

# Your Pension

Report to pensioners and contributors 2013

2012/13



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

The past year has continued to be a challenging time for the Pension Fund, as difficult market conditions persist on a global scale. Despite this, 2012/13 has seen strong performance for the Pension Fund's investments, as stock markets delivered impressive returns over the year to 31 March 2013. This is set against a backdrop of uncertainty, as since 31 March 2013 markets have been volatile, and there is continued doubt about what the future will hold, particularly with regard to the Eurozone. Nevertheless, the value of the Pension Fund at 31 March 2013 had reached a record high of £4,341 million, and the Pension Fund has achieved a total investment return of 15.0% during 2012/13.

The Pension Fund Panel have continued to monitor closely the Pension Fund's investments, and some changes have been made during 2012/13. The Pension Fund has successfully introduced a tactical asset allocation portfolio. 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 in order to better protect the value of the Fund's investments. We will be watching this portfolio with interest to see how it develops over time.

During 2012/13, there have continued to be important developments in the Government's reform of public service pensions, and I look forward to the introduction of the Government's Local Government Pension Scheme 2014 (LGPS 2014) next year. Work is continuing on the implementation of the scheme, and regulations have now been published by the Government. 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.

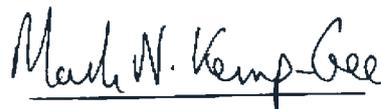
I look forward to the results of the actuarial valuation of the Pension Fund at 31 March 2013, which should be available this autumn. This will set the employers' contribution rates for the years from 2014/15.

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 to report that during 2012/13 Panel members have shown their continued commitment to training by attending several internal and external seminars covering a wide range of topics.

Following the recent County Council elections I am delighted to welcome the newly appointed members of the Pension Fund Panel, along with our new pensioners' representative, Dr Clifford Allen, who was recently selected following a rigorous recruitment process. I would like to thank the previous pensioners' representative, Mr E. W. Hughes, for his many years of excellent service. I look forward to working with the new Panel members over the coming year.

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 report helpful. We will keep everyone informed of any developments.



Councillor Mark Kemp-Gee  
Chairman, Pension Fund Panel  
September 2013





## 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.

In addition, there is an independent adviser without voting rights.

This leaflet includes reports from the pensioner and employee representatives.

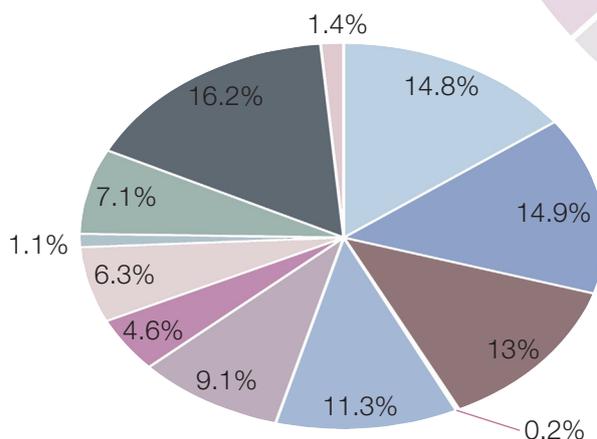
Following an in-depth review of the Fund's investment strategy, investments are now managed by fund managers responsible for several specialist portfolios. This arrangement began in January 2007. The Pension Fund Panel reviewed the management structure during 2012/13 and as a result a tactical asset allocation portfolio has now been implemented.

During 2012/13, 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. There is also the new tactical asset allocation.

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 below shows the percentage breakdown of the Fund's investments held by each of the fund managers at 31 March 2013.

Value of investments on 31 March 2013

Manager	£ million	%
Schroders (UK equity portfolio)	642	14.8
Aberdeen (global equity portfolio)	646	14.9
Newton (global equity portfolio)	564	13.0
Aberdeen (frontier markets fund)	8	0.2
Legal & General (index-linked bond portfolio)	491	11.3
State Street (index-linked bond portfolio)	395	9.1
Western (global bond portfolio)	200	4.6
CBRE (UK property)	271	6.3
Aberdeen (European property)	49	1.1
Alternative investments	310	7.1
Tactical asset allocation	702	16.2
Held centrally (for pension payments, investment, etc)	63	1.4
<b>Total</b>	<b>4,341</b>	<b>100.0</b>



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](http://www.hants.gov.uk/finance/pensions)

## How the Fund has performed

Overall investment market conditions continue to be unpredictable and challenging for the Pension Fund. Although performance was strong during 2012/13, there has been significant volatility in global markets since 31 March 2013, and it is anticipated that this instability will persist for the foreseeable future.

Both global and UK markets have delivered positive returns for the year. Property aside, the managers have shown strong positive performance returns during

2012/13. The Pension Fund Panel will continue to monitor the investment managers' performances against their targets on a rolling three-year basis.

The total investment return for the Hampshire Pension Fund in 2012/13 was 15.0%. This compares with a weighted benchmark return of 13.5%. The continued growth in markets has meant that the Fund's investment return was 9.4% a year over the three years to March 2013.

## Statement of the Actuary for the year ended 31 March 2013

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, July 2013

## Auditor's opinion

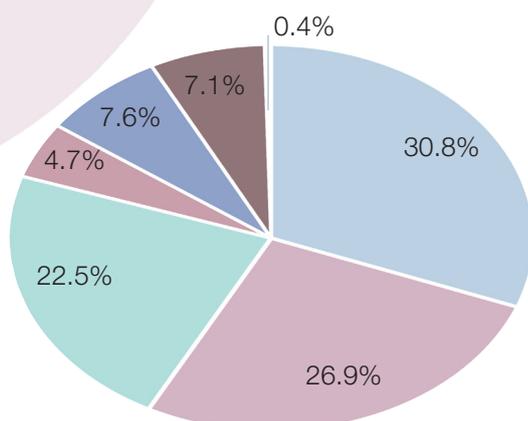
The Hampshire Pension Fund accounts form part of the County Council's statutory accounts. The auditor gave an unqualified opinion on the Council's accounts,

including the Hampshire Pension Fund's accounts on 30 September 2013. This leaflet contains a summary of the audited figures.

## Investments

The breakdown of the Hampshire Pension Fund's investments on 31 March 2013

	%
UK equities	30.8
Overseas equities	26.9
UK bonds	22.5
Overseas bonds	4.7
UK and European property	7.6
Alternative investments	7.1
Cash held pending investment	0.4



## Summary of accounts 2012/13

A full version of the accounts is published as part of the County Council's Statement of Accounts for the year ended 31 March 2013. The Pension Fund annual report gives more details of the investments and management arrangements including the Pension Fund's accounts.

### Dealings with members, employers and others directly involved in the Fund

	2011/12 £ million	2012/13 £ million
<b>Fund account</b>		
Employees' contributions	55	53
Employers' contributions	174	164
Transfers in from other pension funds	31	14
Benefits	-201	-197
Payments to and on account of leavers	-10	-20
Administration expenses	-3	-3
<b>Net additions from dealings with members</b>	<b>46</b>	<b>11</b>

### Returns on investments

Investment income	87	88
Profits and losses on disposal of investments and changes in the market value of investments	94	473
Investment management expenses	-8	-9
<b>Net increase in net assets</b>	<b>219</b>	<b>563</b>

### Net assets statement at 31 March

	2012 £ million	2013 £ million
Market value of investments	3,641	4,192
Cash we hold and amounts owed to us	123	138
Long term debtors	13	11
<b>Total</b>	<b>3,777</b>	<b>4,341</b>

## Report from Phillip Reynolds, employee representative

The Pension Fund value at 31 March 2013 was £4,341m which is 15% higher than the value of the Fund 12 months earlier. This is especially good news as we are having the tri-annual review of the Fund undertaken by our actuaries, Aon Hewitt. Hopefully the Fund's value will reflect well in any outcomes for both employees and employers.

Equity markets have done especially well in recent months. Bond prices have also stood up well. The jury is out on whether or not this will continue when there might be a pause in the central banks' quantitative easing programmes.

Pensions auto enrolment is being rolled out across all employers and Hampshire County Council, Portsmouth and Southampton are now all engaged. Other authorities

in Hampshire will have a staging date in the next 12 months. It will be healthy for the Pension Fund to have more members but it must be remembered that this will increase the paybill for employers.

The new Local Government Pension Scheme is to be implemented on 1 April 2014. This may affect the way the scheme is managed and could mean that an additional, separate, pension board will be set up with 50:50 membership. It is therefore likely that we will need many more employee representatives in the near future.

If you have any questions about this report, or any about the Fund, you can contact me via email at - [phil.reynolds@gosport.gov.uk](mailto:phil.reynolds@gosport.gov.uk) or call me on 02392 545331.

## Report from Clifford Allen, pensioner representative

As a newly appointed member of the Hampshire Pension Fund Panel I look back with thankfulness and appreciation to the many years of service given to this work by Mr. E W Hughes. During his time in office he has seen the Pension Fund go through times of financial stability, financial crises and he leaves as times of financial recovery seem to be growing stronger. We thank him for his service and wish him well for the future.

This is my first report after being appointed in May, so first a little about me by way of introduction. I have lived and worked in Hampshire for more than forty years. I began working for Hampshire County Council and then moved to one of Hampshire's Unitary Authorities. In retirement I am concerned to ensure that our Pension Fund continues to be well managed, enjoys a good level of growth and is sustainable into the future.

I am pleased to report that the Pension Fund has benefited from increasing confidence about economic recovery and grown in value. A year ago the Pension Fund was valued at £3,777 million, and as of the 31 March 2013 the value was £4,341 million representing an increase of 15% growth. Our Pension Fund managers, having been given performance targets, are responding to the opportunities of financial recovery. The coming year will see a number of initiatives enabling the Fund to take advantage of further opportunities for growth.

You can contact me about the Pension Fund on 01489 559982.

## New 2014 LGPS scheme

A new LGPS scheme will come into effect from 1 April 2014. The key features of the new 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.

More details on the new scheme can be found on [www.LGPS2014.org](http://www.LGPS2014.org)

## 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 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.

The annual allowance will be reduced to £40,000 from 6 April 2014.

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.

The lifetime allowance will be further reduced to £1.25 million from 6 April 2014. Members will be able to apply for individual protection from this date.

Further information can be found on the HMRC website [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## Automatic enrolment

Under the Pensions Act 2011, all employers are 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 five years, starting with the largest employers (according to PAYE references).

The LGPS is a qualifying scheme under the automatic enrolment regulations, and can be used as such by Fund employers.

Further information on automatic enrolment can be found on the Pensions Regulator website [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

## Administration performance

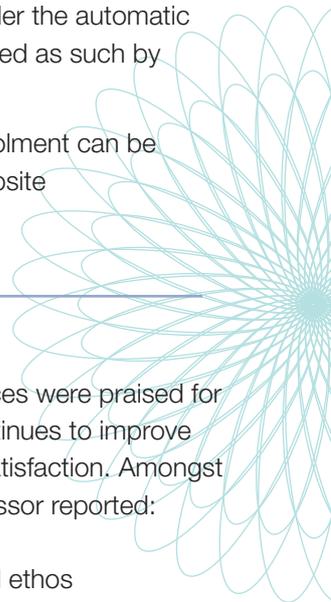
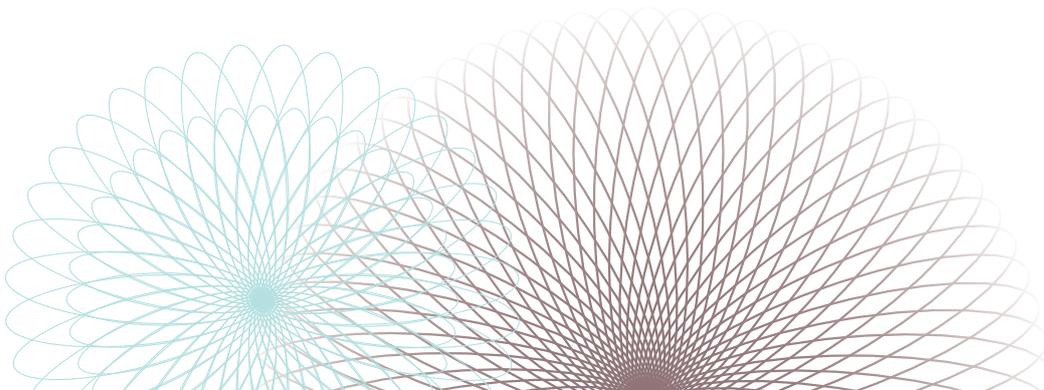
Pensions Services aim to be top quartile for performance, while remaining bottom quartile for costs. Throughout the year, Pensions Services have achieved this objective with 100% delivery against published service standards for all key areas of administration.

Pensions Services have held Customer Service Excellence, the Government standard for excellence in customer service, since April 2009. In April 2013, Pensions Services underwent an annual review in which the Assessor considered progress against 57 criteria. Pensions Services now achieve full compliance in all areas, and have been awarded a compliance plus for the commitment to customer excellence.

In the review report, Pensions Services were praised for front line service delivery, which continues to improve and enjoy high levels of customer satisfaction. Amongst many other achievements, the Assessor reported:

- ongoing process improvements
- an embedded customer focussed ethos
- setting and meeting a challenging set of targets and standards.

The annual internal audit opinion for Pensions Services was that the section has a sound framework of governance, risk management and management control that is operating in practice.



## Member and employer support

During the year, Pensions Services continued to provide presentations for members of the Fund, and training for employers. Thirty pre-retirement or roadshow presentations were held in various locations across the county, and were attended by over 800 people.

Pensions Services also hosted eight induction days for employers, attended by 86 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. An additional seven training

sessions were run in March 2013 to help employers complete their annual returns.

Pensions Services regularly provide pensions updates to other groups and forums such as the Hampshire Pay Officers Group, Society of Local Council Clerks and further education colleges forums.

A full communication plan for the 2014 scheme changes is being developed in line with plans from the national working group and in consultation with fund employers.

## 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 2012/13, Pensions Services received six complaints, which were investigated and responded to by a senior manager in accordance with the published complaints process.

Four of these complaints related to the application of scheme regulations by Pensions Services. These complaints were not upheld as the regulations were found to have been correctly applied.

The other two complaints were about the service provided by Pensions Services to the member. In these, as in all complaint cases, we reviewed the relevant processes, procedures and communications, to enable us to provide a better customer service in the future.

## Appeals

The LGPS regulations provide a two stage formal appeal process for members. Applications for an appeal to be heard are made either to the employing authority if it is about a decision they have taken or to the Director of Corporate Resources at Hampshire County Council if it concerns a decision taken by Pensions Services. Second stage appeals are heard by Hampshire County Council as the administering authority. Appeals which

have proceeded through both stages of the formal process can be heard by the Pensions Ombudsman.

In 2012/13 three appeals were heard at both stages of the formal process. All three appeals were dismissed, and the original decisions upheld as correct under LGPS regulations.

## Other publications

<b>Your pension – an employee's guide</b>	Available from HR or the pensions website: <a href="http://www.hants.gov.uk/finance/pensions">www.hants.gov.uk/finance/pensions</a>
<b>Annual benefit statement 2013</b>	Personal illustration of benefits sent annually to all contributors and deferred pensioners.
<b>Pensioners' newsletter – Spring 2013</b>	Information about pension increases and pension payment dates.
<b>Annual report and accounts 2012/13</b>	The Pension Fund's annual report and accounts is available from the County Council's website: <a href="http://www.hants.gov.uk/finance/pensions">www.hants.gov.uk/finance/pensions</a>
<b>How to contact Pensions Services</b>	Telephone - 01962 845588 e-mail - <a href="mailto:pensions@hants.gov.uk">pensions@hants.gov.uk</a> Fax - 01962 834537 By letter - Pensions Services, Hampshire County Council, The Castle Winchester SO23 8UB