

A red double-decker bus is the central focus, moving through a city street at night. The bus's destination sign displays '12' and lists stops: 'Oxford Circus Whitehall', 'Westminster Elephant', and 'Camberwell Peckham'. Below this, it says 'DULWICH PLOUGH'. The background is filled with warm, glowing streetlights and festive decorations, including a large star-shaped light fixture and a sign for 'O.H. EVANS'.

# your pension

LPFA Winter Newsletter 2005

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LONDON PENSIONS FUND AUTHORITY



## Introduction

Well, here we are, another year gone and I am pleased to introduce this second Winter Newsletter. As I hoped in writing last year, this is now a regular feature of our communications with you as members of the LPFA Fund.

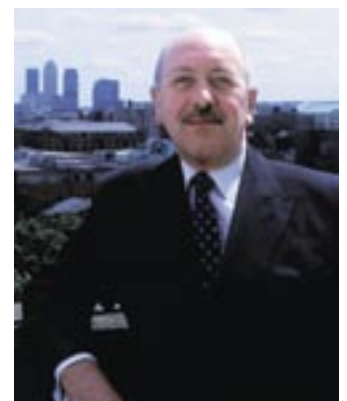
2005 has proved to be a year of considerable upheaval in much of the key work facing our staff. The outcome of the valuation confirmed the impact of a long period of depressed equity markets and poor bond yields. Highly technical stuff, best reserved for actuaries, but suffice to say, all our employers are facing significant rises in their contribution rates for many years to come. We have devoted a lot of time in the year to explaining these results and the Board have been busy reviewing investment strategy to improve the position ~ more on that later.

As Fund members, these funding problems have no impact on your pensions and I am happy to report that the staff are well positioned to maintain the quality service that we provide to you.

The Scheme itself has been under pressure with major uncertainty arising from the stalled Government negotiations on their proposals to modernise the scheme along with changes for other public sector workers ~ you may well have read about this in the press. However, I remain confident that we will retain a pension scheme in local government that is both viable and attractive, and that continues to reflect the value of public sector workers.

As we enter the New Year of 2006, I wish you all well, and for those who celebrate the festival, I wish you a very Merry Christmas.

Peter Scales,  
Chief Executive



# Integrating equalities

The LPFA is a very 'customer focussed' organisation and, as part of the drive to achieve the Local Government Equality Standard, the Authority aims to take that focus a step further.

LPFA's service provision aims to not only be fair to everyone but to also recognise and respect differences, and aim for an equal outcome for all Fund members irrespective of their ethnic origin, nationality, religion, gender, marital status, disability, age or sexuality.

Earlier this year LPFA embarked on a period of consultation with a random sample of the membership. While some of the results are not surprising they do provide a guide as to where service delivery can be improved.

773 responses were received (23% of those consulted) and, of those, 112 regarded themselves as disabled and 66 were from black and ethnic minority backgrounds (BEM). A selection of the findings are shown below:

- Only 48% of disabled members thought that their particular needs were recognised and 44% thought that their particular needs were responded to. For BEM's the percentages are much less, 37% and 29% respectively.
- English is not the first language of 5% of the membership and of 27% BEMs.

- 5% of the membership have difficulty reading printed documentation and this is higher in the disabled group (13%).
- Less than 5% of the membership found images used in LPFA publications inappropriate.
- More than 80% of contributors and deferred beneficiaries have access to the internet. In the pensioner group this is lower at 26% and in the disabled group 21%.

The Authority also conducted a survey of the 1,000 pensioners living abroad. 396 responded. One in five do not have English as their first language; the first language of this group covered twenty four other languages, the most common being Spanish. 8% of this group had difficulty reading printed material issued and the majority of those would like to receive documentation with larger type.

As a result of this consultation the LPFA is:

- producing Scheme communications in larger type for all.
- considering collecting Fund member email addresses and telephone numbers to aid future communication.
- continuing to advertise that it may be possible to produce newsletters in different formats, e.g. larger type, audio cassette, another language.
- updating the 'individual needs' register so that other communications are issued in the preferred format.



If you would like to know more about the Equality Standard, Fund member consultation or would like to receive future newsletters in a different format please contact Peter Harris on 020 7369 6048 or email [peter.harris@lpfa.org.uk](mailto:peter.harris@lpfa.org.uk), or write to Dexter House.

# Investment review

In response to falling funding levels, rising liabilities and pressure on employer contribution rates, and after careful consideration with advice from the actuary and advisers, the Board has successfully completed a comprehensive review of investment strategy. The management arrangements for the Fund's investments will become fully effective from 1<sup>st</sup> January 2006.

The process for this review has been intensive, with hard decisions and much careful deliberation. We have learned a lot in this process about the different investment approaches and those best suited to our Fund.

The Chairman summed it up in this way:

*"This has been a long and detailed process during which the Board has taken considerable advice, and gained considerable knowledge, the result being a shift to new and in some cases innovative investment mandates. The LPFA will no longer be a large and passive holder of index-linked gilts but a longer term focused and responsible investor, actively seeking to meet its funding strategy and thus liabilities."*

The review kicked off in earnest at an away-day for the Board and advisers at the end of March. Decisions taken on the shape of future strategy developed into a public tender process in the early summer to select new investment managers. By August, we had whittled down 126 applicants, to 46 formal tenders and then down to 23 that we interviewed in early September. Why so long? The public tender procedures have set timescales that we must follow, plus it takes a lot of time to consider the mountain of information provided. All provided electronically I hasten to add and analysed for us by Hymans Robertson.

With choices made and decisions confirmed by the full Board on 6<sup>th</sup> October, the transition process started. Merrill Lynch were appointed as transition manager and their task was to sell and buy stocks and shares to form new investment portfolios, which are very different from those we had before. Their objective is to minimise cost and disruption, and to deliver assets to the new managers to match their requirements and ready for full operation from 1<sup>st</sup> January 2006.

The new management structure is:

In the Active Sub-fund

- Global equities will be managed by Goldman Sachs, to beat an LPFA benchmark by 1%, and by two new managers, each to beat a world index by 2%.
- The two target return mandates use a wide range of assets to beat the Retail Price Index by 5% each year.
- Other assets are supervised in-house using a wide variety of specialist managers and unit trusts, with a similar benchmark of RPI +5%.

In the Pensioner Sub-fund

- Global equities will continue to be managed by Legal & General, tracking a global index but will be revised to achieve an enhanced return.
- Cash flow matching bonds are exactly that. Managers are required to return sums to match the pension cash flows +1.5% to restore deficits. These are highly specialised and complex investment products.

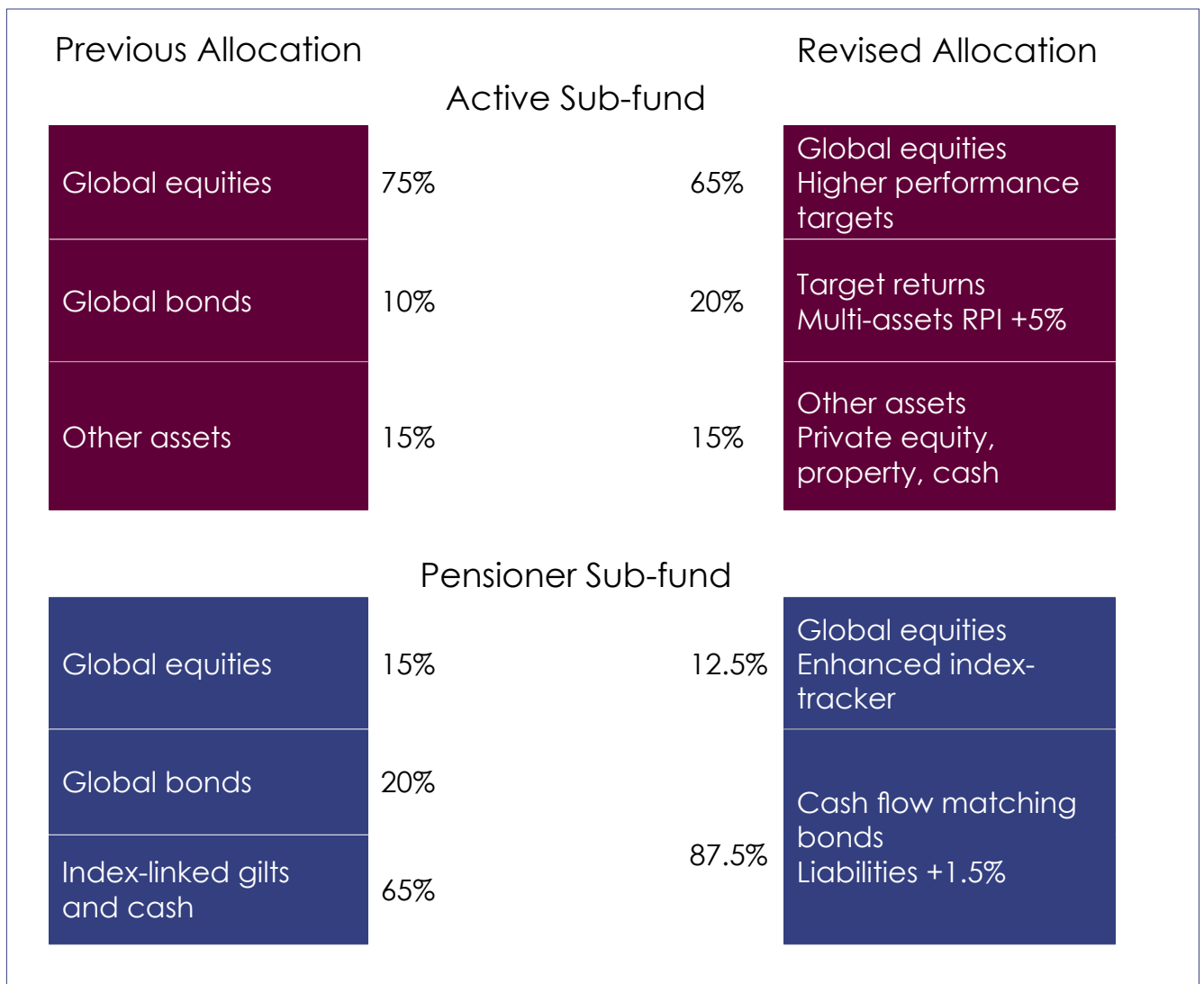
So what have we achieved? Well, we have a more robust investment structure going forward, better suited to today's investment markets and geared to deliver improved investment returns that will meet our liabilities and restore the Fund to a full funding position.

This is no "quick fix magic pill" and the benefits are expected to unravel over many years to come. We shall keep the position under careful review as always and be ready to make adjustments as may be required and as circumstances change.

Keeping you informed and the employers whose contribution rates are sensitive to success, is a main focus for future communications. If you would like to know more about this review, please contact me and I will be happy to help.

Peter Scales, Chief Executive

The changes made are illustrated in this chart, simplified for this newsletter but full details are available and will be published.



# Fund Member Forum

annual beano or vital communication tool?

There is no doubt that many Fund members attend the Forum in order to meet old friends and catch up with people they used to work with. 70% of attendees are pensioners, with the rest made up of contributors, deferred members and guests.

Whilst the forum is seen as a social event for some, and there's nothing wrong with that, it should be remembered that many view the forum as a vital communication tool and an opportunity to hold LPFA accountable for successes or failures that have occurred throughout the year.

LPFA certainly views the forum as a central part of its accountability and communication strategy and an opportunity to reassure the membership that their Fund is being well maintained.

LPFA's 13<sup>th</sup> Fund Member Forum took place on 6<sup>th</sup> September 2005 at the usual venue, the Queen Elizabeth II Conference Centre in Westminster. The venue usually receives high approval ratings from attendees and the trend continued this year with 99% rating the venue "good" or "very good". The event was well attended with 475 Fund members and over 40 LPFA staff helping out on the day.

LPFA has a long history of holding successful forums and, according to feedback, this year was no exception. Anthony Mayer, GLA Chief Executive was particularly well received, as was his presentation on the future of London. Peter Scales again delivered an enjoyable and informative presentation on the progress made by LPFA during the year and the key focal points for 2005-06.





Question time proved popular this year, partly owing to the successful speech by Anthony Mayer which touched on some of the challenges facing London and Londoners in the future. Question time was cut short owing to time restraints and in an attempt to improve this part of the forum LPFA has decided to send question papers out with the tickets next year. This will allow delegates the time to prepare and submit questions in advance. On the assumption some of the questions will be similar, the speakers will be able to direct their speeches towards the subjects that matter or are of concern to Fund members.

The quest for speakers is always difficult with diaries being filled months in advance. Every year someone suggests we invite Jimmy Young to the forum ... I'm sure it's the same person! Unfortunately, or not - depending on whether you like Jimmy Young, we will not be inviting him to the Forum, and neither will Steven Spielberg be able to attend (another suggestion received!).

However we have taken on board comments about the majority of LPFA speakers being "men in grey suits" and therefore will endeavour to seek an alternative for next year – even if that means Peter Scales dressing in navy!

The Information Centre was again enlarged and spread over two separate rooms which enabled more casual seating for delegates. A total of 23 organisations attended the Information Centre and 95% of delegates rated it "good" or "very good". There have been many suggestions on how to improve next year's Information Centre and the majority of the requests were for health, environmental, and financial organisations to attend. The first two categories should be possible to attract to the forum, but it is more difficult for LPFA to include financial services as we cannot be seen to give financial advice or be recommending a particular financial product.

A full breakdown of organisations at the Information Centre can be viewed at [www.lpfa.org.uk/corporate](http://www.lpfa.org.uk/corporate) or by calling the Corporate Services Unit on the number below.

LPFA has received many suggestions on how to improve the Forum from Fund members, staff and the Fund Member Panel.

If you wish to suggest an improvement for next year please contact [corporate@lpfa.org.uk](mailto:corporate@lpfa.org.uk) or call Greg Smith on 020 7369 6058.

# Fund member representation

It is very difficult to read a newspaper or to watch the news without stumbling across the word “pension”. Indeed according to the BBC website, the word pension is one of the top five words entered into its search engine, and, whilst some may consider this a positive, unfortunately it is usually followed by the word “crisis”. A simple internet search immediately came up with the following headlines:

PENSION CRISIS LATEST ...

Employers ‘wary of Pensions Act’ ...  
Dangers of pension changes ...  
Women's low pensions a ‘scandal’ ...  
Retired men ‘will live until 90’ ...

The issues highlighted above are some of the immediate and serious issues facing most pension funds. This begs the question “How can LPFA reduce, or go some way to reducing the fears of the Fund members?”

A key issue for many is Fund member representation and the extent to which the voice of Fund members is not only heard, but actually listened to. LPFA attempts to inform Fund members of all developments through the use of various media; newsletters, the Annual Report, websites and of course the annual Fund Member Forum.

Since the last Fund Member Forum in September 2005, there have been a number of developments in the field of representation at the LPFA.

The Fund Member Panel has existed for a number of years and meets twice a year to discuss a range of issues they feel are central to the running of a successful pension fund.

Currently, the Panel acts as a source of feedback, identifies strengths and weaknesses of the LPFA and where the LPFA can improve, assesses whether LPFA is focusing on the right issues and aides representation and communication.

The remit includes representation and communication and it is in these areas that the Panel is set to evolve over the coming months and will be considered by LPFA as a voice for the wider Fund Membership. To this end, the role of the Panel has been altered to include the following:

- The Panel will act as an advisory body for Fund members. Fund members wishing to ask a question about the running or management of the Fund can address their letters to the Panel. The Panel will endeavour to reply as swiftly as possible and on an individual basis. However, should a similar question be asked by a number of people, the question and answer will appear in the next newsletter.
- One representative from the Panel will be invited to attend Board meetings as an observer, although on a rotating and voluntary basis.
- A London Trades Union representative will be invited to join the Panel
- An editorial team made up from Panel volunteers will play a more active role in the production of newsletters and the sourcing of articles.

Considering the amendments to the Panel remit, LPFA felt it appropriate to give more Fund members a chance to become involved. If you wish to become part of the Panel and want to contribute to the effective and efficient running of the LPFA please contact:

Greg Smith on 020 7369 6058,  
email [greg.smith@lpfa.org.uk](mailto:greg.smith@lpfa.org.uk) or write to  
Dexter House.



## Fund Member Panel

The Panel can accommodate a few more members. Interested?

### Contact

Greg Smith on 020 7369 6058 or email [greg.smith@lpfa.org.uk](mailto:greg.smith@lpfa.org.uk) for further information.

The Panel meets twice a year at Dexter House, LPFA's offices. All reasonable travel expenses are reimbursed.

# Modernisation and development of the Local Government Pension Scheme (LGPS)

In the Spring Newsletter you were notified of changes to the LGPS effective from April 2005. The Annual Report published in the summer notified you that those changes had been largely revoked and told you about the impact of tax simplification from April 2006.

After expressing his commitment to revocation of the April 2005 changes, the Deputy Prime Minister convened a Tripartite Committee to consider the long-term future of the LGPS. Chaired by the Deputy Prime Minister and containing representatives from Local Government and the Trade Unions the Committee held its first meeting in May 2005.

Following a meeting of the Committee on 2<sup>nd</sup> November the Deputy Prime Minister complimented all parties on the significant progress that had been made and confirmed that he intends to issue draft regulations later in November to come into effect from April 2006.

Draft regulations dealing with changes to the Scheme to comply with new Tax rules from April 2006 will also be issued.

All sides are committed to ongoing discussions about the modernisation and development of the Scheme with a view to producing a policy paper for discussion no later than June 2006 on a new look LGPS which would bring a new scheme into operation from April 2008.

The following proposals for April 2006 are based on the discussions of 2<sup>nd</sup> November, but are still subject to negotiation:

- Removal of the '85-year-rule'<sup>1</sup> no later than October 2006 to comply with age equality legislation.
- All benefits accrued up to the date the '85 year rule' is removed to be protected, and treated under the existing provisions.
- Transitional protections, but not to exceed in cost to the scheme those provided under the now revoked April 2005 scheme changes, which offered protection for service up to 31 March 2013 to those members who would be aged 60 by that date.
- The actuarial reduction factors applied to benefits paid early should be reviewed, which would lessen the reduction to benefits where members wish to draw them early.
- Members should be allowed, at their choice, to pay extra contributions to buy out any reduction which would apply to benefits paid before 65.
- The increase in the minimum age of retirement from 50 to 55 (other than ill health retirements) can be put back and introduced at the same time as in the rest of the public sector, but by 2010 at the latest.
- An option for all members to take a bigger tax free retirement lump sum.
- The maximum pensionable service limits of 40 years at age 60 / 45 years at age 65 should be removed from April 2006.
- Flexible retirement provisions, the option to draw pension while still in employment and accruing further pension rights, should be introduced from April 2006.

<sup>1</sup> The '85 year-rule' allows for payment of unreduced benefits before the scheme's Normal Retirement Date (age 65 or age 60-65 with 25 years membership if you joined the scheme before 1/4/1998) provided, at the date of retirement, the member's age and membership, in whole years, added up to at least 85. A member who leaves local government employment, once he is age 50 or more may elect for early payments of benefits. However, an election made by a member aged less than 60 is ineffective without his employer's consent.

## 'A' Day: Impact of the new tax regime on the LGPS

Members who are at risk of exceeding the new 'Lifetime Allowance', outlined in the Annual Report, will be contacted and informed of the protections available to them.

Other possible impacts of the new tax regime on the LGPS include the possible removal of the existing maximum membership, pensionable pay, pension contributions and retirement lump sum. These are subject to regulatory amendment due in 2006 and some aspects are anticipated in the proposals for April 2006 under discussion by the Tripartite Committee.

## Civil Partner Pensions

The Civil Partnership Act 2004 extends provision for spouse's pensions to include same-sex partners who have registered a Civil Partnership in respect of all tax approved occupational schemes. The Local Government (Civil Partnership) (Amendment) (England and Wales) Regulations 2005 amend the provisions of the LGPS accordingly. They come into force from the 5th December 2005, although the earliest date a registration ceremony can take place will be 21st December 2005.

The new LGPS provisions will apply to the Civil Partners of current members and those who ceased employment after 5th April 1988, with benefits being calculated on LGPS membership accrued after that date.

Any extension to the provisions to allow membership before 6th April 1988 to count in calculating a Civil Partner's benefit, and if so, how the cost should be met, will be considered as part of the future development of the LGPS.



## Payment of Death Grants

### Update to Discretionary Policy

The existing LPFA policy is: 'to recognise any nomination previously made by the member or, where there is no nomination or where the nomination is impracticable, to pay the death grant to the legal personal representatives.'

### Revised Discretionary Policy

LPFA has revised its policy and action as set out below will now apply:

A death grant will usually be paid in accordance with the member's nomination or, where there is no nomination, to the legal personal representatives.

However, where it is considered that:

- an existing nomination may no longer reflect the member's intentions (for example there is a subsequent marriage, divorce or children) or,
- there is a deserving recipient (who must have been his relative or dependant at some time) who would otherwise be excluded by payment to the Estate or,
- payment to the Estate may be inappropriate for other reasons (for example where inheritance tax may be a factor if payment were made to the Estate).

Payment may be made in the manner and proportions LPFA believe appropriate in the circumstances of the case.

Where it is proposed to make payment other than to the personal representatives or the nominated beneficiary, that payment will need to be approved by a "principal officer" (a director or the chief executive).

If you require further information regarding any of the issues discussed above, please contact Keith Garlick on 020 7369 6033 or Alan Piper on 020 7369 6063.

# LONDON PENSIONS FUND AUTHORITY

Dexter House  
2 Royal Mint Court  
London  
EC3N 4LP

[www.lpfa.org.uk](http://www.lpfa.org.uk)

## how to contact us

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

LPFA Pensions Team  
general enquiries: 020 7369 6118  
fax: 020 7369 6242  
email: [enquiries@lpfa.org.uk](mailto:enquiries@lpfa.org.uk)

If you are in receipt of a pension:

Pensions Payroll Team  
general enquiries: 0845 30 30 335  
fax: 020 7369 6240  
email: [payroll@lpfa.org.uk](mailto:payroll@lpfa.org.uk)

If you have a general enquiry about this newsletter:

LPFA Corporate Team  
general enquiries: 020 7369 6004  
fax: 020 7369 6111  
email: [corporate@lpfa.org.uk](mailto:corporate@lpfa.org.uk)

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