

Your Pension

Report to pensioners and contributors 2012

Report from Councillor Mark Kemp-Gee Chairman of the Pension Fund Panel



During 2011/12, there have been important developments in the Government's reform of public service pensions. Following the publication of Lord Hutton's report in March 2011 on his independent review, the Local Government Association and the trade unions published proposals in May 2012 for a new Local Government Pension Scheme,

known as LGPS 2014. These proposals have been accepted by the Government and work is now underway on the details of the scheme. A key feature of LGPS 2014 is that it will be a Career Average Revalued Earnings (CARE) scheme, replacing the current final salary scheme. The Government has said that all past service benefits will be protected.

This year global stock markets have experienced prolonged periods of market volatility, particularly in Autumn 2011. The Pension Fund has continued to deliver positive returns against this backdrop of difficult market conditions. Overall the Pension Fund's investment return was 5.1% in 2011/12. As a result the Fund's total assets under management have increased to a new all-time high of £3,777 million at 31 March 2012. It seems likely, however, that markets will continue to follow a volatile path.

Following a detailed review of the Pension Fund's investment strategy, the Pension Fund Panel has reduced the level of risk in the strategic asset allocation by agreeing to some changes to the portfolios and investment management arrangements, with effect from October 2011.

In addition, the Pension Fund Panel has agreed to introduce a tactical, or medium term, approach to changes in its asset allocation. The aim is for the Pension Fund to be able to respond more quickly to major events in investment markets, or to act in advance of them.

I am delighted to report that in March 2012 the Pension Fund won a prestigious IPD/IPF Property Investment Award 2012 for UK property with the highest investment return over the three years to 31 December 2011 for portfolios of between £100 million and £350 million.

In these changing times, it is important that members of the Pension Fund Panel maintain their level of knowledge about pensions matters. I am pleased that during 2011/12 Panel members have shown their continued commitment to training by attending an internally arranged bespoke training session as well as external seminars covering a wide range of topics.

I would like to thank all Panel members for their sterling efforts for the Pension Fund during the year.

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

A handwritten signature in blue ink that reads "Mark W. Kemp-Gee". The signature is written in a cursive style and is underlined.

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
- ◆ two representatives of the unitary city councils of Portsmouth and Southampton
- ◆ two representatives 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.

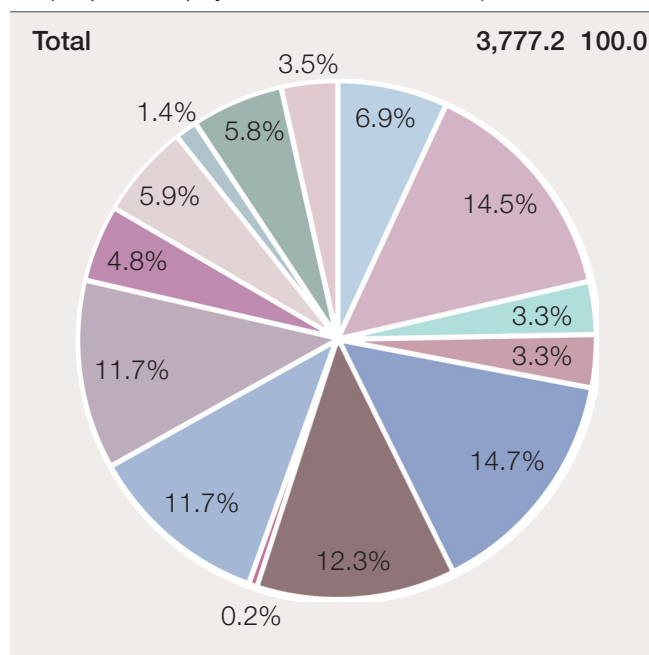
Following an in-depth review of the Fund's investment strategy, investments are now managed by fund managers responsible for several specialist portfolios. This arrangement began in January 2007. The Pension Fund Panel reviewed the management structure and it was decided to reduce risk in the Pension Fund's investment arrangements. Some changes were introduced to reflect this and the new arrangements were implemented in October 2011.

During 2011/12, the Pension Fund had fund managers in place to manage portfolios of high performance global and UK equities, lower-risk UK equities, global and UK index-linked bonds, UK and European property, and alternative investments.

All the equity 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 Hampshire Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk.

The diagram shows the percentage breakdown of the Fund's investments held by each of the fund managers at 31 March 2012.

Manager	Value of investments on 31 March 2012 £ million	%
Aberdeen (UK equity portfolio)	262.3	6.9
Schroders (UK equity portfolio)	546.6	14.5
Legal & General (UK equity portfolio)	126.0	3.3
State Street (UK equity portfolio)	126.6	3.3
Aberdeen (global equity portfolio)	554.0	14.7
Newton (global equity portfolio)	465.6	12.3
Aberdeen (frontier markets fund)	6.0	0.2
Legal & General (index-linked bond portfolio)	440.1	11.7
State Street (index-linked bond portfolio)	440.8	11.7
Western (global bond portfolio)	180.6	4.8
CBRE (UK property)	221.0	5.9
Aberdeen (European property)	51.3	1.4
Alternative investments	217.3	5.8
Held centrally (for pension payments, investment, etc)	139.0	3.5



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. The annual report is available from the County Council's website: www.hants.gov.uk/finance/pensions

How the Fund has performed

Although equity markets recovered strongly in 2009/10 and 2010/11, the market volatility during 2011/12 served to highlight the uncertainty of market conditions. Both global and UK markets have delivered positive returns for the year. The Pension Fund Panel will continue to monitor the investment managers' performances against their targets. The total investment return for the Hampshire Pension Fund in 2011/12 was 5.1%. The rebound in 2009/10 following the financial crisis and the continued growth in 2010/11 and 2011/12 has meant that the Fund's investment return was 14.6% a year over the three years to March 2012.

Statement of the Actuary for the year ended 31 March 2012

The Scheme Regulations require a full actuarial valuation every third year. This is to establish that the Hampshire Pension Fund can meet its liabilities to past and present contributors, and to review employer contribution rates.

The last full actuarial investigation into the financial position of the Fund (the actuarial valuation) was completed at 31 March 2010. The valuation at 31 March 2010 showed that the Fund's financial position had deteriorated since the previous valuation at 31 March 2007 in relation to benefits promised for service before the valuation date. The value of the Fund's assets was enough to cover 72% of the value of the benefits earned to date (the 'funding target') by the Fund's members (that is, a 72% 'funding ratio'). The funding ratio has reduced since the previous valuation (from 77%) as a result of lower than anticipated returns on Fund assets, an increase in the markets view of RPI inflation, and an allowance for an increase in life expectancy. These were only partially offset by a change in pension indexation from RPI to CPI, and an increase in assumed level of returns on assets.

The cost of future benefit promises reduced compared with the costs identified in the previous valuation from 14.5% of Pay to 13.2% of Pay. This was as a result of an increase in the markets view of RPI inflation and an allowance for an increase in life expectancy, which were more than offset by a change in pension indexation from RPI to CPI and an increase in assumed level of returns on assets.

Overall employers' contribution rates have been maintained at their current level from 1 April 2011 to 31 March 2014. The next actuarial valuation of the Fund is due to take place as at 31 March 2013, which will determine employer contributions for the 3 years commencing 1 April 2014. The aim is to continue to meet the cost of future benefit promises and also restore gradually the funding level to 100%.

Aon Hewitt Limited, August 2012

Auditor's opinion

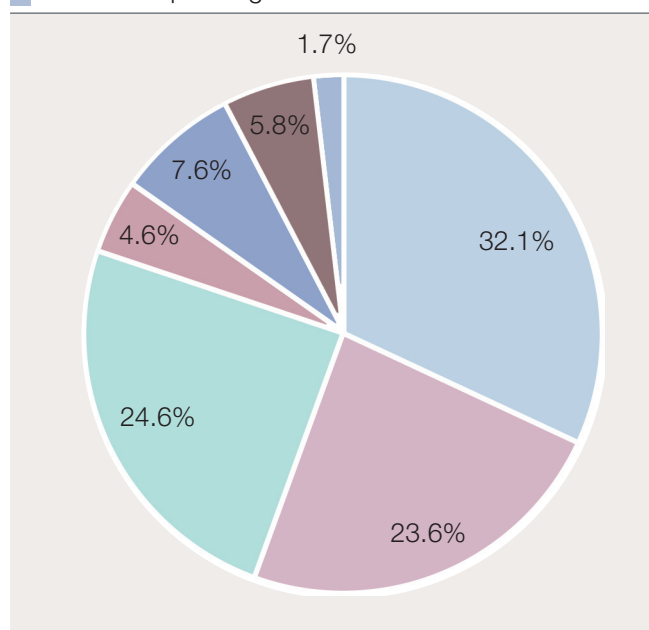
The Hampshire Pension Fund accounts form part of the County Council's statutory accounts. The auditor gave an unqualified opinion on the Council's accounts, including the Hampshire Pension Fund's accounts on 27 September 2012. This leaflet contains a summary of the audited figures.

Investments

The breakdown of the Hampshire Pension Fund's investments on 31 March 2012 is shown below:

Breakdown of the Hampshire Pension Fund's investments on 31 March 2012

	%
UK equities	32.1
Overseas equities	23.6
UK bonds	24.6
Overseas bonds	4.6
UK and European property	7.6
Alternative investments	5.8
Cash held pending investment	1.7



Summary of accounts 2011/12

A full version of the accounts is published as part of the County Council's Statement of Accounts for the year ended 31 March 2012. The Pension Fund annual report gives more details of the investments and management arrangements including the Pension Fund's accounts.

Revenue account

	2010/11 £'000	2011/12 £'000
Income		
Employees' contributions	58	55
Employers' contributions	175	174
Transfer values received	22	31
Income from investments	77	87
	332	347

Spending

Pensions and benefits	182	201
Transfer values paid	13	10
Investment and other costs	13	12
	208	223

Surplus	124	124
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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

	2010/11 £'million	2011/12 £'million
Market value of investments	3,441	3,641
Cash we hold and amounts owed to us	117	123
Long term debtors	0	13
Total	3,558	3,777

Income in 2011/12 was £124 million more than spending. This money is re-invested to pay for future pensions and benefits.

The Pension Fund Panel has reviewed the frequency of meetings with the investment managers. Also, the Director of Corporate Resources has re-negotiated the fees payable and made significant savings for the Pension Fund.

The Panel have appointed a new independent adviser and reviewed the Investment Strategy, Property Portfolio and the Pension Fund's Statutory Statements.

At the time of writing, consultation on a new-look Local Government Pension Scheme (LGPS) is taking place with the Trade Unions and Employers. Proposals include changing from a final salary scheme to a career average (CARE) one. There is also an option for a low cost 50/50 membership for those who previously have not joined the LGPS, or who have opted out for financial/personal reasons.

The new scheme will be implemented in April 2014, and all past service and pension accrued to that date will be protected.

The impact of the proposed changes on the Pension Fund should be a positive one, encouraging existing members of the scheme to remain part of the LGPS and encourage new members to join.

If you have any questions about the fund or the LGPS you can contact me via email at phil.reynolds@gosport.gov.uk or call me on 02392 545331.

Report from E W Hughes, pensioner representative

There has been much turbulence in world financial markets during the past year. The Fund is well diversified with specialist managers, and this has the effect of smoothing fluctuations in different sectors. The bonds portfolio has performed particularly well, and has proved to be a very good asset class in recent years.

The Fund managers have been given performance targets and the Panel receives regular reports on what has been achieved. In addition, meetings are held with the managers, when performance is carefully scrutinised.

I am pleased to say the Fund continues to grow in value and had reached £3,777 million at 31 March 2012. The Fund continues to produce a healthy surplus. In the past year, there was a surplus of £124 million, which is available for investment for future pensions.

This is my last report as the Pensioners' Representative on the Pension Fund Panel. It has been a privilege as well as a pleasure to serve pensioners in this way. I wish my successor every success in the future.

You can contact me on 01425 472830 if you have any points to raise about the Fund.

New 2014 LGPS scheme

Proposals for the new scheme design were released on 31 May 2012.

The key features of the proposed 2014 scheme are:

- ◆ a Career Average Revalued Earnings (CARE) scheme (currently final salary)
- ◆ an accrual rate of 1/49th (currently 1/60th)
- ◆ pension age matched to an individual's state pension age (currently 65 for all members)
- ◆ average member contributions of 6.5%, but those earning above £43,000 will pay between 8.5% and 12.5% (currently the highest rate is 7.5%)
- ◆ an option to pay 50% less contributions in return for 50% pension benefits (expected to be taken up by those considering opting out for a short period)
- ◆ protection for benefits accrued to 31 March 2014 and full protection for members who were within 10 years of age 65 in April 2012.

The next stage of the project is for unions and the LGA to consult members and employers on the proposals. If the outcome of these discussions is favourable then it is anticipated that the Government will move to a statutory consultation on the regulations later in Autumn 2012.

Annual allowance

HM Revenue and Customs (HMRC) introduced a change to the pension tax regime with effect from 6 April 2011, reducing the annual allowance (the amount a pension can increase each year without incurring tax charges) from £255,000 to £50,000.

As more members are affected by this lower limit, HMRC have introduced a requirement for annual allowance information to be provided each year to members, which will be achieved by inclusion of the figure in annual benefit statements.

Members who exceed the annual allowance can use unused allowances from the preceding three years to offset the chargeable amount. Members with a tax charge greater than £2,000 can ask for the scheme to pay the tax over to HMRC on their behalf, in exchange for a reduction in their pension benefits.

From 6 April 2012, the lifetime allowance was reduced from £1.8 million to £1.5 million. Those whose pensions exceeded £1.8 million at 5 April 2012 were entitled to apply for protection against this reduction.

Automatic enrolment

Under the Pensions Bill 2011, all employers will be obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years. The implementation of this requirement is being rolled out from October 2012 over a period of years, starting with the largest employers (according to PAYE references).

Changes to LGPS regulations will be made so that the LGPS becomes a qualifying scheme under the automatic enrolment regulations, and can be used as such by Fund employers.

Customer Service Excellence

Pensions Services have held Customer Service Excellence, the government standard for excellence in customer service, since April 2009. In April 2012 Pensions Services underwent a second full assessment across 57 separate areas and were found to have reduced the areas of partial non-compliance from four to two. One of these areas related to the backlog of notional transfers which has now been eliminated. The other related to changing the presentation of performance indicators to make them clearer for external users.

In the review report, Pensions Services were praised for their engagement with customers, excellent partnering arrangements and a comprehensive number of ongoing projects all geared to improving customer service. Amongst many other achievements, the Assessor reported:

- ◆ a regular and robust performance monitoring system
- ◆ a strong ongoing culture of commitment to customer service
- ◆ a customer focused attitude with a mind-set for continuous improvement

Member and employer support

During the year, Pensions Services continued to provide presentations for members of the Fund, and training for employers. Over 1,500 people attended one of the pre-retirement or roadshow presentations which were held in various locations across the county.

Pensions Services hosted 11 induction days for employers, attended by over 100 people working in employer payroll and HR functions. The aim of these training days is to help employers understand their statutory responsibilities and provide timely, accurate data for pension scheme members.

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
Corporate Services
Hampshire County Council
The Castle
Winchester
SO23 8UB

In 2011/12, there were no complaints from either the 32,192 pensioners or the 45,616 deferred members. Three complaints were received from among the Fund's 45,633 contributors. In each case, we reviewed the relevant processes, procedures and communications, to enable us to provide a better customer service.

Appeals

The LGPS regulations provide a formal appeal process for members. Applications for an appeal to be heard should be made either to your employer if it is about a decision they have taken or to the Director of Corporate Resources if you are appealing a decision taken by Pensions Services. 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.

Other publications

Your pension – an employee's guide

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

Annual benefit statement 2012

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

Pensioners' newsletter – Spring 2012

Information about pension increases and pension payment dates.

Annual report and accounts 2011/12

The Pension Fund's annual report and accounts. The annual report is 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 834537

By letter Pensions Services Section
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



Published by Carolyn Williamson
Director of Corporate Resources