

# SFHA Pension Scheme Annual Report 2004



## *the year in review*

- a 5% growth in membership, bringing total membership to 6,213
- sound investment performance, providing a return of 11.3% over the year
- a positive interim Scheme financial update
- fund value up 20% to £172m
- success in national pensions awards
- major review brings positive response from employers and members



## Chairman's Statement 2004

As a member of the SFHA Pension Scheme Committee for over twenty years, I consider that for the Committee the year ended 30 September 2004 has been the most challenging I can remember.

In the external world the "Pensions Crisis" continues, but Parliament seems more concerned about the welfare of foxes than the well-being of pensioners – or pension schemes.

Politicians as a group award themselves very generous pensions and other benefits at tax payers' expense. This insulates the politicians from the pensions problems facing the rest of us.

This may be one reason for a lack of Parliamentary action on the continuing decline of Britain's once-envied private pension sector and an apparent lack of willingness to address the fundamental problems of state pensions. The honourable exceptions who argue for urgent action are ignored by a largely uncaring political establishment.

In the private pensions field the Treasury persists in refusing to reinstate Advance Corporation Tax relief, thus continuing to weaken pension schemes by removal of an estimated £5 **billion** in tax each year – an estimated £35 **billion** to date – one obvious cause of the "Pensions Crisis".

In the field of state pensions the government ploughs on with its dogmatic insistence on means testing, deaf to arguments from pension schemes, the pensions industry, trades unions, employer organisations and others that an enhanced universal "citizens pension", payable as of right, could be funded by the abolition of the enormously expensive means-testing system.

Government attitudes are evident in the rapid turnover of pensions ministers – how many people can name the present incumbent?

Parliamentary consideration of the Pension Act has ground to its delayed and disappointing conclusion. The contrast between rhetoric and delivery is particularly stark over promises of protection for victims of failed pension schemes.

Arrangements for such protection are clearly inadequate – more smoke-screen than reality. Although the Government's new Pension Protection Fund levy is payable by pension schemes from April 2005, confusion still surrounds its exact provisions. It seems clear, however, that at least part of the levy will be simply a flat-rate charge per scheme member – essentially a poll tax on pension schemes, payable ultimately from contributions.

Government claims of an effective "safety net" are undermined by increasing reports of the harsh clawback of large amounts of "tax credits" overpaid by Government error and spent in good faith by recipients who mistakenly trusted the system. Such reports will further discourage uptake of the "Pensions Credit", which is in any case no substitute for an adequate basic pension.

No one disputes that Government faces fundamental difficulties over pension provision for an ageing population, but denial, dogma and massive bureaucracy are inadequate responses.

The means tested system is intrusive, demeaning, complicated, expensive and wasteful.

What is needed is an adequate, simple, universal state pension that can be supplemented by private pensions and savings, instead of the complexities of the present system where private pensions and savings reduce entitlement to means tested state benefits under a "workhouse" mentality.

The above comments may seem harsh, but they reflect the widespread frustration of those who are trying to protect pensions in a hostile financial and political environment.

About our own scheme, however, I can be very much more positive. We have faced and overcome the immediate threats which crystallised in the September 2003 actuarial valuation, and have successfully carried the scheme through yet another phase of the “Pensions Crisis”.

The events of the year, and their implications for the Scheme, have already been set out in the Committee’s Major Review Interim Reports 1 and 2.

These reports describe how the Committee, while pushing ahead with the Major Review, responded to a substantial increase in the Scheme’s deficit by its carefully considered decision to increase combined contributions to 21%, with the division between employees and employers to be set after consultation.

To have to increase contributions was disappointing, but necessary to address the Scheme’s deficit and improve its funding level. I must emphasise, however, that being in deficit is not unique to the SFHA Pension Scheme, but is common to most final salary schemes in the UK at present.

The funding level of the SFHA Pension Scheme is satisfactory in comparison to other final salary schemes, and the combined contribution rate of 21% is in line with other schemes with similar benefit structures.

The results of the consultation were very satisfactory, with a high level of response and support from both employees and employers for the Committee’s proposals and a fair division of the contribution increase. This enabled the Committee to fix the contributions payable from April 2005 at 7% for employees and 14% for employers, incidentally restoring the initial contribution ratio of 1:2.

This permitted the Actuary to sign off the September 2003 valuation within the time limits set by legislation. As a further check the Committee asked the Actuary to carry out a financial assessment as at September 2004.

The Actuary responded with the very positive news that the deficit had reduced and the funding level had improved, giving additional reassurance that with the agreed changes in contributions the Scheme is on track to eliminate its deficit over an acceptable future period.

We therefore have a sound platform for proceeding with Phase 2 of the Major Review, which will consider fundamental issues of the Scheme’s structure and arrangements.

Thus the year to September 2004, after months of work and worry, ended on an upbeat note, with the successful completion of Review Phase 1 and continuing growth in membership and investment values.

The “feel good” factor was enhanced by the news that the SFHA Pension Scheme had received not one but two separate UK national pension scheme awards, both for the title “Small Pension Scheme of the Year”. These are very welcome external endorsements of the Scheme’s standards and achievements, and reflect great credit on the Committee, The Pensions Trust, and all involved.

The new Pensions Act has been passed. Implications for our own scheme are being assessed, with special attention to the effects on any Scheme changes which may result from the Major Review.

Further comments on these matters and progress on the Phase 2 Review will be included in a third Interim Report, to be prepared and issued in coming months.

Changes in Committee membership at September 2004 have already been announced. It remains to repeat my thanks and good wishes to Alison Massie and Ann Scott, who retired from the Committee on that date.

One change I must mention is the retirement of Trevor Smith, the Pensions Trust Account Executive for the SFHA Pension Scheme. Over the years, Trevor's expertise, enthusiasm and personal commitment have played a large part in maintaining the scheme's progress and growth. I record my personal thanks and appreciation for all Trevor's work on behalf of our members and wish him a very happy retirement.

The deadlines met and results achieved in the past year have required hard work and commitment from all concerned including Committee members, the Scheme Secretary, other members of The Pensions Trust staff, the Actuary and other advisors. They all deserve the thanks of members and employers for their efforts on the Scheme's behalf.

On a purely personal note, my twelve years as Pension Scheme Chairman – a period prolonged by the need for continuity during the "Pensions Crisis" – are due to end this year.

Throughout this period Malcolm MacDonald had been Vice-Chairman. His focus on finance and investment is invaluable, and I thank him for all his support and hard work on behalf of the scheme.

I take this opportunity to express my appreciation and gratitude to all those who have worked with me to protect and enhance our pension scheme throughout these years.



Jim Wilson  
Chairman,  
SFHA Pension Scheme

## Pension Scheme of the Year Award

Amid the pressures of the major review, we received the very welcome news that the SFHA Pension Scheme had received two separate UK national pensions industry awards.

Both awards were for the title "Small Pension Scheme of the Year", and were given on a competitive basis following assessment by panels of industry experts.

The separate competitions were organised by two pensions industry magazines: "Professional Pensions" and "Pensions Management".

Comments in "Professional Pensions" highlighted:

- The management of the Scheme, including the quarterly Committee meetings and the review of issues facing the scheme
- Communication and consultation, involving members and employers
- Customer service, including high levels of customer service to members, and guidance and services provided to employers

Quotations from the "Pensions Management" magazine article included:

- "The one entry that really stood out in this category was that of the SFHA Pension Scheme."
- "The judges said that what really stood out was the clear commitment to the scheme and the very strong commitment to involve the whole membership."
- "A copy of this review was then sent out to all scheme members, and the judges felt that this level of openness and inclusiveness should be praised, especially in a scheme with such a large membership."

A great deal of work goes into the development and running of the Pension Scheme, both by the Committee and The Pensions Trust, and these awards recognise the effort and results achieved.

This gives a clear external verification of the Scheme's high standards in these areas and the Committee thank all who have contributed to an excellent situation.

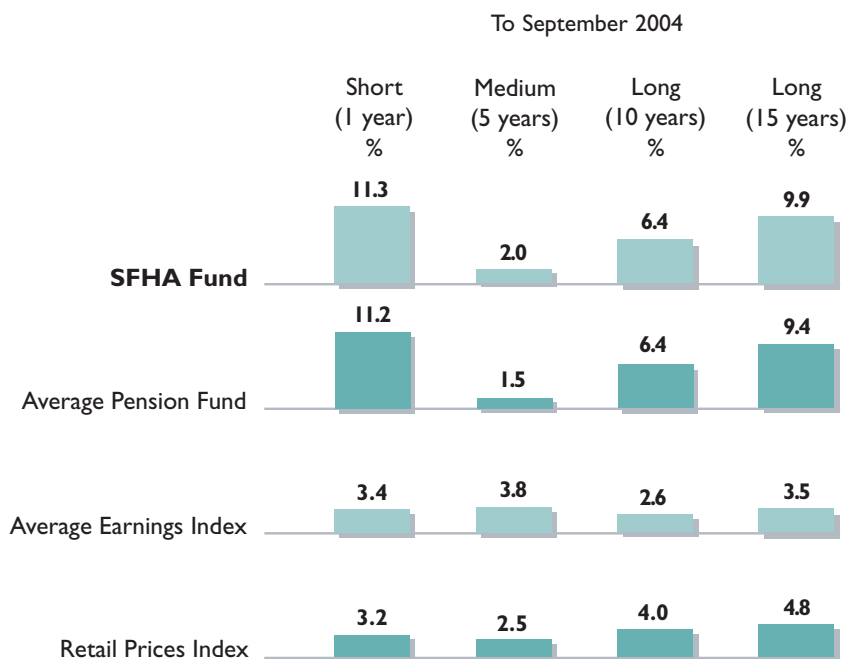


## Membership Growth

Total membership continues to grow steadily and has increased by 5% to 6,213 at 30 September 2004.

\* In addition to the pensioners shown in the table opposite, there are 35 former members and beneficiaries who receive annuities from Standard Life.

## Annualised Investment Returns



## Investment Returns

The Pensions Committee is pleased that a positive return of 11.3% was achieved in the last year and is satisfied with The Pensions Trust's relative performance over the five-year period to 30 September 2004.

The Pensions Committee continues to monitor investment performance.

## Fund Statement for the year ended 30 September 2004

|   | 2004           | 2003           |
|---|----------------|----------------|
|   | £'000s         | £'000s         |
| Contributions paid by members and employers     | 14,484         | 13,460         |
| Group and individual transfers in               | 3,022          | 2,070          |
| <b>Total money in</b>                           | <b>17,506</b>  | <b>15,530</b>  |
| Benefits paid (pensions and lump sums)          | (3,686)        | (2,419)        |
| Payments to leavers                             | (709)          | (730)          |
| Administrative costs                            | (575)          | (527)          |
| Specific expenses allocated                     | (99)           | (44)           |
| <b>Total money out</b>                          | <b>(5,069)</b> | <b>(3,720)</b> |
| <b>Net new money available for investment</b>   | <b>12,437</b>  | <b>11,810</b>  |
| <b>Return on investments</b>                    |                |                |
| Investment income (after management expenses)   | 2,197          | 1,767          |
| Change in market value of investments           | 14,363         | 15,687         |
| <b>Net returns on investments</b>               | <b>16,560</b>  | <b>17,454</b>  |
| <b>Net increase in the fund during the year</b> | <b>28,997</b>  | <b>29,264</b>  |
| <b>Fund summary</b>                             |                |                |
| At the beginning of the Scheme year             | 143,252        | 113,988        |
| At the end of the Scheme year                   | 172,249        | 143,252        |

*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 Trustee on 16 December 2004.*

*This 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 Trust and the Scheme are available on request.*

## Pensions Act 2004

This new legislation affecting pension schemes will be mainly effective from April 2005. It is a major piece of legislation that will have a material impact on the future of pension benefit provision. Much of this legislation is to be covered by regulations that have yet to be published.

## Finance Act 2004

The provisions of this legislation affecting pension schemes will become effective as from April 2006.

In essence there will in future be only one tax regime affecting the tax treatment of contributions and benefits under pension schemes. Currently there are eight such regimes. This legislation should remove many complexities and is generally welcomed by the pensions industry.

The Pensions Trust, as Scheme Administrator, will ensure that Scheme members are kept abreast of developments as the situation becomes clearer.

## Benefits of the Scheme

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

- a pension payable from retirement for the rest of your life, related to your final pensionable earnings at retirement
- annual pension increases in retirement in line with Limited Price Indexation
- the option to exchange some pension for a tax-free lump sum on retirement as well as a pension; you may choose the amount (within limits) that best suits your needs
- 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
- 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

## Your Pensions Committee

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:

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

The Pensions Committee members are currently:

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

**Malcolm MacDonald** (Vice Chair) – Member nominated

**Jim Michael** – Employer nominated

**David Molyneaux** – Employer nominated

**Christine Murphy** – Member-nominated

**Alistair Miller** – Co-opted member

**Kathryn Miller** – Employer-nominated

**Sally Inkster** – Co-opted member

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

## Professional Advisers & Bankers

### Actuarial Consultants

HSBC Actuaries and Consultants Ltd

### Scheme Actuary

Steven Robinson of HSBC Actuaries and Consultants Ltd

### 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

Morley Fund Management Ltd  
(from February 2004)

Standard Life Pension Funds Ltd  
(from August 2004)

Henderson Global Investors Ltd  
(to February 2004)

### 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)

### Custody Consultants

Chatham Partners

### Pension Consultants

SBJ Benefit Consultants Ltd

### Trustee

Verity Trustees Ltd



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