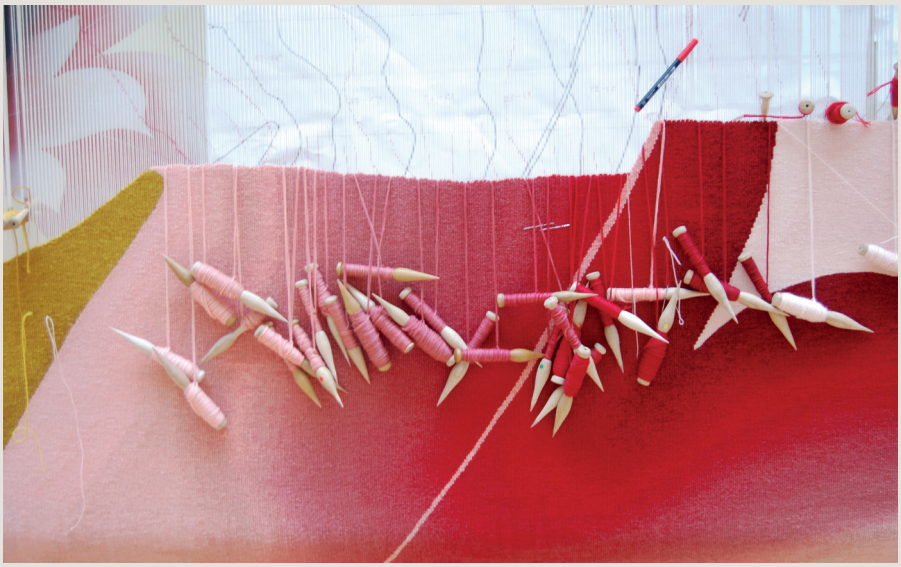
The Arts Council Retirement Plan (1994)

Trustees' Report

May 2015 | Issue 15



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Keeping you informed

Welcome to the May 2015 edition of your Trustees' Report.

Finances

On page 5 we share the results of the 31 March 2014 and 31 March 2015 updates, which give us an idea of how The Arts Council Retirement Plan (1994) ('the Plan')'s finances have performed since the valuation on 31 March 2013. We're pleased to say that overall the Plan's finances have improved primarily due to contributions paid by the sponsoring employers to reduce the deficit, and better than expected performance of the Plan's investments. However, recent deteriorations in market conditions have limited this improvement to some extent.

We also provide an update on where the Plan's funds were invested as at 31 March 2015 and how the investment market performed over the year to 31 March 2015 – you'll find this information on page 8.

What's in the news?

You may remember that in the last Trustees' Report we updated you about the changes to the pension landscape as a result of the 2014 Budget. The last of these changes came into effect in April 2015 and we explain what this might mean for you as a member of the Plan on page 3.

Welcome to Mumtaz Ali

Following Michael Addison's decision to pursue a new career challenge outside of the Arts Council you have chosen your new Trustee, and so we would like to welcome Mumtaz Ali to the Board. Mumtaz is employed as Chief Financial Accountant with Arts Council England and holds over 20 years' experience of working in Finance. Look out for an interview with Mumtaz in the next Trustee Report later in the year.

I'd like to say 'thank you' to everyone who voted, and to those who nominated themselves. We've had a tremendous number of responses this year and it's great to see so many of you getting involved in your Plan.

We hope you enjoy reading our latest Trustee Report.

Chris Daykin,
Chairman of the Trustees

What do you think of the content of these reports?

Let us know by getting in touch with the Administration team. Don't forget to also let them know if your address or contact details have changed so that we can keep in touch with you.

Do your bit for the environment – receive these reports by email

Don't forget, if you would be happy to receive the report by email, tell the Administration team at **arts.council@hymans.co.uk**, so that we can update your contact details.

What's in the news?

Headlines you need to know

Pension scams – be aware of the consequences

There have been a number of reports of unscrupulous operators encouraging members of pension schemes to access their pension benefits before they reach age 55 (currently the minimum legal age at which someone can take their pension benefits) or to transfer accumulated pension rights to a dubious organisation. Many of these are scams designed to misappropriate people's pension savings.

How could this affect you?

If you choose to release money from your pension before you're age 55, you face losing up to 70% of your money back to HMRC. Please be cautious if you are approached by a company or individual offering you a chance to get a 'loan', 'saving advance', or 'cash back' from your pension, or to access your pension early. Indeed you should be very wary of any organisation that approaches you claiming to offer a wonderful deal if you transfer your pension rights to them. You can read more about the dangers of so-called 'pension liberation' on the Pension Regulator's website at www.thepensionsregulator.gov.uk/pension-liberation-fraud

Changes to the pensions landscape as at April 2015

As we mentioned in last year's Trustee Reports, there have been some significant changes to the world of pensions as a result of the 2014 Budget announcements. Some of these changes were brought in gradually while others were available right away. However, from April 2015, the flexibilities are in place.

Although the bulk of the changes apply to members of defined contribution schemes, some of the changes could affect you as members of a final salary – or defined benefit – pension scheme. You can find more details of how these new flexibilities apply to you below and over the page:

Members with low pension benefits at retirement

Members who have earned only a small annual pension during their membership in the Plan may prefer to take its value as a cash lump sum instead (from age 55). The rules around this have been relaxed and we will tell you if you qualify for this option when we send you your retirement claim pack.

Harder, Faster, Better, Stronger, Hijinx Theatre & Frantic Assembly, Unity Festival.

Transferring benefits to a defined contribution pension plan

Some members may feel that they would benefit from the new flexibility a defined contribution pension plan could offer them.

We recommend that members seek financial advice before taking any action to swap a secure pension entitlement with the Plan for different, perhaps more risky, types of benefit. The Government has now strengthened these recommendations to a requirement to take financial advice for anybody intending to transfer savings worth £30,000 or more from a defined benefit to a defined contribution plan. There may be significant tax implications with some courses of action.

If the total value of your savings is less than £30,000 we still strongly recommend you seek financial advice, although it is not a legislative requirement.

You can find a financial adviser in your area at www.unbiased.co.uk, but you'll be responsible for paying for any advice you receive.

Unbuttoned, Curate project, Sinfonia Cymru.

Funding update

In this section we provide information about the Plan's funding.

A full health check on the Plan's finances

The Plan's Actuary has to carry out a review of its financial health every three years to determine how much money the Plan needs to pay members' benefits when they become due. This is compared with how much money it actually has (its 'assets') – if it has more than it needs to pay all benefits the Plan is said to be in 'surplus'. If the level of assets is insufficient to meet the value of all benefits already built up, it is said to be in 'deficit'. In the years between full valuations the Actuary carries out a simpler financial health check.

In this section we report on the latest valuation updates as at 31 March 2014 and 31 March 2015 and compare these with the results of the 31 March 2013 actuarial valuation. However, you should note that the latest updates are not full actuarial valuations and the results should be treated as estimates.

How the Plan works – a reminder

This is a final salary Plan.

All contributions paid into the Plan are held in a common fund, which is invested by the Trustees.

The pension you receive is based on your salary and length of service when you retire.

The results

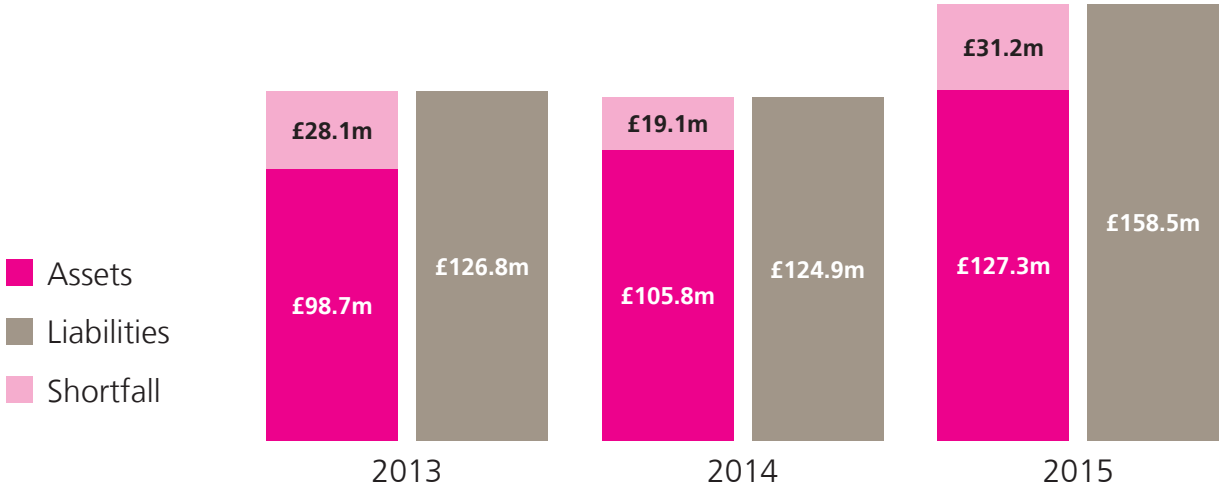
As at 31 March 2015:

- There was £127.3 million invested by the Plan available for paying out future benefits.
- The estimated cost of paying future benefits already built up by all Plan members was £158.5 million.
- This means that there was a deficit of £31.2 million as at that date.

If we look at the Plan's current funding position as a percentage of the liabilities we would say that it was 80% funded at the valuation date.

How has the position changed since the last valuation?

The Plan's assets have increased from £98.7 million in 2013 to £105.8 million in 2014 and £127.3 million in 2015. The liabilities reduced from £126.8 million in 2013 to £124.9 million in 2014 and then increased to £158.5 million in 2015. The Plan's funding position has improved since the 31 March 2013 valuation (when it was 78% funded). This improvement is in part due to a better than expected performance of the Plan's investments and in part to additional contributions paid by the sponsoring employers to reduce the deficit. A deterioration in market conditions over the last six months, in particular sharp falls in long-term interest rates, has caused a higher value to be placed on the Plan's liabilities as at 31 March 2015, offsetting some of this improvement.



How will the shortfall be reduced?

The sponsoring employers remain committed to providing your pension benefits and reducing the shortfall. They have agreed to pay additional contributions totalling £845,500 into the Plan each year until 2023, on top of normal contributions towards the cost of benefits being built up by existing employee members, and the expenses of running the Plan. Based on these contributions we expect, other things being equal, that the shortfall will be completely eliminated by 2023.

What does this mean for me and my pension?

It is important to remember that, while the employers exist and continue to sponsor the Plan, benefits will continue to be paid in full to all members. The Plan's funding position will go up and down over time, as is to be expected in final salary arrangements such as ours. It is not a cause for any immediate concern. A plan is in place to eliminate the deficit. You should bear in mind that the results shown are a snapshot in time and market conditions are quite volatile.

Y Dance, Credit: Paul Watt.

The Plan's future

We believe the Plan will continue with full support from the employers. However, we are required by law to tell you what would happen in the unlikely event that the Plan was to close.

If the Plan was to close, the employers would be required to pay enough money into the Plan to secure all members' benefits with an insurance company. The Plan Actuary estimated that, as at 31 March 2013, the Plan would have needed £237.4 million to buy policies from an insurance company to pay the promised pensions – suggesting a shortfall of £138.7 million compared with the amount of money actually in the Plan at that date. (This is a larger shortfall than we show on page 5 because it costs more to buy policies from an insurance company.)

If the employers could not afford to do this, in certain circumstances the Pension Protection Fund (see page 10) may be able to take over the Plan and pay benefits to members.

It's unlikely that all the employers would stop contributing at once and so we do not expect that the Plan will close. If a single employer was to stop contributing, it would have to pay funds into the Plan equivalent to the cost of buying policies from an insurance provider to cover its share of the benefits for members (unless it agreed alternative arrangements with the Trustees). However, we expect that all the current participating employers will continue to support the Plan.

In the case of Creative Scotland, the Scottish Government has given a guarantee in respect of the full amount of benefits built up with Scottish Arts Council up to 1 July 2010 when it became part of Creative Scotland.

Please note: There has been no payment at any time to any of the participating employers out of the Plan's funds.

If you have any concerns about the finances of the Plan please contact us. Do not consider leaving the Plan without taking financial advice – see page 10.

To This I Put My Name, Credit: Claire Curneen.

Investments

In this section we provide you with an update on the performance of the Plan's investments for the year to 31 March 2015. If you would like any more information please contact us using the details on page 11.

Investment performance update

As you will see in the table below, the Plan's assets have performed well over the last year, delivering a total return of 16.6% compared to the total benchmark return of 14.5%.

The Plan's infrastructure investments performed particularly well over the year, with the property and equity holdings also performing strongly as investor confidence was supported by the ongoing low interest rate environment.

Fund	Fund performance (%)	Benchmark performance (%)	Proportion of Plan's funds (%)
Legal & General			
UK equity	6.7	6.6	12.9
Overseas equity (hedged)	14.5	14.5	14.0
Overseas equity (unhedged)	20.0	19.9	14.0
Corporate bonds	23.2	23.1	10.2
Fixed interest gilts	26.9	26.9	6.6
Index-linked gilts	21.0	21.0	14.5
Cash	0.4	0.4	0.0
Baillie Gifford			
Absolute return	8.2	0.5	6.8
Newton			
Absolute return	6.8	4.4	7.3
Aviva			
Property	15.7	16.6	10.0
Arcus			
European infrastructure	41.8	6.7	3.7
Total Fund	**16.6**	**14.5**	**100.0**

We invest in asset classes we believe will get the best investment return at an acceptable level of risk, and help us pay all members' pensions when they are due. This is known as our 'investment strategy'.

Jargon alert

Absolute return

Describes funds that invest in a range of different asset classes simultaneously with the objective of generating equity-like returns over the long-term, but with lower volatility than equities. Asset classes held within absolute return funds include equities, bonds, commodities and hedge funds.

Corporate bonds

These are loans issued by companies, banks and large organisations. At a specified date the owner of the loan is paid a fixed amount of money. A rate of interest is usually paid on the money loaned.

Equities

Also known as shares, these are a type of security that indicates ownership in a company and represents a claim on part of the company's assets and future earnings.

Gilts

Bonds issued by the British Government. They are effectively loans to the British Government which provide a fixed rate of interest (or, in the case of index-linked gilts, interest which goes up in line with the Retail Prices Index) and a final repayment on maturity, either fixed or index-linked.

Infrastructure

A specialist asset class that invests in a range of physical structures needed for the economy to function, such as airports, toll roads, rail, ports, energy resources and mobile phone masts.

These investments are long-term projects that are expected to generate returns that exceed inflation.

Readers at Manchester Central Library, Credit: Joel Fildes.

More information

Useful websites

You'll find a lot of useful information about pensions from the sites below:

www.gov.uk
For Government information and public services. Direct.gov has a section for pensions which you can access by clicking on the 'Pensions and retirement planning' link.

www.moneyadviceservice.org.uk
For general pension information and tips on financial planning.

www.unbiased.co.uk
For financial advice. If you are thinking about leaving the Plan or making any changes to your pension you should consider speaking to a financial adviser. You can find one in your area on this website.

www.pensionprotectionfund.org.uk
The Pension Protection Fund (PPF) works to ensure that members of defined benefit schemes receive pensions, even if their employer goes out of business. Visit the website for more information.

www.thepensionsregulator.gov.uk
The Pensions Regulator aims to help protect members' benefits. The Pensions Regulator acts as a watchdog, ensuring that employers and trustees are fulfilling their responsibilities and that schemes are being run effectively.

The Pensions Regulator is also able to help trustees and administrators run their schemes where necessary. The Pensions Regulator reviews the results of each actuarial valuation once they are complete. In extreme circumstances, it has the power to change scheme benefits being built up and dictate the assumptions on which valuations are based and the future contributions due from the employers.

It has now reviewed the results of the 31 March 2013 actuarial valuation and we are pleased to confirm it is not applying any of these powers in respect of the Plan.

Additional documents

If you would like to receive a copy of any of the following documents, please contact the Administration team:

- **The Statement of Investment Principles** – this explains how the Trustees invest the money held by the Plan.
- **The Schedule of Contributions** – shows what contributions the Trustees and the employers have agreed will be paid into the Plan over the coming years.
- **The Annual Report and Accounts of the Plan** – shows the Plan's income and expenditure in the year up to 31 March 2014.
- The full **Actuarial Valuation report** as at 31 March 2013.
- **The Statement of Funding Principles** and the Recovery Plan agreed at the valuation.

Contact us

Please contact the Administration team if you have any questions about the Plan or your benefits in particular. The details are:

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0141 566 7656

Corin Swom, with the dream of having a garden and space vegetables, Inverleith House, Royal Botanic Garden Edinburgh.

Cover images

Top left: Butterfly tapestry by Alison Watt and Master Weaver Naomi Robertson on the loom at Dovecot Studios.

Top right: Revellers at Tour De France Grand Depart, part of Yorkshire Festival, Credit: Joe Fildes.

Bottom: Touring cast of Hamlet, Credit: William-Jessop.

The Trustees' Report is available in large print, braille and audio formats. Please contact the Administration Team using the details above if you require any of these versions.

This report has been produced using paper from well managed forests.

The images in this Trustees' Report are provided to us free of charge by Arts Council England, Arts Council of Wales and Creative Scotland.

Produced by like minds.