LPFA Winter Newsletter 2006

Your pension

LONDON PENSIONS FUND AUTHORITY

And it's goodbye from Peter Scales

It seems hardly any time at all since I took the decision back in the autumn of 2005 to retire from LPFA and by the time you read this, I will have retired.

Much has happened over the past year and there still seems much for me to do before I leave in about four weeks time. By far the saddest moment in the year for LPFA was the death of Phil Goodwin in February and I think many of us are still recovering from that. For me personally, the loss of my mother in the summer was a distressing time, but life must move on.

Letting go of the control of an organisation that I have seen grow and develop over the years was particularly difficult. Mike Taylor has made it very easy in some ways by picking up the reins quickly and professionally, but it is still hard. I wish the new team continuing success for LPFA and in maintaining a high

In this edition

quality service for you the members.

The story I can tell with some pride relates to the whole span of my career. Some of you will have heard it or indeed know it from the personal experience of being there ~ in which case look away now.

However, I started work on 19th July 1965 as a Clerical Officer 2 in the Investment Division of the Greater London Council and now, 41½ years later, I am retiring as Chief Executive in charge of the very same Investment Division ~ well not quite, but you take my point.

Despite a few distractions on the way, like abolition for example, I have literally gone from the very bottom to the very top in the same job. Yes, it may sound a bit staid and very public sector, but I am actually rather proud of that as I am sure many of you were and are with your careers.

I leave you with the immortal words sung by Paul McCartney,
"I'm leaving home, bye bye"

Peter Scales

A word from the new Chief Executive Mike Taylor

This latest edition of the **Your Pension** newsletter comes just a few months after I started in my new role at the LPFA, so I can't take credit for any of the foresight and pre-planning for it. I do however take responsibility for its content, and hope that you find it useful and readable. If not, please let us know!

I have spent my whole career working in local government finance and my last role was Director for Resources at Surrey County Council, where I had responsibility for the Surrey Pension Fund. The LPFA Fund, at £3.5 billion is over twice as big and has some special unique features which I'm gradually coming to grips with.

What's uppermost on my agenda at the moment?

After I started, one of my first jobs was to work with the LPFA Board to spell out our strategic objectives for the next three years. The first of these is to build on and develop a culture of excellence in all of our work. We want to provide all of you with an excellent service with a high quality of customer care. We value your views and comments and getting feedback, whether good or bad, is very important to us. Please help us to achieve this by telling us how we are doing and being our "critical friend", particularly when we are not performing quite as well as we should.

Another of our strategic objectives is to strengthen our communication and participation with all stakeholders. The LPFA has always put communication with our pensioners, fund members and employers as a top priority, but I think we can improve this still further. However, to do this we need your help to tell us what you would like more information about, or where we don't make things as clear as they should be.

Although your pensions are guaranteed under statute, how we invest your money is obviously very important. Every pound that we can't achieve by way of returns on the pension fund investment ultimately has to be paid by the taxpayers. At the beginning of this year, we put in place a very sophisticated investment strategy designed to best ensure that we can meet our future pension liabilities at least cost to our employers and taxpayers. This has received a number of plaudits in the Trade Press but if any of you would like any further explanations of this strategy, or how we arrived at it, please don't hesitate to ask.

We are also keen to promote best practice in corporate governance and our approach to social, environmental and ethical issues in the companies in which we invest. We are planning to seek the views of you and all of our other stakeholders in the coming weeks and months. Please start to think how you can contribute to this very important debate.

Finally, at the end of December we are saying goodbye to Peter Scales, who has led the LPFA ever since it was created from the old GLC. I have known Peter for much of that time and always held him in high regard. It is a privilege for me to take over his role and continue his good work on your behalf.

New Mission Statement & Strategic Objectives for 2007 to 2010

During the month of September the LPFA Board went away for a two day planning session and they agreed a new Mission Statement for the Authority and also 5 new strategic objectives.

The Mission Statement pledges the LPFA "To provide an excellent cost effective pensions service incorporating best practice in all aspects of corporate governance."

The first strategic objective is that we want to see the LPFA demonstrating a **Culture of Excellence** in all our activities. We want to be the pensions administrator of choice. As part of this, we must continue to achieve high quality customer care. According to our records, we already enjoy high satisfaction rates with our pensioners and employers, and we need to constantly monitor and review our operations to ensure that we continue to deliver on this.

Secondly, we **value our people**. We want to enhance the capability of our workforce, embed good practice on equality and diversity and invest in developing our staff.

Thirdly, we need to maintain an **Investment Strategy** to meet our liabilities. We will continuously monitor investment performance and our liability risks.

Fourthly we will lead a debate with our stakeholders on **responsible investment**.

Finally, we must strengthen our **communication and participation** with all stakeholders and industry wide bodies and develop our profile as a leading pension scheme administrator.

Mike Taylor, Chief Executive, is leading the senior management team in the implementation of these strategic objectives which are being communicated throughout all levels of the LPFA so that all members of staff can share in them.

Launch of Fund Member News

Would you like to keep up-to-date with what's happening at the LPFA and with pensions and investments? Well now you can.

A new initiative is being introduced by the LPFA in the New Year with the launch of a regular news and information service specifically for fund members.

Called **Fund Member News** this electronic news service is to be made available free of charge to all fund members to keep them up-to-date with information of relevance to them.

Fund Member News will be sent by email and will feature:

- Important information about your pension entitlement
- LGPS changes and new regulations and how these affect you
- Changes at the LPFA that affects your pension
- LPFA Press Releases
- Investments
- LPFA Board decisions and dates of future meetings.
- Feedback on Fund Member Panels
- Forthcoming events
- Message Board

"This new service to fund members is an important development in our relationship" says Ewan Denny, Marketing and Communications Manager, "as we want all our members to be kept fully informed about important issues that affect them. We also want to hear from them about issues and concerns that are of mutual interest or any ideas that they may have.

A number of our members have remarked that they would like to get more involved with the LPFA and this news service is a step in that direction."

If you would like to sign up for **Fund Member News**, please send an email confirming this to communications@lpfa.org.uk or call Ewan Denny on 020 7369 6018.

Fund members without email addresses will continue to receive copies of this newsletter in the post.

A REVIEW OF THE NEW INVESTMENT STRATEGY

Paul Kessell
Assistant Investment Manager

As we move towards the festive season I thought it appropriate to reflect on LPFA's new investment strategy one year on from its implementation. As you may recall, from previous newsletters this strategy commenced on the 1st January 2006.

It marked a significant shift from the traditional investment structure that was invested primarily in shares and bonds to a strategy designed to ensure there are sufficient assets to make all payments to pensioners long into the future.

LPFA has adopted a more active long-term approach, trying to improve its investment performance through investing in a range of different types of assets, such as UK and overseas shares and bonds, property and private equity.

The investment strategy saw the introduction of a range of new investment managers being appointed to manage the Fund's assets. As a result of the new approach LPFA made the decision to discontinue holding the large and passively managed index-linked gilts portfolio.

The innovative and active approach to managing the assets is expected to provide long-term investment return stability and the necessary level of short-term cash to ensure timely payment of pensions to its members.

LPFA's investment team worked closely with the newly appointed investment managers, developing a positive working relationship and ensuring the assets were being managed effectively and in line with LPFA's expectations. The complexity of what some of the investment managers were required to do meant their implementation was managed over a longer time period.

So, with the investment strategy well and truly in place and ten fund managers entrusted with the Scheme's assets what kind of investment environment have they had to contend with over 2006? Well, overall it has been positive and characterised by strong global equities and property markets with long-term interest rates having risen only marginally through the year.

This positive economic environment, combined with strong investment manager performance, contributed to both the Active Sub-Fund and Pensioner Sub-Fund getting investment returns this year that have exceeded expectations. Whilst this is a great first step on the path to meeting our long-term objectives it is well to remember the investment environment can be quite volatile at times.

Nonetheless, with a new investment strategy now firmly in operation LPFA is confidently working towards achieving its long-term goals.

Improving our communications with employers

As part of its ongoing strategy of developing and further improving the relationship with employers and agency clients, the LPFA has established an Employer and Agency Communications Team. They meet once per month to plan and determine what the Authority needs to be saying to employers in the following month.

This group, chaired by Annemarie Allen, has put together a calendar of issues and topics for 2007 and a monthly newsletter will be sent to all employers and agency clients on a monthly basis.

The Newsletter, called **Pensions Update**, was launched in November and is sent via email. It is designed to brief and update employers on changes to the Local Government Pension Scheme, advise on employer pension contribution rates, investments, and other issues of direct relevance to employers and agencies alike.

The Team is also looking at coordinating visits to employers in a more systematic and structured way as well as developing a single employer database, in order to increase the efficiency of the Authority's administration.

Fund Member Forum hailed "a Success"

The annual Fund Member Forum took pace on the 5th September at the Queen Elizabeth II Conference Centre in Westminster and attracted nearly 400 fund members, 15 exhibitors and 45 staff.

The Forum started with the opening of the Information Centre at 10am followed by the formal presentations which started at 11am.

Neil Newton began by welcoming everyone and introduced the various Speakers on the platform.

(L-R) Ellen Gracey, Peter Scales, Neil Newton, Allan Pickering

A special tribute was paid to Peter Scales for his leadership of the LPFA since the organisation began in 1989 and this was greeted with a warm round of applause.

This year's Forum was Peter's last as Chief Executive and he introduced his successor, Mike Taylor, who was seated in the front row, to the packed conference hall.

Peter then went on to present his final review of the LPFA's year and to give an indication of what he will be doing when he finally retires at the end of the year.

Ellen Gracey, the Chief Executive of GR Communications, then gave an interesting presentation about communications and Allan Pickering CBE rounded things off with an unscripted and humorous look at the state of pensions in the UK.

An Open Forum followed in which the fund members were able to ask questions of the Speakers.

Keith Garlick
Technical Services Manager

More Changes to the Local Government Pension Scheme

Following the changes to the LGPS in April 2006, some further changes to the Scheme were effected by the Local Government Scheme (Amendment) (No 2) Regulations 2006, which took effect from 1st October 2006. Some of these merely clarified unresolved issues from April, but there were some key changes to the Scheme, in particular to the protections against the removal of the 85 year rule.

The following changes will impact on active scheme members; some of the changes only affect members on particularly high pay.

High Earners

The changes to the Scheme in April required a reduction to be made to the membership of scheme members earning over £105,600 pa in the year 2005/06, whose contributions had previously been capped. This was to stop such members receiving an unintended “windfall” in respect of the benefits they had accumulated before April 2006, due to a sudden increase in the pay that would be used for calculating their pension rights. The Amendment (No 2) Regulations clarify the earlier regulations, ensuring that only members whose contributions were capped would suffer this reduction.

Limit on the Total amount of benefits

The April legislation prevented any benefits being paid above the Lifetime Allowance (currently £1,500,000 pa, which normally applies only to those earning well in excess of £100,000 pa). The October changes enable payments in excess of the Lifetime Allowance in accordance with actuarial guidelines. These guidelines have now been received and the LPFA is in a position to advise anybody in this category.

Flexible Retirement

These regulations also confirm that a member who reduces their grade or pay must obtain the consent of their employing authority before taking immediate payment of their benefits accrued to date, whilst remaining in employment.

Ability to take AVC’s as a tax free lump sum payment

Previously, members paying Additional Voluntary Contributions (AVCs) through an in-house arrangement could only use these to purchase an annual pension. The October amendments clarify the intention of the April legislation that AVCs can now be taken as a lump sum, providing that the total amount paid out as a lump sum (including standard LGPS benefits) does not exceed 25% of the capital value of the member’s benefits. However, if the AVC is taken at a later date than the standard LGPS benefits, only 25% of the capital value of the AVC can be taken as a lump sum.

If a member with an in-house AVC arrangement is approaching retirement we can advise them of their options on an individual basis.

Children’s long term pension

The regulations also clarify that children’s long term pensions are based on a member’s pension before commutation. That is to say, if a member elects to take a reduced pension in order to increase their lump sum, this will not lead to the reduction any subsequent children’s pension payable.

Removal of the ‘85 year rule’

The removal of the ‘85 year rule’ has been discussed previously. This was the rule that enabled members retiring before their Normal Retirement Date to take unreduced benefits providing their age plus membership (each in complete years) equalled 85. Without this rule any benefits taken before Normal Retirement Age, which from October is age 65 for all members, will be reduced in accordance with actuarial tables.

As planned this rule has been removed from October 2006. However the protections **for members who were in the scheme before October** have been extended. These can now be summarised as follows;

- Benefits based on all membership before April 2008 to be calculated in accordance with the 85 year rule.

- For members reaching age 60 before April 2016, benefits based on all membership before April 2016 to be calculated in accordance with the 85 year rule.

- For members reaching age 60 after March 2016 and before April 2020, who would previously have been entitled to unreduced pension and lump sum, benefits based on all membership before April 2020 are "tapered", which effectively means they are partly protected against the removal of the 85 year rule.

- For members reaching age 60 after March 2016 benefits based on all membership after April 2008 are calculated in relation to a normal retirement age of 65.

NB None of the above protections apply to members who join the Scheme after September 2006

Discretionary Payments

Under separate legislation the power of employing authorities to award compensatory added years in the event of redundancy or retirement on efficiency grounds has been removed. Employing authorities have been given the option to provide one off lump sum payments of up to two years pay, less the value of any redundancy payment, when employment is terminated early on grounds of redundancy or efficiency.

Proposed Future Changes

The following changes have recently been proposed by the government and are currently undergoing consultation.

- A limit of 50% of salary to the amount members can put into an AVC. This limit to apply from the 2006/07 tax year.

- Trivial commutation of a pension to a lump sum to be possible if the aggregate amount of benefits payable to a member is less than 1% of the standard Lifetime Allowance. Effectively this will enable administering authorities to commute pensions of approximately £660 pa or less to lump sums, whereas the current limit is £195 pa.

New-Look Scheme from 2008

Following extensive consultations, the government has also now issued proposals for a new look scheme from April 2008. The main features of the new look scheme are:

- Final salary pension benefits to be based on $1/60^{th}$ of salary for each year of pensionable service

- Final salary to be the better of the last year's whole time equivalent salary or the 're-valued' (in line with the Retail Price Index (RPI)) average of the best three consecutive years' salary in the last ten years of service

- An option to commute pension at the rate of £1 of annual pension for £12 of lump sum up to a maximum tax free lump sum of 25% of the capital value of accrued benefit rights at the date of retirement.

- A Normal Pension Age (NPA) of 65 for release of unreduced benefits;

- Survivor benefits for life, payable to spouses, civil partners and "nominated" dependant partners (opposite and same sex) at a $1/160^{th}$ accrual.

- Revised ill-health retirement package with no review system, to provide a higher level of benefits for total incapacity, and with different levels of benefits to recognise lesser incapacities.

- A death in service tax free lump sum of 3 times salary.

- Tiered employee contribution rates with 5.5% payable on the first £12,000 of pensionable pay, and 7.5% to be paid on the excess over £12,000, estimated on current membership to produce an average rate of 6.3%.

Draft Regulations are expected in December, and following a standard consultation process, it is intended that the legislation will be in place by April 2007. This will give us a year to develop programmes and systems to cope with the new Scheme.

General News and Information

EQUALITY AND DIVERSITY AT LPFA

Amanda Walker
Director of Corporate Resources

We strive to deliver equality of opportunity in both employment and service delivery for all, irrespective of age, race, gender, religion, sexual orientation, or whether or not they have a disability.

Why is this important?
London is one of the most diverse cities in the world with, for example, 38 communities speaking more than 300 languages. Promoting equality of opportunity is something that we believe in and it is also a business necessity for our organisation.

What are our aims?
Our aim is to promote equality, challenge and eradicate discrimination, provide responsive and accessible pension and investment services, and, ensure our workforce reflects the diverse population of London.

We have developed styles and conduct to help build equal opportunities for all and promote good practices to produce long-term operational benefits. We want:

- To become an exemplar employer.
- To influence the pensions and investment sector in promoting equality and diversity.
- To work with partner organisations to make sure that equality is a feature which underpins our service delivery.

What approach have we taken?
The executive management and staff-champions lead the equality and diversity approach, and act as role models through behaviours, attitudes and effective use of their influence and authority. We make sure that adequate resources are in place to develop, promote and monitor diversity, including funding to recruit, support and train staff so they are confident of the LPFA's ability to deliver on all business and service delivery issues.

How do we measure success with this policy?
Positive external validation of our practice and process is essential to ensure that we really do work in this way. Feedback and comments on how we're doing are most welcome.

LPFA Marketing Strategy

Ewan Denny, Marketing & Communications Manager, has written a marketing strategy for the LPFA and this has been approved by the senior management team and the Board.

The strategy covers a wide area and it outlines a programme of activities that will include:

- Ideas and an action plan for raising the public profile of the LPFA
- Increasing press coverage through its recently established Press Office
- Managing corporate communications with all stakeholders eg fund members, employers and agency clients, the media, the Greater London Authority etc
- Events Management
- The design and production of all publications and literature
- Branding and corporate image
- Customer relations and client liaison
- The promotion of equality and diversity in all areas of our work

"It is very important" says Ewan Denny, "that the Authority continues to strive for excellence in its day to day operations and that we measure this to see how we are doing.

Statistics show that we are doing very well and this is pleasing to us, but far from relaxing us or making us complacent, it actually motivates us to see what other service improvements we can make in order to get even better."

Kenyan Pension Fund Managers visits LPFA

In picture from left to right, Mike Allen, Ass.t Director, LPFA, Gideon Mueke, Treasurer, LAP Trust, Hosea Kili, General Manager, LAP Trust, Mike Taylor, Chief Executive, LPFA, Boniface Munyao, Trustee, LAP Trust, Annemarie Allen, Ass.t Director LPFA, and Keith Garlick, Technical Services Manager, LPFA.

A high level delegation of Pension Fund Managers from local authorities in Kenya paid a visit to the offices of the London Pensions Fund Authority, on Monday 27th November, as part of their fact finding mission to the UK.

The delegation, led by Mr Hosea Kili, the General Manager for the Local Authorities Pension Trust, wished to see how a top pension's authority in the UK plans and organises its business.

The group were received by Mike Taylor, who said after the meeting, "we were delighted to meet such a group and to discuss with them our mission and strategic objectives. We had much to share with them about successfully managing a large pension fund and the challenges of managing a scheme, as well as investment strategies and regulatory issues."

The Local Authorities Pension Trust is based in Kenya's capital, Nairobi, and at one time it had over 300 members living in the UK. It now has 80 active members and the group is scheduled to meet with them before they return home.

"We wanted to learn as much as we can from one of the leading pensions bodies in the UK" says Mr Kili, General Manager, "and this is why we came to the LPFA who are well known for being specialists in this area and who also have pensioners in Africa. We found the meeting very interesting and informative and it has given us much to think about and many ideas to develop and implement when we return home later this week."

Fund Member Panel

The structure of the Fund Member Panel is being reviewed for 2007 by the Marketing and Communications Team and they would like to hear from you as how you feel the present arrangements can be improved.

As part of the changes that are being proposed, an appeal is being made for the appointment of new members. "In particular" says Ewan Denny, Marketing & Communications Manager, "we would welcome applicants from under represented groups such as ethnic minorities, contributors and deferred fund members."

The Fund Member Panel is a representative group of fund members that will meet with LPFA officers three times during 2007 in order to discuss matters of mutual interest.

If anyone is interested in joining the Panel, can they get in touch with Ewan Denny on 020 7369 6018 or email him at ewan.denny@lpfa.org.uk

Quality of Service Surveys

As part of the LPFA's mission and key strategic objectives, we want to demonstrate a culture of excellence. If you telephone, send an email or call into the office with a problem or query, we should always be giving a high standard of customer service.

To monitor how well we are doing and how satisfied you are, as a user of our services, we will be conducting quality of service surveys.

These surveys will ask very general questions about your contact with LPFA and how you found the experience. Responses will all be kept strictly confidential.

For monitoring purposes we will also ask your sex, age, and ethnicity. Once all the information is gathered we can then compile valuable statistical data regarding the quality our service to you.

If you happen to receive one of these surveys, we would appreciate it if you could complete and return it to the Marketing and Communications Team as quickly as possible. Your cooperation will be greatly appreciated!

New Board Members

We are still waiting for a decision from the Greater London Authority about the appointment of the new Board members. A the time of going to press, there are still four vacancies but we are hopeful that in the new year, Ken Livingstone will have confirmed to us the names and we can begin the process of their induction and training.

If you sign up for **Fund Member News**, the free news and information service for fund members mentioned elsewhere in this Newsletter, you will be notified as to who these new members are.

To sign up for **Fund Member News**, all you have to do is to send an email to communications@lpfa.org.uk and you will be placed on the list to receive it starting in the New Year.

Winning Awards

The Marketing and Communications Department has drawn up plans for entering as many competitions as possible as part of its strategy to raise the public profile of the LPFA.

"This is important" says Ewan Denny, marketing & Communications Manager, "because winning is a good habit to get into and it sustains our position in the public eye as a successful organisation. On the back of winning a competition, we get invited to prestigious awards ceremonies, we receive a lot of free publicity from the organisers who want to promote their awards programme, and we generate our own PR activities to further promote our achievement."

Recently, the Communications Team has entered the LPFA in The IPE Awards (Investment and Pensions Europe), and the Pensions Management Awards.

"The LPFA has not won any awards in the last two years" says Ewan, "and I want to change this. I believe that we can, and should be recognised for the quality of our work. Staff morale is a factor also because it's important for all employees to continue to feel that we are working for a well managed organisation that is going places."

Special Employers Forum

On the 24th August, a Special Employers Forum was held at City Hall to discuss the Government's White Paper on Pensions.

Ewan Denny, the MC for the event, opened proceedings and introduced the Speakers. Terry Crossley from the Department for Communities and Local Govenment (DCLG) was the first Speaker and he gave a comprehensive analysis of the proposals contained in the White Paper.

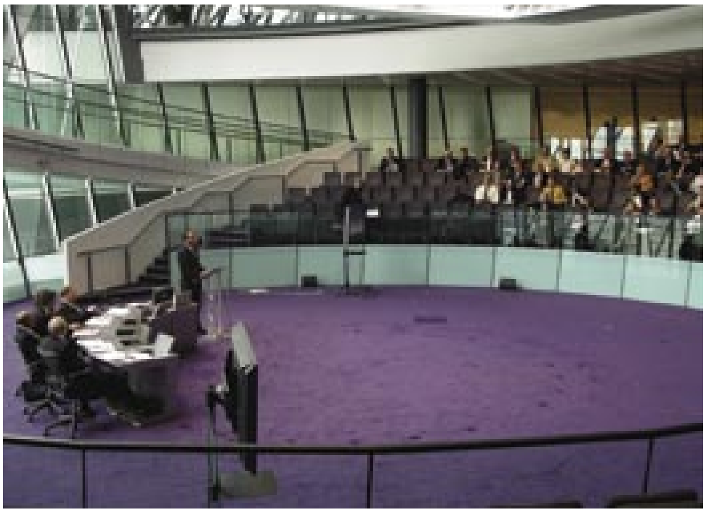
Lorna Tonner from Hyman Robertson followed with a presentation about how the various options would affect employers and Mike Allen concluded the presentations by outlining the LPFA's thinking on the proposals.

Afterwards, there was a Question Time Panel which comprised of the three Speakers, Neil Newton and Peter Scales. Delegates were able to voice their concerns and ask specific questions of the Panel.

"The Forum was very important" says Ewan Denny, "because it was necessary for us to update and inform our employers about the government's proposals and what each option might mean for them in real terms. We want to increasingly engage with our employers and to provide for them, a valuable service, and this type of event was a demonstration of this policy in action."

A total of 80 delegates from a wide range of employers attended the Forum and it was considered a success as all the Feedback Forms returned by Delegates rated the event either "good" or "very good." The slides of the PowerPoint presentations have been placed on the website.

Following consultations, a report was presented to the LPFA Board and an official response was submitted to the government.



Panel Members and Delegates in the chamber

Terry Crossley from the DCLG addressing the forum with Ewan Denny looking on.

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How to contact us

If you are a deferred pensioner or a contributor to the Fund

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Annual Report and Accounts
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