

dividends

equities

AWCS

Your Pension

Report to Pensioners and Contributors 2010

Hampshire Pension Fund



Report from Councillor Mark Kemp-Gee

Chairman of the Pension Fund Panel

2009/10 has been a challenging year for local government pension funds in general. Recently, there has

been much press comment about the cost of public sector pensions to the taxpayer, and suggestions have been made that public sector workers may soon have to pay more towards the cost of their pensions or accept reduced benefits. In addition, the Government has set up a commission to review public sector pensions. Its recommendations for reform are not yet known. Presumably they will aim to be fair to public sector workers and the taxpayer, and to ensure public sector pensions are affordable and can be paid in the long term. The Government has said that if changes are made to the Scheme, all past service benefits will be protected.

The actuarial valuation of the Pension Fund as at 31 March 2010 is in progress, and this will play a part in setting the employers' contribution rate for three years from 2011/12 onwards. The valuation results are expected later this year. After they have been published, the Pension Fund Panel will review the investment managers' performance and review its investment strategy for the coming years, making changes as it considers necessary.

The long-term objective is to achieve and maintain a funding level of 100% of liabilities to past and present contributors. As part of this, employers' and employees' contributions being paid into the Fund are expected to exceed the pension benefits payable over the next ten years by over £65 million a year. We will continue to meet the cost of future benefit

promises and try to gradually restore the funding level to 100%, while at the same time keeping employers' contribution rates as stable and affordable as possible.

This year has seen strong global stock market recoveries, with the result that the Hampshire Pension Fund has increased in value by 32.3% during 2009/10, compared to its benchmark return of 26.3%. At 31 March 2010, the Fund's total assets under management had recovered to an all-time high of £3,238 million.

This year we put in place a new training plan for Pension Fund Panel members as part of our ongoing commitment to training. Panel members have attended internally arranged sessions on various subjects chosen to fulfil identified training needs, as well as extra external seminars. Training logs have been maintained for all Panel members, detailing the training they have received and evaluating how well it has met their needs. The Panel recently discussed areas where they may need further training, and sessions are being scheduled for later this year.

2009/10 was the last year that the Pension Fund Panel had the benefit of working with Hampshire's County Treasurer Jon Pittam before his retirement in June 2010. I pay tribute to Jon's valuable expertise and advice, and thank him on behalf of the Panel for his service to the Pension Fund over the years. I also thank the Panel members and our officers for their sterling efforts during a challenging time for the Pension Fund.

I hope you find the following report helpful. We will keep everyone informed of any developments.

Councillor Mark Kemp-Gee
Chairman, Pension Fund Panel

Management arrangements

The Pension Fund Panel oversees the administration and management of the Pension Fund, including investments. The Panel reports to the County Council and consists of:

- nine county councillors
- a representative of the unitary city councils of Portsmouth and Southampton
- a representative of the 11 district councils in Hampshire
- two representatives of the Fund's pensioners, and employees, and
- an independent adviser without voting rights.

This leaflet includes reports from the pensioner and employee representatives.

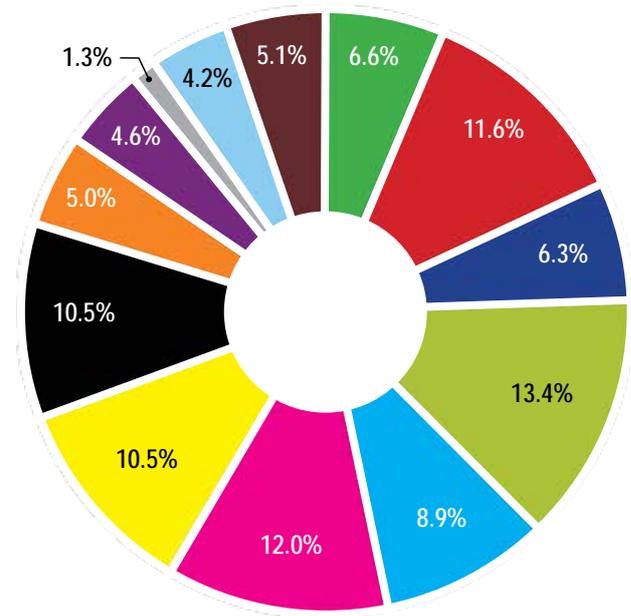
Following an in-depth review of the Fund's investment strategy, investments are now managed by fund managers responsible for several specialist portfolios. This arrangement began in January 2007.

Aberdeen, AllianceBernstein and Newton are each responsible for managing shares from all over the world, focusing on high performance. GLG Partners have a similar high-performance target for UK shares. Aberdeen and Schroders both manage lower-risk portfolios of UK shares. Western manage a global bonds portfolio, while Legal & General and State Street are responsible for the Fund's UK index-linked bonds. CB Richard Ellis Investors and Aberdeen Property Investors manage UK and European property portfolios.

The Pension Fund Panel has also decided to invest up to 10% of the Fund's total value in alternative investments over the long term. This is currently invested in private equity funds but other types of assets will be added in future. Aberdeen Asset Management have been appointed as the Fund's adviser on alternative investments.

All the share managers are expected to encourage the companies they invest in to adopt positive social, environmental and ethical policies. The Panel believes this is in the best long-term interests of these companies and their shareholders.

The diagram below shows the percentage breakdown of the Fund's investments held by each of the fund managers at 31 March 2010.



Manager	Value of investments on 31 March 2010 £ million	%
Aberdeen (UK equity portfolio)	216.1	6.6
Schroders (UK equity portfolio)	375.8	11.6
GLG Partners (UK equity portfolio)	205.4	6.3
Aberdeen (global equity portfolio)	433.9	13.4
AllianceBernstein (global equity portfolio)	287.4	8.9
Newton (global equity portfolio)	387.4	12.0
Legal & General (index-linked bond portfolio)	340.3	10.5
State Street (index-linked bond portfolio)	340.7	10.5
Western (global bond portfolio)	161.0	5.0
CB Richard Ellis (UK property)	148.9	4.6
Aberdeen (European property)	41.7	1.3
Alternative investments	134.4	4.2
Held centrally (for pension payments, investment, etc)	164.5	5.1
Total	3,237.5	100.0

You can find more about how the Fund is invested and managed in the Pension Fund's Annual Report, which includes its Statement of Investment Principles. For a copy of the report, please contact the Corporate Finance Section on 01962 847054.

How the Fund has performed

Following the financial crisis in 2008/09, global markets have recovered dramatically and all managers have shown correspondingly strong returns during 2009/10. The Pension Fund Panel will continue to closely monitor the investment managers' performance against their targets.

Global markets have performed well, so the Fund had a positive year in 2009/10 with a total return of 32.3%. This compares with a benchmark return of 26.3%. The investment managers are set targets to ensure they perform better than their benchmarks. The overall return target for 2009/10 was 28.7%. Despite the fall in the Fund's value in 2008/09, this year's rebound has meant that the Fund grew by 1.7% a year over the three years to March 2010.

Actuary's statement

The Scheme Regulations require the Hampshire Pension Fund to have a full actuarial valuation every third year.

This is to:

- establish that the Fund can meet its liabilities to past and present contributors, and
- review employer contribution rates.

The last full actuarial investigation into the Fund's financial position was completed at 31 March 2007. It showed that the position had improved since the previous valuation at 31 March 2004 in terms of the Fund's ability to cover the benefits promised to Fund members for service before the valuation date. This was mainly due to higher-than-expected investment returns and additional employers' contributions.

The value of the Fund's assets was enough to cover 77% of the promised benefits earned up to 31 March 2007 by the Fund's members (that is, a 77% funding level). The cost of future benefit promises had increased compared with the costs identified in the 2004 valuation. This was due to the combined effects of benefit changes, changed economic conditions and increased life expectancy.

Employers' contribution rates have been raised from 1 April 2008. We aim to continue to meet the cost of future benefit promises and gradually restore the funding level to 100%.

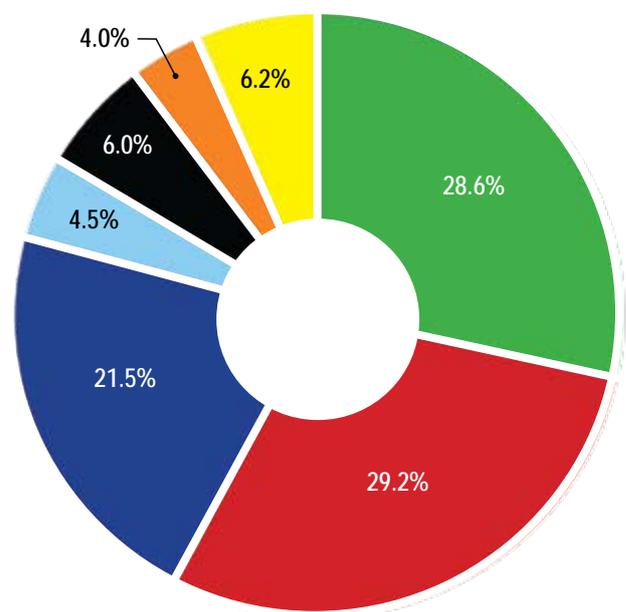
The Fund's next actuarial valuation, looking at the position as at 31 March 2010, is under way.

Auditor's opinion

The Hampshire Pension Fund accounts form part of the County Council's statutory accounts. The auditor will give an opinion on the Council's accounts, including the Hampshire Pension Fund's accounts, after the Council's Audit Committee has considered the auditor's report on 29 September 2010. This leaflet contains a summary of the unaudited figures.

Investments

The breakdown of the Fund's investments at 31 March 2010 is shown below.



UK shares	28.6%
Overseas shares	29.2%
UK index-linked bonds	21.5%
Overseas bonds	4.5%
UK and European property	6.0%
Alternative investments	4.0%
Cash held pending investment	6.2%
Total	100.0%

Summary of accounts 2009/10

A full version of the accounts is published as part of the County Council's Statement of Accounts for the year ended 31 March 2010. The Pension Fund annual report gives more details of the investments and management arrangements including the Pension Fund's accounts.

Revenue account	2008/09 £ million	2009/10 £ million
Income		
Employees' contributions	55	58
Employers' contributions	152	166
Transfer values received	13	22
Income from investments	80	68
	300	314
Spending		
Pensions and benefits	146	160
Transfer values paid	8	18
Investment and other costs	10	12
	164	190
Surplus	136	124

Note: transfer values (which represent the cash value of a member's pension rights) are received or paid when a contributor joins the Fund from another pension scheme, or leaves the Fund.

Net assets statement at 31 March		
	2009 £ million	2010 £ million
Market value of investments	2,211	3,016
Cash we hold and amounts owed to us	185	222
Total	2,396	3,238

Income in 2009/10 was £124 million more than spending. This money is re-invested to pay for future pensions and benefits.

Report from Phillip Reynolds, employee representative

It has been a busy year again for the Pension Fund Panel, with a much improved financial situation when compared with the previous year, as reported elsewhere in this leaflet. The Panel has met more regularly and has also had training on subjects ranging from the actuarial valuation to alternative investments.

As well as meeting the investment managers, the Panel has also discussed the BP Oil Sands Campaign and the Pension Fund's investment in companies that promote drinking and smoking.

The Pension Scheme is again under scrutiny but it's important that any reforms we make are not knee-jerk reactions to the so-called 'black hole' in public service pension schemes.

Pension liabilities stretch over many decades and in the Hampshire Fund we are cash rich, with income from contributions far outweighing payments to pensioners.

The Pension Fund is undergoing a three-yearly review by the Fund actuary Hewitts; we will know the outcome of this in the autumn. By then the Government's Independent Public Service Pensions Commission should have also reported its initial findings. It's worth noting that the Government has said that if changes are made to the Scheme, they will not be retrospective and all past service benefits will be protected.

If you have any questions about the Fund or the Local Government Pension Scheme, you can contact me via email at phil.reynolds@gosport.gov.uk or on 02392 545331.

Report from E W Hughes, pensioner representative

Action taken by central governments as a result of the banking crisis led to substantial rises in world-wide equity markets. The Fund benefited accordingly, having risen in value from £2.4 billion at 31 March 2009 to £3.2 billion a year later:

The Fund is in a strong financial position and it is reassuring that it is currently running a surplus of around £65 million a year, excluding net income from investments. This is invested for future pension payments.

The property portfolio continues to be a good diversifier for the Fund. The actual return (net of fees) for the year was 29.3% and this is well above the Investment Property Databank benchmark. Further amounts have been made available to the Fund's UK property manager, who has been asked to invest cautiously.

The three-yearly actuarial valuation is currently in progress. The Panel will review its investment policy after the valuation. You can contact me on 01425 472830 if you have any points to raise about the Fund.



Changes affecting members who joined the scheme before 5 April 1988

If you have registered a civil partnership, your civil partner will now qualify for a survivor's pension based on all your scheme membership since 1 April 1972. This brings civil partners' benefits in line with spouses' benefits (widows' and widowers'). Before this change to the regulations, civil partners' pensions were based on membership after 5 April 1988 only.

If you have nominated a cohabiting partner to receive a survivor's pension, the survivor's pension will be based on membership after 5 April 1988 only. If you have membership before 5 April 1988, you can now choose to pay additional contributions so that any membership before 5 April 1988 can be taken into account when calculating benefit to be paid to your surviving nominated cohabiting partner.

Cohabiting partners

If you are not married or have not registered a civil partnership but you are living together, your partner could be eligible to receive a pension if you die. If you were an active member on or after 1 April 2008 and your partnership meets certain conditions, you can nominate your partner to receive a survivor's pension by signing a joint declaration. The nomination form is available from Hampshire's Pensions Services website: www.hants.gov.uk/finance/pensions

Earliest retirement age

Normal retirement age under the Scheme is 65, but members can choose to retire from age 60 and receive their benefits immediately although these may be reduced for early payment.

From 1 April 2010, the earliest age you can receive the immediate payment of a pension from the Local Government Pension Scheme (except because of permanent ill-health) increased from 50 to 55.

To draw your pension before the age of 60, you must:

- be made redundant, or
- be retired early by your employer because of efficiency

savings, or

- have your employer's permission to draw your pension immediately.

If you are made redundant or leave on efficiency grounds and you are under 55, your benefits will be deferred (remain in the Scheme) until you are at least 60. Alternatively, if you become a member of another pension scheme, you could transfer your pension rights to that scheme.

If you change your address

Please remember to write to let us know if you change your address, especially if you are a deferred or pensioner member. Once we have updated our records we will let you know.

Customer Service Excellence Award

Hampshire Pensions Services were awarded the Customer Service Excellence Award in March 2009. Also, in March 2010, we successfully passed our annual health check for this award, which recognises our ongoing commitment to our customers and highlights our continuing service improvements.

Pensions Services – standards of service and performance

The Pensions Services section of the County Treasurer's Department is responsible for the day-to-day running of the Local Government Pension Scheme in Hampshire. It looks after more than 115,000 Scheme members.

	2008/09	2009/10
Contributors	47,469	49,006
Deferred members	33,549	36,756
Pensioners or dependants	28,378	29,245
Total	109,396	115,007
Full-time equivalent Pensions Services staff in post	33.5	34.7
Number of Fund members for each person employed by the Fund	3,266	3,314

Complaints

If you have a complaint about the service, Pensions Services staff will do their best to put things right. If you are still dissatisfied, you can write to the Complaints Officer at:

The Complaints Officer
County Treasurer's Department
Hampshire County Council
The Castle
Winchester
SO23 8UB

In 2009/10, we received one complaint from among the Fund's 49,006 contributors, two from our 29,245 pensioners and two from the 36,756 deferred members. Although none was upheld as valid, in each case we reviewed our processes to improve communication and understanding.

Appeals

If you think your employer has mishandled your pension rights, you should first ask them for a formal review. However, if you are appealing a Pensions Services decision, you should ask the County Treasurer for the review. If in either case you are still dissatisfied, you can appeal to the Pensions Appeals Panel of county councillors and after that to the Pensions Ombudsman.

Pensions increase

Your pension is guaranteed to increase every April in line with the cost of living, which is currently based on the rise in the Retail Price Index (RPI) over the 12 months to the previous September. The RPI for September 2009 fell by 1.4%. However, the Government decided that pensions should remain unchanged rather than being reduced by the 1.4% fall in the RPI.

Other publications

Your pension – an employee's guide

Available from personnel managers or the website:
www.hants.gov.uk/finance/pensions

Annual benefit statement 2010

Personal illustration of benefits sent annually to all contributors and deferred pensioners.

Pensioners' newsletter – spring 2010

Information about pension increases and pension payment dates.

Annual report and accounts 2009/10

The Pension Fund's annual report and accounts. Copies are available from the Corporate Finance Section on 01962 847054. The annual report is also available from the County Council's website:
www.hants.gov.uk/finance/pensions

How to contact Pensions Services

By telephone 01962 845588

By e-mail pensions@hants.gov.uk

By fax 01962 846127

By letter Pensions Services Section
County Treasurer's Department
Hampshire County Council
The Castle
Winchester
SO23 8UB

Website The website gives information about the pension scheme, contact details, up-to-date news on current issues and useful links to other sites. Visit our website at:
www.hants.gov.uk/finance/pensions

A larger-print version of this report is available from:

Corporate Finance Section
County Treasurer's Department
Hampshire County Council
The Castle
Winchester
SO23 8UB

Published by **Carolyn Williamson**
County Treasurer



Printed September 2010
© 2010 Hampshire County Council
Design www.toucandesignuk.com
Printed by Hampshire Printing Services on recycled paper