The Arts Council Retirement Plan (1994)

# Trustees' Report

July 2014 | Issue 13

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# Keeping you informed

## Welcome to the July 2014 edition of your Trustees' Report.

The main focus this time is the finances of the Plan and what's been happening in the pensions environment.

### Finances

The results of the 31 March 2013 valuation are in, and we share these with you on page 4. The valuation provides an update on how much money the Plan has, compared to how much it needs to provide all members' benefits earned up to that date. The headline news is that the Plan's finances have improved since the 2010 valuation due to contributions paid by the sponsoring employers to reduce the deficit and a better than expected performance of the Plan's investments.

There's also an update on where the Plan's funds were invested as at 31 March 2014 and how the investment market performed over the year to 31 March 2014 – you'll find this information on page 8.

### What's in the news?

You may have heard that the word 'pensions' featured heavily in the 2014 Budget. While most of the proposed changes won't affect members of the Plan, on page 3 we explain what it means for you and your pension choices at retirement.

There's also more plan specific news to share with you. On pages 6 and 7 we discuss:

- How we're offering you more flexibility in retirement.
- Automatic enrolment, and how some employees are now automatically entered into the Plan.

### 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 we can stay in touch with you.

We hope you enjoy reading your latest report.

Chris Daykin,

Chairman of the Trustees


**You can receive these reports by email**

Don't forget, if you would prefer to receive the report by email contact the Administration Team at **arts.council@hymans.co.uk**

# What's in the news?

## Headlines you need to know

### The 2014 Budget

You may have heard in the media that 'pensions' formed a big part of this year's Budget announcements.

### What does it mean for you?

A lot of the changes will only affect members of defined contribution schemes and this is a final salary – or defined benefit – Plan.

A couple of changes will affect our Plan:

- If your entire pension and lump sum benefits from all schemes are valued at £30,000, or less, you will be able to take it all as a cash lump sum at retirement. This is an increase from the previous limit of £18,000.
- If you have a small pension pot worth £10,000 or less you can take it all as a cash lump sum even if you have more money in other pension arrangements. This is an increase from £2,000 previously.

From April next year, the Government is also proposing some further changes, on which we will update you in due course as the details become clearer.

### Warning

The Pensions Regulator has advised that with the increased interest in pensions following the Budget announcements they've had a number of people contact them to report that they have received cold calls from companies saying they have received their details from the Government and that they are Government backed to undertake pension reviews. This is not a legitimate assertion.

If you receive a cold call offering this type of service we would strongly advise caution. Your pension is a valuable asset and it is recommended that you check the credentials of the organisation before releasing information.

The 31 March 2013 valuation results are in. Turn over to find out more.

A Midsummer Night's Dream, Ballet Cymru. Photo: Sian Trenberth, Arts Council of Wales

# 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. The Plan Actuary carried out this review – known as the actuarial valuation – as at 31 March 2013.

## The results

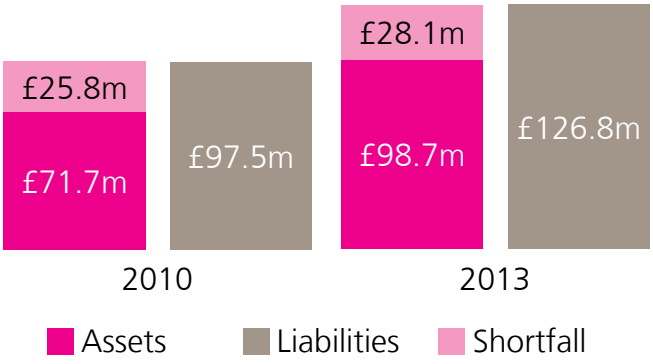
As at 31 March 2013:

- There was £98.7 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 £126.8 million.
- This means that there was a deficit of £28.1 million as at that date.

If we look at the Plan's funding position as a percentage of the liabilities we would say that it was 78% funded at the valuation date.

## How has the position changed since the last valuation?

As you can see in the chart below, the Plan's assets have increased from £71.7 million to £98.7 million. The liabilities have also increased from £97.5 million to £126.8 million, yet overall the Plan's funding position has still improved since the 31 March 2010 valuation (when it was 74% funded). This improvement is in part due to additional contributions paid by the sponsoring employers to reduce the deficit and in part to a better than expected performance of the Plan's investments.




## 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.

## 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 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 – even if there is a shortfall in the funding position. The Plan's funding position will go up and down over time. This is to be expected in final salary arrangements such as ours and 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.

## 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 4 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 the Plan will close. If one employer was to stop contributing in isolation, it would have to pay sufficient 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 to any of the participating employers out of the Plan's funds at any time.

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.

## Additional flexibility at retirement

### Benefits currently payable on retirement

At retirement, the Plan currently promises to pay you a defined amount of annual pension and a defined tax-free cash lump sum. The amount of tax-free cash you receive is normally worked out as:

| 3/80 | X | your Final Pensionable Salary | X | your Pensionable Service |
|---|---|---|---|---|

Please see the Plan booklet for more information.

Note: If you make Additional Voluntary Contributions (AVCs), you can also take some of your AVC pot as additional tax free cash when you retire (up to a limit imposed by HM Revenue & Customs (HMRC)).

### What is the new option?

The Trustees and employers have agreed to amend the Plan to enable you to exchange some of your pension for additional tax-free cash if you wish. This option is being introduced later this year.

This new option is not connected to the pension changes that the Government announced in its March 2014 Budget. We are introducing the option to allow you to take maximum advantage of a tax-efficient method of receiving your retirement benefits that is allowed by HMRC.

### How the new option works

Your 'defined' tax-free cash lump sum will remain the same as it is now, however you will have the option of increasing this up to the maximum amount allowed by HMRC. In order to maximise your tax-free cash, you will be required to exchange some of your annual pension for cash. The table below shows an example of how this would work:

| Benefit | Under the current rules | Additional option under the new rules |
|---|---|---|
| Annual pension | £10,000 | £8,225 |
| Defined cash lump sum | £30,000 | £30,000 |
| Additional cash lump sum | Not available | £24,840 |

Please note that spouses' benefits will not be affected by your choice to take an additional cash lump sum.

We'll provide more information later this year. In the meantime if you're close to retirement and would like more information now, please contact the Administration Team.

## Automatic enrolment update

Since the beginning of 2014, we have started to welcome new starters, who are now being automatically entered into the Plan, following the introduction of the Government's new legislation on automatic enrolment. We first told you about this new legislation in July 2012, which means that employers must automatically enrol most employees who aren't currently in a pension arrangement into one, unless they specifically opt out. As mentioned when we first wrote to you, this does not impact existing members of the Plan but we can confirm the following:

- From 1 January 2014 Arts Council England employees not in the Plan were given the option of joining the Plan or automatically enrolled into an alternative scheme called the People's Pension.
- From 1 May 2014 any Arts Council of Wales employees not in the Plan were automatically enrolled into the People's Pension.
- From 1 May 2014 Creative Scotland employees not in the Plan were automatically enrolled into the Plan.

## Reappointment of Hymans Robertson

As Trustees we regularly carry out a review of our advisers to make sure that they continue to offer us good value for money. And to ensure we get a high quality service to help us manage the Plan in the best interest of our members. We recently carried out a review of Hymans Robertson who provide the actuarial, investment, administration, secretarial and communications support to the Plan. We are pleased to confirm that the outcome of the review was agreement to continue our relationship with Hymans Robertson.

The agreement with them will provide a reduction in the cost of the core services required by the Plan along with commitment to work with us to introduce further efficiencies and savings over the next three years. We look forward to continuing to benefit from the high standard of service and advice we have come to expect from them.

YDance. Photo: Paul Watt, Creative Scotland

# Investments

In this section we provide you with an update on the performance of the Plan's investments for the year to 31 March 2014. 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 6.4% compared to the total benchmark return of 5.5%. 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 | 9.0 | 8.8 | 14.3 |
| Overseas equity (hedged) | 17.9 | 17.8 | 14.6 |
| Overseas equity (unhedged) | 7.7 | 7.6 | 13.8 |
| Corporate bonds | 0.5 | 0.6 | 9.1 |
| Fixed interest gilts | -3.1 | -3.1 | 6.2 |
| Index-linked gilts | -4.4 | -4.4 | 12.9 |
| Cash | 0.5 | 0.5 | 0.3 |
| **Baillie Gifford** | | | |
| Absolute return | 1.1 | 2.2 | 7.4 |
| **Newton** | | | |
| Absolute return | 1.9 | 0.5 | 7.5 |
| **Aviva** | | | |
| Property | 11.4 | 11.9 | 10.4 |
| **Arcus** | | | |
| European infrastructure | 31.7 | 7.8 | 3.5 |
| **Total Fund** | **6.4** | **5.5** | **100** |

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.

# More information

## Useful websites

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

www.direct.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 2013.
- 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:

Arts Council Administration Team, Hymans Robertson, 20 Waterloo Street, Glasgow, G2 6DB

arts.council@hymans.co.uk

0141 566 7656

This 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.

Dros y Top, Theatr Bara Caws. Photo: Dewi Glyn Jones, Arts Council of Wales

## Cover images

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Top right: Bed for a Princess, Becky Adams, Llantarnam Grange Arts Centre. Photo: Becky Adams/ Llantarnam Grange Arts Centre, Arts Council of Wales

Bottom: Dragon. Photo: Drew Farrell, Creative Scotland

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Produced by Hymans Robertson LLP

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

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