December 2002 • Issue 13

ITB PensionNews

The newsletter for members of the ITB Pension Funds

Pensions hit the headlines

There has been much written in the press recently which generally paints a fairly gloomy picture of the pensions situation in the country. There are headlines about people not saving enough for their retirement and stories concerning the financial state of the pension schemes of many of the UK's major companies.

Faced with the financial burden of making good the deficits that have arisen in their schemes, ostensibly because of poor stock market returns, some employers are choosing either to close their schemes to new members or wind them up altogether.

So, how has all this come about?
Arguably, financial pressure on pension schemes intensified in 1997 when the Chancellor took away one of the tax advantages that had an effect on the investment income stream of pension schemes.

Moreover, after the consistent growth of the later 1990s, the fall in share prices over the past two plus years has hit the value and income of pension funds. Outgoings are also rising as pensioners live longer in retirement. This, and the introduction of new accounting standards, has contributed to the increased attention paid to pension schemes which we now frequently read about.

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Put another way, continued underperformance in equity markets puts strain on the funding position of final salary schemes as pensions become more expensive to provide, due to lower than expected investment returns, coupled with increasing pensioner longevity.

The ITB Pension Funds have to operate against this background and strike the right balance between investment growth and security of the Funds. As a result, the Trustees in consultation with their advisers, both investment and actuarial, continue to monitor developments very closely and frequently consider the most appropriate investment strategy to adopt.

Following the completion of the 2001 Actuarial Valuation of the Open Fund, the Scheme's Actuary undertook an Asset Liability Study to assess the suitability of the Fund's investment strategy and investigate whether alternative strategies should be considered.

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Whilst there was no one right answer, the study provided the Trustees with an insight into the potential outcomes from various asset allocations. It identified an alternative approach to asset allocation for the Trustees to consider. The suggested new approach aims to be better placed to maintain the desired future funding level for the Open Fund, while still allowing scope for the Scheme to benefit from any future favourable investment returns.

Although equity markets have recently fallen it must be remembered that pensions, by their very nature, are long term arrangements. In making these considered decisions and taking action to change the asset allocation of the Open Fund in June 2002 the Trustees moved to increase the investment in bonds and reduce exposure in equities. Although this was a long term strategic decision there was a short term benefit to the Open Fund, as the UK equity market fell further following the Funds' switch out of UK equities into bonds. Nonetheless, even with the Open Fund's strong funding position it is not immune to market falls and in common with other pension schemes has experienced negative returns over the last two years.

The impact of negative returns on the Funds is assessed by an actuarial valuation. A formal valuation of the Funds is carried out every three years. The last valuation of the Closed Fund was at 31 March 2000, and the last valuation of the Open Fund was at 31 March 2001. Both valuations showed the Funds to be in a healthy ongoing financial position.

A secure future

The Trustees believe it is important to continually monitor the Funds' financial position between formal valuations and therefore asked the Scheme Actuary for an update on the Open Fund in July 2002. Following this review, the Scheme Actuary remained satisfied that despite the recent falls in equity markets, the Open Fund continues to be in a healthy ongoing financial position. The Closed Fund follows a closely 'matched' investment policy and, since it only has a relatively small holding of equities, its financial security is not so susceptible to movements in equity markets.

www.**itb-online**.co.uk

Why not connect to the ITB Pension Funds website? It enables you to gain quick and easy access to details of all the benefits of membership.

The on-line versions of the Member Booklet and also the Additional Voluntary Contributions (AVC) Guide, Trustees' Report and Accounts and previous Newsletters, take the hassle out of finding your own hard copies of these documents.

There is a Scheme Induction for new employees, which may also be used as a quick reference guide for active members and other interested parties.

Pensioners and deferred pensioners can click-on and obtain a number of forms such as the Change of Marital Status or Bank/Building Society Account forms. There is also information about pensions in payment, payroll matters, tax, P60s and pension increases, retirement issues and about your ITB pension being paid overseas.

Pension Facts, a newsletter about State pensions and other benefits and services for older people, is reproduced on the website and there are links to other useful sites.

The ITB website is the subject of ongoing development, given that people want to access information easily and do so faster and more conveniently than ever before.

To facilitate this, plans are under way to put in place the second stage of the website, which will upgrade it to a higher quality and more comprehensive service. Thorough testing will be required before this enhancement of the site can be effected and it is anticipated that it will be made available during 2003.

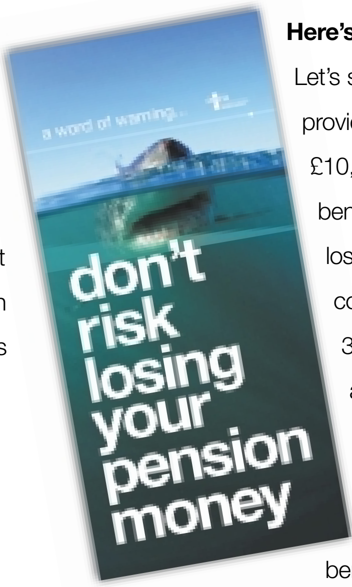
Opra highlights the pitfalls of 'pension liberation'

Opra (the Occupational Pensions Regulatory Authority) is the UK regulator of pension arrangements offered by employers.

Opra has recently published a notice, which for ease of membership coverage is reproduced below. It points out that currently several organisations are offering to provide pension scheme members with cash instead of pension benefits. This is known as 'pension liberation'.

The way these pension liberators work is that they send the trustees of a person's existing pension scheme a request asking them to transfer pension money to a scheme in the name of a fictitious new employer.

Members who transfer their pension benefits to these schemes will lose almost all of their 'liberated' cash.



Here's an example:

Let's say your pension scheme would provide you with a transfer payment of £10,000. If you transferred your pension benefits to a pension liberator, you could lose 30% of your money through commission, and possibly another 30% or more through income tax. As a result of transferring your benefits under these circumstances, you would be left with only £4,000. And you will have lost your pension benefits when you come to retire.

Things you need to know:

Q. Can I transfer my pension benefits?

A. Yes, you can transfer pension benefits to:

- **a legitimate pension scheme provided by your current employer;**
- **a stakeholder pension scheme; or**
- **a personal pension scheme.**

Q. Can I give up my pension for cash?

A. No, you can only receive your pension benefits when you retire. You cannot usually retire until you reach at least age 50, and then you can only exchange part of your pension benefits for cash.

Q. What if I am offered cash?

A. Be suspicious if you are offered cash. People who offer to convert your pension to cash will normally take between 20% and 30% of the value of your benefits as commission. Also, at a later date you will have to pay tax – 30% of the whole fund if you pay basic-rate income tax or 40% of the whole fund if you pay higher-rate income tax. Altogether, you could lose as much as 70% of the 'liberated' cash.

Q. What if I am asked to sign a contract of employment to allow a transfer to take place?

A. You should only sign a contract of employment if you will genuinely be working for the employer concerned. If you are asked to sign a contract of employment when there is no actual job involved, this would suggest that the scheme you are transferring to is a so-called 'pension liberator'.

Opra have recommended that pension scheme trustees take extra precautions when members request a transfer of their benefits. So, the trustees of your old scheme may ask you to provide copies of:

- your contract of employment;
- payslips from your new employer; and
- a copy of your new pension scheme's booklet

Also, Opra are suggesting that if trustees are suspicious about a transfer request, they should delay making payment and let you, the member, know what's happening. You and the trustees of your new scheme can complain to Opra if you are unhappy with such a decision.

How to contact Opra:
Opra, Invicta House,
Trafalgar Place,
Brighton, BN1 4DW
Helpdesk: 01273 627600 (Monday to Friday, 9am to 5pm)
Helpdesk Fax: 01273 627688
E-mail: helpdesk@opra.gov.uk
Website: www.opra.gov.uk

Trusteeship

The ITB Pension Funds are controlled by 18 Managing Trustees consisting of nine Employer, seven Member and two Pensioner Trustees.

Changes to the Trustees

Gordon Eagle, Member Trustee for the Construction ITB and Deputy Chairman of the Trustees, will relinquish his appointment following his retirement from service on 31 December 2002.

Gordon became a Trustee in 1993 and was last year appointed Members' Deputy Chairman. He was also a member of the Investment Committee.

Terry Howard, Members' Trustee for Lantra retired from service on 31 October 2002.

Terry became a Trustee in April 2000 and was also a member of the Management Committee.

We wish both Gordon and Terry a long, healthy and happy retirement and it is now time for them to enjoy the benefits provided by the ITB Pension Funds.

The process to appoint new Trustees in place of Gordon and Terry is currently under way.

Also to confirm that:

Professor Tom Cannon was appointed in August 2002 as the Employer Trustee for CAPITB plc.

George Beveridge was reappointed in October 2002 as Employers' Deputy Chairman.

David Barnett and **Horace Parker** were reappointed as Pensioners' Trustees in October 2002.

Gap Years

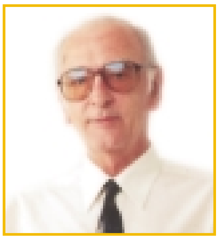
Nowadays, many young people going on to further education choose to take a Gap Year after leaving school and before continuing their studies at University or College. So you may ask what has this to do with pensions and more particularly the ITB Pension Funds?

The practice of taking a Gap Year raised some questions in the case of young people with an entitlement to a pension from the ITB Pension Funds. For information, children's pensions may be paid as a result of the death of a parent who was a member of the Scheme, where the child is under age 16, or is between the ages of 16 and 21 and is undergoing full-time educational instruction; or is undergoing a full-time vocational training course of not less than two years duration.

As a consequence of a recent change made to the Scheme Rules it is now possible for the children's pension to be reinstated once a child has returned to full-time education after their Gap Year, provided that the Trustees have been notified in advance and the educational course to be pursued has been approved by the Trustees.

In exceptional cases, the Trustees may consider the payment of a children's pension beyond the age of 21, due to the time a full-time educational programme has taken.

Changes at the Funds Office



Ron Spiking, the Funds Accountant, retired on 30 September 2002. He joined the ITB Pension Funds in 1992 and during his time with the Funds he was involved with a wide range of activities. A considerable amount of Ron's time was spent on the Funds investment arrangements and over the years he got to know the Funds investment managers and other supplier organisations very well as a result of his monitoring role and his work for the Funds Investment Committee, which was much appreciated.

He is a Chartered Accountant whose career progressed into industry initially with Hawker Siddeley and then Dennison Plc where he remained for 20 years.

Ron is 62 years of age, married to Tina and they have one son, Chris.

Ron played cricket and also football to quite a high standard until he was 38. He continues his involvement with football with the London Colney football team and also currently plays squash every week.

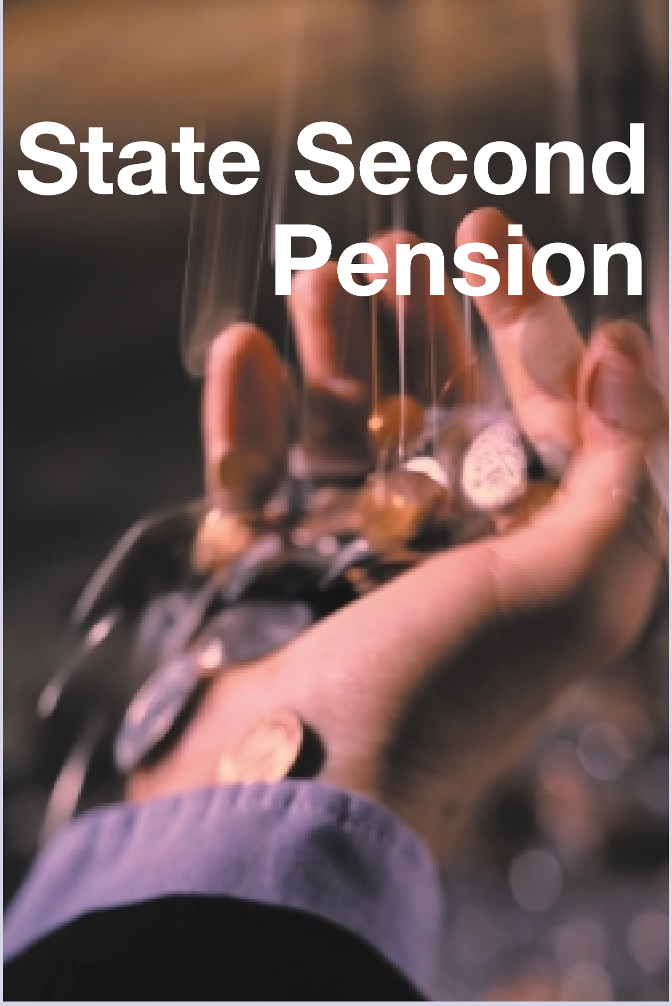
The ITB Pension Funds would like to wish Ron and Tina a happy, healthy and long retirement together.

Ron is replaced as the Funds Accountant by Dave Faulkner. Dave is also a Chartered Accountant who took his articles and qualified with Ernst & Young. After working as an audit supervisor with Ernst & Young. Dave moved to the Prudential. During his 15 years with the latter Dave worked within unit linked, general insurance and fund management operations.

Before joining the ITB Funds, Dave spent four years leading the finance function as Scheme Accountant at the Kingfisher Pension Scheme.

Dave is 50 years old, has one 18 year old son and lives with his wife Neve in East Finchley, North London. He is an avid Charlton Athletic season ticket holder and enjoys an occasional game of tennis.

Introducing the State Second Pension



A new element has been introduced to the state pension entitlement.

In the past, the State Earnings-Related Pension Scheme (SERPS) provided an additional state pension to some pensioners, on top of the basic state pension. It was based on the employee's record of National Insurance contributions and their level of earnings.

The Government has now reformed SERPS so that it provides a more generous additional state pension for low and moderate earners. It is now called the State Second Pension, sometimes referred to as S2P.

The State Second Pension gives employees earning up to about £24,000 a year (at 2001/02 levels) a better pension than SERPS, with the most help going to those on the lowest earnings (up to around £10,500 a year at 2001/02 levels). The State Second Pension, for the first time, covers certain carers and people with a long-term illness or disability, whose working lives have been interrupted or shortened. They are now able to build up an additional state pension for periods when they cannot work.

The ITB Pension Funds are contracted-out of SERPS (now S2P). In effect this means that lower National Insurance contributions are paid by employees and the employers who participate in the ITB Pension Funds. The benefits provided under the ITB Pension Funds are better overall than the benefits of S2P.

Help is just a phone call away

If you would like further information on Fund benefits or AVCs, you can write to us at ITB Pension Funds, 23 King Street, Watford, Herts WD18 0BJ or contact the Pensions Helpline on our dedicated number, 01923 801528. During normal office hours, someone will be there to help you. Outside office hours, an answer service will be available for you to leave a message. Please ensure you leave your full name and phone number so we can return your call. You may also contact us by email if you prefer at Pensions@itbpensionfunds.demon.co.uk

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