets are less than the value of the Technical Provisions, a Recovery Plan must be put in place to show how the deficit can be eliminated over a fixed period. The Recovery Plan must be submitted to the Pensions Regulator who may investigate schemes and require changes where the Technical Provisions are set at too low a level or where the recovery period is too long.

We are currently preparing our Recovery Plan for submission to the Pensions Regulator. This will set out the assumptions underlying the calculation of the GP's Technical Provisions and the proposals for eliminating the deficit via investment returns. We will write to all Employers again as soon as we have received further feedback from the Pensions Regulator.

Member Communication

The key figures of the valuation report will be sent to all GP members in September 2006 and annually thereafter. This Annual Funding statement will give members a snapshot of the GP, updated each year by the Actuary.

		Assets £m	Liabilities £m	Funded %
At March 2005	Best estimate (50/50)	598	629	95
	Buy-out	598	762	79
At September 2005	Best estimate (50/50)	675	663	102
	Technical provisions (60/40)	675	703	96
	Buy-out	675	900	75

The Investment Strategy - Why its changed from October 2005

The Pensions Trust is obliged to take account of new legislation covering the treatment of funding deficits in the event that an employer decides to withdraw from a multi-employer pension scheme.

From 2003 the regulations require solvent employers to meet the full cost of buying out pension benefits with an insurance company if they withdraw from the scheme. Multi-employer pension schemes were not originally subject to these regulations but this changed in September 2005. Going forward, multi-employer schemes are treated the same as single employer pension schemes and any debt on withdrawal must also be calculated on the more expensive buy-out basis.

The debt on the Growth Plan (GP) has arisen entirely on Series 1 and Series 2 contributions.

On the advice of the Scheme Actuary, The Trustee was able to apportion the total deficit to GP Series 1 and 2, and as a consequence decided to leave Series 3 open to new members who work for existing GP employers.

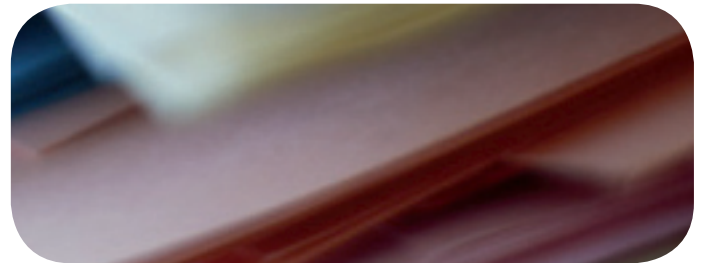
GP Series 3 is a cash accumulation fund with a capital guarantee, i.e. each member is entitled to a fund consisting of their own and their employers contributions less any deduction to pay for death benefits plus investment credits declared by the Trustee.

Now that Series 3 assets had to be matched to Series 3 liabilities the promise that a member's fund could not decrease in value had to be reflected in the Series 3 investment strategy. Following the advice from the Scheme Actuary and investment consultants it was decided that Series 3 should not be exposed to stock market fluctuation or to potentially negative returns from property or bonds. The Trustee therefore

decided to invest the assets of this Scheme in a diversified portfolio of high quality money market instruments (such as treasury bills and certificates of deposits) and short-term debt (such as gilts and fixed interest bonds).

The Trustee is aware in the long run this strategy is likely to lead to lower investment returns than a strategy that allowed for investment in equities, bonds and property but it sees the preservation of fund values as paramount.

Assets backing Series 1 and Series 2 liabilities continue with a more conventional investment strategy: with 65% in equities and 35% in bonds and property.



Pre-Retirement Seminars

As part of our continuing process of communication improvement, we now provide periodic seminars for members who are approaching retirement.

These seminars are run by one of our participating employers, The Life Academy, in liaison with The Pensions Trust. The Academy will provide information and advice regarding how members might best prepare to enjoy their retirement years and staff from The Pensions Trust will also be on hand to answer any questions regarding the setting up and payment of pensions payable from the Trust.

The next pre-retirement seminar is scheduled for the 11 October 2006 and will be held in London.

Invitations will be issued to selected members well in advance of the scheduled date, however, if you are aware of any of your staff which you feel would benefit from and be willing to attend such a seminar, please contact:

pam.jenkinson@thepensionstrust.org.uk

Why and How to Lobby Your MP

Recent changes in pension legislation have had an adverse effect for employers participating in a multi-employer pension scheme, such as the Growth Plan (GP).

As a pension provider The Pensions Trust has had no choice but to enforce the new legislation as it has rolled out from The Pensions Act 2004 and the Finance Act 2004. However where we have seen changes which have disadvantaged our clients we have vigorously lobbied the appropriate organisations e.g. the Pensions Regulator, the Pensions Protection Board and the Department of Work and Pensions.

Our Chief Executive, Richard Stroud is a former council member of, and closely associated with, the National Association of Pension Funds (NAPF) and The Pensions Trust has joined the NAPF in making sure that Government ministers are aware of the negative implications of the changes that have been made.

For example, as discussed in issue one of the GP Bulletin, The Pensions Trust is required to pay an annual levy from the GP to the Pension Protection Fund (PPF) because of the pension promises under Series 1 and Series 2. However, as the GP operates on a “last man standing” basis, i.e. any debt which cannot be met by an insolvent employer on withdrawal is shared between all the remaining employers, the GP could only apply to the PPF for assistance if all of the employers suffer an insolvency event.

With the high number of participating employers in the GP this is obviously unlikely to ever arise but the PPF takes no account of this high improbability of a claim when charging the levy.

Another example of a change which has negatively affected a number of our clients is the Employer Debt on Withdrawal Regulations, again, as discussed in the first issue of our first GP Bulletin.

Whilst we are doing all we can as an organisation to address these issues you can also help by

adding your voice. We would urge you to lobby your local MP to address these issues and put pressure on the Pensions Minister (currently John Hutton) to use some common sense when applying the regulations.

You can find out who your local MP is from the website: www.locata.co.uk/commons or if you do not have internet access, you can phone the House of Commons Information Office on 020 7219 4272 and they will search for your MP's name according to postcode.

You can write to your MP at the House of Commons by addressing your letter to: your MP's Name, House of Commons, London SW1A 0AA.

Most MP's e-mail addresses are as follows: MP's surname, followed by MP's initial followed by @parliament.uk. For example if your MP is Tony Blair, his e-mail address would be

blairt@parliament.uk

A suggested template for a letter to your MP can be downloaded from our website and customised by you to deliver your message to your MP. This template can be found by accessing our website at www.thepensionstrust.org.uk and following the following steps in the side-bar menu:

- Document Library
- Scheme
- Money Purchase
- Employer Literature
- Letter Template for Lobbying MP's

Alternatively, we would be delighted to mail you a copy. Please do ask.

The GP is a pension fund made up of your organisation's and your employees' contributions. Please do help us prevent erosion of the advantages that a multi-employer scheme such as the GP has to offer.



Towards a Flexible Future

Our new defined contribution (DC) product is due to be launched on 1 October 2006. The Flexible Retirement Plan is set to bring new levels of investment choice to members. The Plan will be similar in style and operation to retail pension products with no pension or fund guarantees, but as with all our products, it will operate within our Trust based environment.

We know that current and new employers alike are looking towards The Pensions Trust for their future DC pension provision.

In addressing our customers' needs, we first listened to their requirements, researched the market and then reviewed and improved our capabilities. The result is the Flexible Retirement Plan.

Key Features

Offering choice was high on the agenda with organisations keen to deliver the right investment options for their staff.

We have already introduced investment choice for all our schemes with over 90% of our assets now invested in line with scheme specific investment strategies.

We will now be extending choice to member level using our new product, the Flexible Retirement Plan.

This is to be offered through:

- Three core funds operated by The Pensions Trust (TPT) using our existing multi-manager structure, including a Socially Responsible Investment (SRI) Option
- Five additional funds provided by a Guest Fund Manager.

(See Table 1)

In addition lifestyling options will be available within both the core and guest funds.

Lifestyling or retirement investment strategies are based on the premise that as people move closer to retirement it is likely that their tolerance towards risk will reduce.

Lifestyling recognises this issue and provides automatic switching from funds with higher volatility (more risk) over a period of time to funds with less volatility (less risk) as retirement approaches. Essentially this means moving from equities.

The Pensions Trust's lifestyling options switches member's funds into the Pre-Retirement Option for Core Funds and the Cash Fund Option for Guest Funds.

The rate of switching depends upon the term to retirement and automatically adjusts if the member brings forward or puts back their intended date of retirement.

The default funds for members who are unable or unwilling to choose their own investment strategy are:

- The "Managed Fund Option" for members who are more than 6 years from retirement; and
- The "Pre-Retirement Option" for members with less than 6 years to retirement.

As this is a Trust based product the Trustee is responsible for the investment strategy, and the monitoring and evaluation of the fund managers' performance. It is thus possible that the composition of the various funds will evolve over time and that the Guest Fund Manager may also change. If this is necessary members will be advised and thus given the opportunity to restructure the way in which their contributions are invested.

The Trustee believes that the mix of funds available represent an excellent choice of risk and return options allowing members to tailor their choice of funds to meet their requirements within defined risk tolerances.

To complement the various fund options there will also be a life assurance facility.

In order to achieve this level of sophistication at member level we have had to totally rethink our existing processes for collecting contributions, investing contributions and paying benefits. Over the last year we have re-engineered these processes to create the right environment in which this product can operate.

This does not mean that it will be more complicated for the employer to operate, quite the reverse. We believe that the new contribution and data system represents a huge improvement over the existing 'payment prompts', being both more convenient and more efficient for the Trust and our customers.

Table 1

Name of Fund	Asset Class(es)	Management Type	Comments
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Core Funds

Managed Fund Option	65% Global Equities 35% Non Equities	Active & Passive	To be managed through TPT existing multi-manager structure
Pre-Retirement Option	75% Bonds 25% Cash	Active & Passive	To be managed through TPT existing multi-manager structure
SRI Option	50% UK Equities 50% Overseas Equities	Passive	To be managed through the L&G FTSE4Good Equity Funds, L&G Index Tracking

Guest Funds

Global Equity Fund Option	50% UK Equities 50% Overseas Equities	Passive	Aims to match return on the indices it tracks - 50% FTSE All-Share and 50% FTSE All-World Developed Ex UK
Property Fund Option	100% Property	Active	Primarily UK Commercial Property
Bond Fund Option	100% Fixed Interest Bonds	Active	
Index Linked Gilts Fund Option	100% Index Linked Gilts	Active	
Cash Fund Option	100% Cash	Active	Invests in short-term Deposits in UK money market

If you would like further information regarding our new product and/or an application form for your organisation then please visit our website for details. www.thepensiontrust.org.uk. Once you have assessed our Homepage please click on the following menus >Our Products>Money Purchase>TPT's Flexible Retirement Plan

How to Contact Us

For day-to-day administration queries (e.g. enrolments, leavers, etc):

The Money Purchase Administration Team

Tel: 0131 341 1265

Fax: 0131 341 1266

Email: emp@thepensionstrust.org.uk

For any general scheme questions:

Pam Jenkinson - Client Relationship Manager

Tel: 0131 341 1234

Fax: 0131 341 1266

Email: pam.jenkinson@thepensionstrust.org.uk

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