

Annual Report

Year to 30 September 2008



Chair's Statement 2008

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

Looking back

This last year has been a challenging 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 Glen Waddell, who resigned from the Committee in 2008, for his valued contribution to the Scheme.



The Committee had to: oversee ongoing changes to comply with legislation; take difficult decisions to best protect the long-term interests of members and employers; and remain vigilant and react to broader changes affecting the pensions industry and the general economy, particularly the unfolding global 'credit crunch' and stock market declines.

'No more boom and bust'

In 1997 Gordon Brown was handed the keys to No. 11 and a British economy in excellent health. For a decade we stood awestruck at his confident steering of the UK economy, reassured by his statements of 'no more boom and bust' and his watchword 'prudence'.



Unfortunately, propelled by an explosive mixture of cheap credit and ballooning personal debt financed by a massive housing bubble, the UK economy rammed at full-throttle into an iceberg called the global 'credit crunch' in 2008 and boom turned to bust once more.

How secure is your pension?

The SFHA Pensions Committee is acutely aware that members are concerned about the security of their pension, given the financial roller coaster we are all currently experiencing. I have, therefore, asked The Pensions Trust, as administrators of the Scheme, to prepare a separate article addressing your concerns later in this Annual Report. I hope you find this article reassuring.



Defying gravity

To be able to report a good year against a backdrop of severe economic dislocation, you will appreciate, would be tantamount to defying gravity. The Scheme's assets which are invested in global equities, fixed interest bonds and property have been severely impacted by the global 'credit crunch'.

Nonetheless, I am disappointed to be reporting that this has not been another year of growth for our pension scheme. The Scheme's key performance indicators are shown below:

- Total membership continued to increase by 4.8% to 7,487 members
- Net assets of the Scheme fell by £45.2million (14.6%) to £265million
- Annual contributions receivable increased by 11.1% to £22million
- A negative investment return of 17.9%, which was 0.7% worse than the fall in our comparative investment benchmark of 17.2%
- Our latest 'health check' funding update to 30 September 2008 indicates that the funding level of the Scheme deteriorated significantly to 63.9% from 83.4% in the last full actuarial valuation carried out at 30 September 2006.

The deterioration in the Scheme's funding level to 63.9% is particularly unwelcome news as this has significantly increased the Scheme's deficit.

'Health check' – Looking in the rear view mirror

The funding level of the Scheme is very important. To be clear what this means, with a funding level of 63.9% the Scheme has a 36.1% deficit, with a funding level of 85% the Scheme has a 15% deficit, and so on.

Last year I said "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....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....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."

Looking in the rear view mirror, the caution I expressed last year for the Scheme's outlook for 2008 was justified as the positive trend of improvement in the Scheme's funding level reversed.

The outlook for our scheme is that it will be operating in a harsh financial environment for sometime. Stock markets generally anticipate recovery in the 'real' economy and a rising trend in share prices will signal the 'green shoots' of recovery. We remain of the view that our pension scheme should focus on the long-term and that short-term financial storms should be seen, therefore, as an opportunity to invest in assets at attractive prices for the benefit of our members.

During the period ahead, the SFHA Pensions Committee will focus on taking decisions to protect the long-term interests of members of the Scheme and also to minimise the impact of the 'credit crunch' on the Scheme's funding position.



Avoiding the 'banana skins'

Our investment return in 2008 was negative due to the sharp falls in property and equity markets around the world in which the Scheme's assets are invested. This was disappointing because it caused the Scheme's funding level to fall significantly and in turn increased its deficit.

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'.

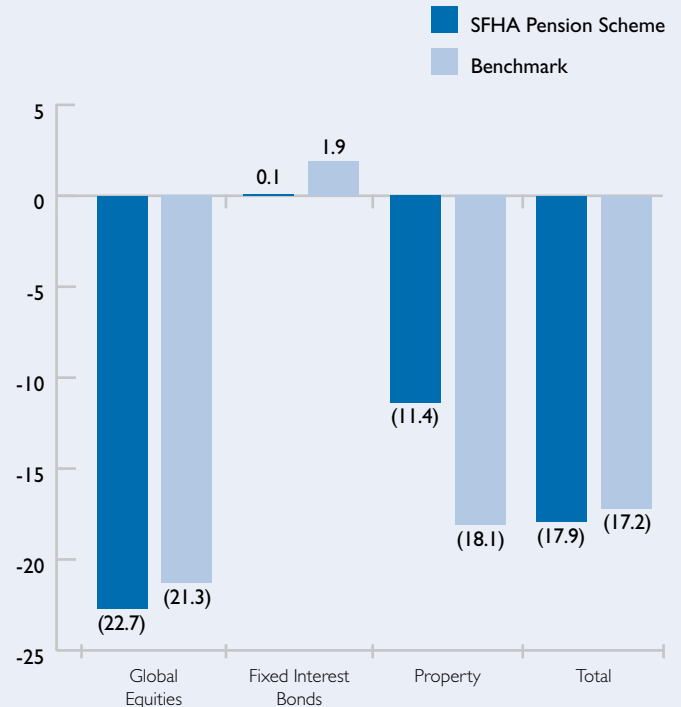
In 2007 it was not, as I reported last year together with the action they were taking in response.

The Pensions Trust also informed us last year that they were hoping for improved levels of investment performance in 2008. It is, therefore, disappointing to report that this period of investment underperformance continued in 2008. Our overall return on investments was a fall of 17.9%, 0.7% worse than the fall in the market benchmark of 17.2%.

We will continue to keep 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.

In difficult times, like those we are currently living through, capital preservation is just as important as investment performance. Here, our news for members is more positive. The safeguards built into our investment strategy and the processes of The Pensions Trust prevented the Scheme suffering any major direct investment loss from stepping on the many investment 'banana skins' around in 2008. These 'banana skins' ranged from the collapse of major financial institutions around the world to the biggest financial fraud ever recorded (allegedly \$50 billion by the US hedge fund manager Bernard Madoff!).

Annualised Investment Return



Membership news

It is particularly pleasing to report that membership of our pension scheme increased by 4.8% during a very difficult year. I wish to take this opportunity to extend a warm welcome to our new members and employers.

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

Membership Growth

	2005	2006	2007	2008
Active Members	4,058	4,023	3,962	4,003
Deferred Members	1,767	2,015	2,167	2,311
Pensioners	748	886	1,016	1,173
Total	6,573	6,924	7,145	7,487
Employers	191	191	189	190

Like painting the Forth Bridge

Having completed one review, we are now at the start of another. This will allow us to proactively prepare for: the outcome of our next triennial actuarial valuation to 30 September 2009; changes in the funding level of the Scheme; and also the impact of future legislative changes, such as auto-enrolment of staff in company pension schemes. The on-going process of review has a feeling 'like painting the Forth Bridge', but serves just as important a protective function for the Scheme's long-term security.

The road ahead and our priorities

Finally, I would like to thank the staff of The Pensions Trust for their dedicated effort on behalf of the Scheme during the year and also a special thanks to our employers and members for their support.

During this challenging time for pensions, 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.



Malcolm MacDonald
Chair
27 January 2009

How secure are your benefits?

During 2008 a survey revealed that security of benefits is a big concern to members. We hope you will be reassured to know that your pension is protected in lots of different ways and here are just a few headline points:

Safety in numbers

The Scheme has around 160 actively participating employers, which are in a well-regulated sector. It's unusual for employers in the Scheme to fail, and solvent employers aren't allowed to walk away from their pension commitments. If all the Scheme's employers became insolvent, the Government's Pension Protection Fund (PPF) would step in to protect members' benefits.

Pensions are long-term investments

The global financial crisis has added to people's worries but, in the context of pension scheme funding, returns are expected to improve the position in the longer-term. Your Pensions Committee monitors investment performance and scheme funding very carefully.

Pension schemes are heavily regulated

Your Pensions Committee, the Trustee, Professional Advisers and The Pensions Regulator all play a part in making sure the SFHA Pension Scheme is run in compliance with the law.

Scheme News - Introduction of enhanced flexible retirement

The Pensions Committee reviewed the benefits offered by the Scheme and agreed to enhance the current flexible retirement option.

With effect from 1 April 2009, all members who consider retiring will be able to take all or part of their pension whilst continuing to work and, should they wish to, accrue further pension benefits in the Scheme. Details of the exceptions are available on the Scheme's website (www.sfhaps.org.uk).

Fund Statement - For the year ended 30 September 2008

	2008	2007
	£'000	£'000
Contributions paid by members and employers	22,021	19,818
Group and individual transfers in	46	1,548
Total money in	22,067	21,366
Benefits paid (pension and lump sums)	(7,157)	(5,938)
Payments to leavers	(1,048)	(873)
Administrative costs	(737)	(705)
Specific expenses	(101)	(97)
Pension Protection Fund	(115)	(152)
Total money out	(9,158)	(7,765)
Net new money available for investment	12,909	13,601
Return on investments		
Investment income and gains	(57,338)	28,616
Investment management expenses	(734)	(638)
Net returns on investments	(58,072)	27,978
Net (decrease)/increase in the Fund during the year	(45,163)	41,579
Fund summary		
At the beginning of the Scheme year	309,997	268,418
At the end of the Scheme year	264,834	309,997

Net Asset Statement at 30 September 2008

	2008	2007
	£'000	£'000
Global Equities	188,079	229,628
Fixed Interest Bonds	52,694	53,862
Property	20,658	22,908
Total Investments	261,431	306,398
Other Assets	3,403	3,599
Net Assets at end of Scheme year	264,834	309,997

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 20 January 2009. 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 Pensions 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.
- Retirement age of 65, with the option to take early retirement.
- An immediate pension if you retire due to ill-health (in defined circumstances).
- 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.
- Annual pension increases in retirement.
- Life Assurance (of three times your pensionable earnings) if you die whilst contributing to the Scheme (not applicable once contributions cease).
- Partner's and/or children's pensions if you die before or after 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 in future; please contact Susan Wardlaw at The Pensions Trust, Conference House, 152 Morrison Street, Edinburgh EH3 8EB or email sfha@thepensiontrust.org.uk

The SFHA Pension Scheme Committee Members

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:

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

The Pensions Committee members are currently:

Malcolm MacDonald, Govanhill Housing Association

Christine Murphy, Elderpark Housing Association

Kathryn Miller, Manor Estates Housing Association

Sally Inkster, Orkney Housing Association

Ken Tudhope, Atrium Homes

Ahsan Khan, Loreburn Housing Association

Fiona Nicholl, Ochil View Housing Association

Margaret Dunlop, West Lothian Housing Partnership

Sean O'Drisceoil, Tighean Innse Gall

Margaret Bradley,
formerly North Glasgow Housing Association

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

Electronic Annual Report

In considering our responsibility to the environment, together with reducing scheme costs we are giving members the opportunity to receive future Annual Reports electronically. If you wish to take up this option please email the details noted below to sfha@thepensiontrust.org.uk

- Name or Organisation Name
- Membership or Employer Number
- Date of Birth (if you don't have your member number)
- Your preferred email address

