

Annual Review

Year to 30 September 2010



Welcome...

... to the SHPS Annual Review for the year to 30 September 2010. Your Summary Funding Statement is also included. SHPS members from Hexagon Housing Association are featured in this Review.

Scheme News - a year of change

During the last Scheme year, two new defined benefit (DB) structures, 'Final Salary 1/80th' and 'CARE 1/80th', were added to our range of offerings. With these in place on 1 April 2010, all efforts were focused on preparations for the launch of the defined contribution (DC) structure on 1 October 2010. DC is a new concept for many SHPS employers and members, so roadshows aimed at Human Resources Teams took place late in the Summer. We have also launched a great new website specifically for DC members and employers - if you have joined the DC structure or you are thinking about paying extra contributions to boost your SHPS pension, have a look at www.shpsdc.org.uk

A new government came to power in May 2010 with a raft of proposals about pensions and retirement. SHPS members and employers are affected by the change to the calculation of statutory pension increases. The Scheme's rules link pension increases to statutory Limited Price Indexation (LPI). The government has changed LPI to reflect the increase in the Consumer Prices Index (CPI) instead of the increase in the Retail Prices Index (RPI). CPI is usually lower than RPI, though the gap between them may reduce if housing costs are included in CPI in future. The Scheme's objective (when funding permits) to match RPI in full for benefits built up before April 2008 is not affected by this change. The SHPS Pensions Committee will consult with employers later this year about pension increases; meanwhile pensions will increase by reference to CPI in April 2011.

Chuan Lim - Hexagon Housing Association



Chuan Lim is an Area Surveyor for the Responsive Repairs Team at Hexagon Housing Association. Chuan visits tenants in their homes to identify necessary repairs and works with contractors to rectify them.

Scheme News - Membership

Membership grew by 3.8% during the year, and we welcomed our 60,000th member.

The reduction in the number of active members is not unexpected, as recruitment has been lower in many housing associations due to the recession.



Fund Statement - For the year to 30 September 2010

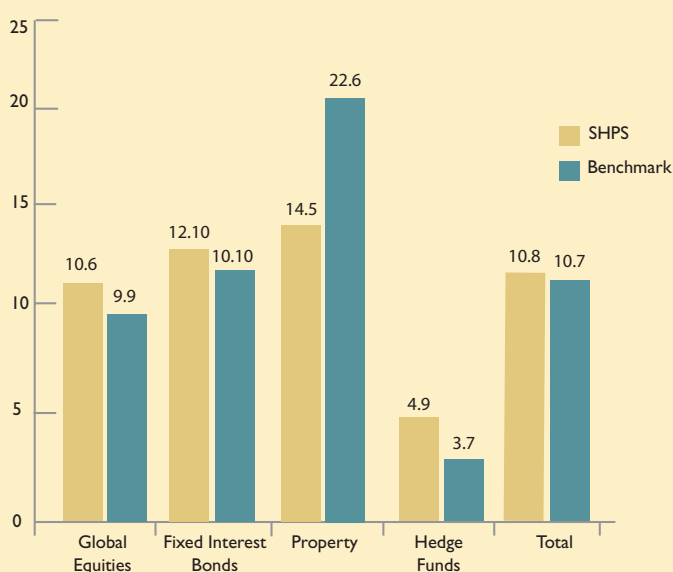
SHPS is a Scheme within The Pensions Trust. This Fund Statement summarises the Scheme's transactions and its proportionate share of expenses, investment returns and investments. The figures shown in the Statement have been extracted from the audited accounts of The Pensions Trust which were approved by the Trustee on 18 January 2011. This summary report is not intended to be a financial statement within the terms defined by SORP (Statement of Recommended Practice for Pension Schemes).

	2010 £'000	2009 £'000
Contributions paid by members and employers	155,897	143,640
Transfers in	12,303	12,445
Total money paid in	168,200	156,085
Benefits paid (pensions, lump sums and payment to leavers)	(65,658)	(55,119)
Administrative expenses	(4,136)	(4,018)
Specific expenses allocated	(736)	(442)
Pension Protection Fund	(586)	(528)
Total money out	(71,116)	(60,087)
Net new money available for investment	97,084	95,998
Return on investments		
Investment income and gains	174,609	105,377
Investment management expenses	(9,652)	(5,522)
Net returns on investments	164,957	99,855
Net (decrease)/increase in the fund during the year	262,041	195,853
Fund summary		
At the beginning of the Scheme year	1,723,276	1,527,423
At the end of the Scheme year	1,985,317	1,723,276

Scheme Performance - Investment Results

SHPS invests 67.5% in the Global Equity Fund, 17.5% in fixed interest bonds, 7.5% in a fund of hedge funds and 7.5% in property. Over the year the fund achieved a return of 10.8% against a benchmark of 10.7%, with outperformance in all categories except property.

In last year's Review we promised to report back to members on The Pensions Trust's new investment service. This has now been launched, and the early signs are encouraging. We welcome the focus on assets relative to our scheme's liabilities, improvements in the quality and quantity of reporting to the Committee, and the Trust's plans to protect schemes against the risks presented by inflation and interest rates. We are also very pleased to see changes to the investment governance structure which enables the Trust to respond quickly to investment opportunities as they arise.



Visit the SHPS website at www.shps.org.uk

Chair's Commentary

It's hard to believe that 12 months have passed already since I last sat down to draft my commentary for the SHPS Annual Review. I anticipated a very busy year and that's exactly what it turned out to be.

Scheme membership topped the 60,000 mark in Spring 2010 - a major milestone. 2010 has also seen the introduction of an extended benefit structure and defined contribution (DC) in particular and I am delighted by the response to this with 280 employers joining the DC scheme. During Spring and Summer a huge effort went into the design and launch of our DC website. The SHPS Pensions Committee is delighted it has been so well received and we thank everybody who worked so hard to make sure it was ready in time.

The advent of the DC structure has been one of the drivers behind the introduction of 'eBusiness'. All but a handful of SHPS employers now provide member data and contributions electronically using secure systems. The Pensions Regulator is very keen to see improvements in data quality and the Committee sees eBusiness as a valuable tool to help SHPS achieve this.

Also high on The Pensions Regulator's priority list is understanding the employer covenant. In layman's terms, the covenant is the employers' ability and willingness to support SHPS and deliver on the promise to pay members' benefits. The social housing sector is changing and the Committee needs a more detailed understanding of how well placed the Scheme's employers are - individually and as a group - to honour the commitments made to members. We are developing processes with help from covenant assessment experts and employers will be consulted on this later this year.

The Committee is very aware of the risks that good defined benefit pension schemes like SHPS can present to the organisations that still provide them for their employees. An investment de-risking sub-committee is working with The Pensions Trust's Chief Investment Officer to explore ways to reduce the Scheme's investment risks without inflicting contribution increases on employers and members. I am very pleased to note that investment returns have improved this year to date and hope this marks a turning point after some years of disappointing results.

Looking ahead, between October 2012 and February 2016 employers in the UK will have to enrol all but their lowest paid staff into a pension scheme. 'SHPS as the pension scheme of choice for the social housing sector' is our goal and the Committee will continue to innovate to meet the needs of all employers in one way or another.

The future agenda is likely to be a challenge in many ways, not least the legislation to link pension increases to Consumer Price Indexation (CPI) rather than Retail Price Indexation (RPI). The Committee will consult further with employers later in the year.

On behalf of the SHPS Pensions Committee I would like to thank employers, members and advisers for their support for the Scheme over the past year. We said goodbye to Janet Hennessey after three years as Scheme Adviser and we are now considering how best to recruit this service to the Committee; this will be resolved by the Summer of 2011. Finally, I would also like to say a personal thank you to Committee members and The Pensions Trust's employees for their sterling work on your behalf.



Colin Small
Chair, SHPS Pensions Committee

Committee News - Risk Management

An investment de-risking sub-committee has met several times to consider how to reduce some of the risks presented by the current investment strategy. The Committee has also set up a working party to develop processes for assessing the strength of the employers which support SHPS. Please see the Chair's Commentary for further information.

On another risk-related point, a number of employers persistently fail to submit contributions by the legal deadline. This is not acceptable and affects your scheme. Whilst our eBusiness contributions system helps to address this problem, the Trust has contacted several employers on your behalf to demand improvements to this poor practice.

Benefits of the Scheme

As a member of SHPS you will benefit from:

- A pension, payable from retirement for the rest of your life.
- Retirement age of 65, with the option to take early retirement.
- The option to exchange some pension for a tax-free cash lump sum – you may choose the amount (within limits) that best suits your needs.

For further information about the benefits of the Scheme have a look at the Scheme's website www.shps.org.uk

Meet some of the Hexagon Housing Association Team who are members of SHPS



From left to right: Mary Scanlan, Iyiola Awofidipe, Tom Harding and Cecilia Cole.

- **Mary Scanlan** is a Senior Customer Service Officer within the Customer Service Centre. Mary deals directly with tenant enquiries. Outside of work she enjoys the theatre, cooking, eating and drinking and Hartlepool United FC.
- **Iyiola Awofidipe** is a Finance Assistant on the Finance Team. Iyiola is responsible for the processing of creditors' payments and any finance-related queries which arise. Outside of work, he enjoys reading and politics.
- **Tom Harding** is Housing Services Manager. Tom is responsible for leading the team that provides a whole range of tenancy services to their customers. Outside of work, he is kept busy with his four sons, and is also secretary of a running club.
- **Cecilia Cole** is a Customer Service Adviser. Cecilia answers telephone queries and deals with customers in reception. Outside of work Cecilia enjoys cooking, in particular Caribbean dishes, and reading.

The SHPS Pensions Committee Members

Colin Small

Management Consultant to housing organisations, formerly Finance Director in the housing sector for over 20 years

Douglas Cuthbertson

Group Company Secretary, the Isos Group

Hugh Jones

Nominated by Community Housing Cymru

Liz Hughes

Director of Human Resources, Metropolitan Housing Partnership

Nick Horne

Group Chief Executive, Arcadia Housing Group

Richard Sheppard

Pensioner, formerly Raglan Housing Association

Robert Stenlake

Nominated by Teesdale Housing Association

Stephen Duckworth

Nominated by the National Housing Federation

During the Scheme year the Committee was assisted by the Scheme Adviser **Janet Hennessey**.

Interested to find out more about what the Committee does on your behalf?
There's more information on the SHPS website at:

www.shps.org.uk

Social Housing Pension Scheme Summary Funding Statement

The purpose of this Statement is to give all members of SHPS defined benefit structures important information about the Scheme's funding position. This statement covers the funding position up to 30 September 2010.

How does the Scheme work?

Money is collected from the participating employers and active members. It is paid into a communal fund, not separate funds for each individual member. The fund is invested to produce a return and is used to pay members' benefits on leaving, retirement or death. You can find further information about the Scheme's investments in the Annual Review on page 2.

How is the funding position measured?

The Scheme Actuary must carry out a full valuation of the Scheme every three years. The next valuation will take place as at 30 September 2011 and the formal report on the results will be ready in Summer/Autumn 2012. The valuation compares the value of the Scheme's assets (the investments) against its liabilities (the amount needed to provide the benefits that have been promised).

Ongoing funding position

The 'ongoing' valuation assumes that the Scheme will continue - employers and members will carry on paying contributions and benefits will continue to build up. This is the basis used for setting contribution rates for the Scheme. Since the formal valuation as at 30 September 2008, the Scheme Actuary has produced two Actuarial Reports, as required by law and an interim valuation at the request of the SHPS Pensions Committee. The results are summarised in the table below:

	Formal Valuation at 30 September 2008	Actuarial Report at 30 September 2009	Interim Valuation at 31 March 2010	Actuarial Report at 30 September 2010
Assets	£1,527m	£1,723m	£1,915m	£1,985m
Amount needed to provide benefits	£2,190m	£2,461m	£2,534m	£2,482m
Surplus (shortfall)	(£663m)	(£738m)	(£619m)	(£497m)
Funding level	70.0%	70.0%	75.6%	80.0%

Why has the funding position changed?

SHPS pensions increase by statutory Limited Price Indexation (LPI) and the Government has changed LPI to reflect the increase in the Consumer Prices Index (CPI) rather than the (usually higher) Retail Prices Index (RPI). Also, investment returns have begun to improve as the economy recovers from the recession.

Recovery plan

Following the 2008 valuation the SHPS Pensions Committee has put in place a funding plan that aims to make sure there is enough money in the Scheme to pay for benefits now and in the future. Extra contributions are being paid into the Scheme until September 2023 to pay off the shortfall. This 'recovery plan' has been submitted to The Pensions Regulator.

The importance of the employers' support

The SHPS Pensions Committee's objective is to have enough money in the Scheme to pay pensions now and in the future. The success of this objective relies on the participating employers continuing to support the Scheme. This is because the employers will be paying a major part of the future expenses of running the Scheme. In addition the funding level can fluctuate, and when there is a shortfall the employers will usually need to put in more money.

Solvency position

As part of the formal valuation, the Scheme Actuary must estimate what it would cost to wind up the Scheme and buy insurance policies to secure members' benefits in full ('full solvency'). If the Scheme had been wound up as at 30 September 2008 the Scheme Actuary estimated SHPS was 31.1% funded with a shortfall of £3,384 million. We are required by law to provide this information but you should note that there are no plans to wind up the Scheme.

The Scheme's funding plan assumes that the participating employers will continue in business and support the Scheme. Please bear in mind that the funding levels are a conservative measure, particularly the solvency level, and that all members' benefits are being paid in full even though there is a shortfall.

What happens if the Scheme starts to wind up?

There are no plans to do this, but if SHPS were to start to wind up, employers would be required to pay enough money into the Scheme to enable members' benefits to be completely secured with an insurance company. If the employers were unable to pay this full amount, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members in circumstances where the Scheme winds up with a shortfall.

Further information and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk. Or you can write to the PPF at Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

Where can I get further information?

If you have any other questions, or would like further information, please contact The Pensions Trust at the address below.

A list of documents which provide further information is shown below. Copies are available on request.

The **Statement of Investment Principles** explains how money paid into the Scheme is invested.

The **Voting and Engagement Policy** explains how The Pensions Trust exercises its right to vote at meetings of companies in which it owns shares.

The **Statement of Funding Principles** sets out the Scheme's funding plan.

The **Schedule of Contributions** shows how much money is being paid into the Scheme.

The **Recovery Plan** explains how the funding shortfall is to be made up.

The **Annual Review** shows the Scheme's income and expenditure.

The full report on the **Actuarial Valuation** as at 30 September 2008.

The shorter **Actuarial Reports** following the Scheme Actuary's reviews in 2009 and 2010.

A Guide for Members. You should have been given a copy when you joined the Scheme, but we can provide you with another copy or you can download a copy from the SHPS website at www.shps.org.uk

An **Annual Benefit Statement.** If you are not getting a pension from the Scheme (and have not received a benefit statement in the previous 12 months) you can ask for this statement. It is issued automatically to active members and to members with deferred benefits.

Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional adviser, such as an Independent Financial Adviser, before taking any action.

Please help us to keep in touch with you by informing The Pensions Trust if you change address.