University of Reading Employees' Pension Fund

Your Pension

University of Reading

March 2009

Welcome…

…to your 2008 Trustees' newsletter to members of the University of Reading Employees' Pension Fund.

As we all know, it's been a challenging year for the world economy and no doubt we've all been affected in some way at one time or another during the past year - whether it be by the increase in fuel prices, the downturn in the housing market or rising inflation pushing up the weekly shopping bill. We take a look on page 2 at what's happening in the financial markets and the importance of taking a long-term view of your retirement planning.

You may have read in the press about the failure of some high profile pension schemes, where an employer has gone out of business and its pension scheme did not have enough money to provide the benefits promised. To help pension scheme members who find themselves in similar situations the Government introduced the Pension Protection Fund (PPF) to provide a minimum level of guaranteed pension. What you may not know is that this PPF is funded by payments made from pension schemes themselves, including the Fund – turn to page 3 for more on how the PPF works.

The Pensions Office regularly has queries from members about how pension benefits are calculated if you work part-time - see page 4 for more details.

On the financial side, there's a summary of our full Annual Report and Accounts and information on how the Fund's investments have been doing.

There are also some important notices on page 7, so make sure you take a look!

We hope you find this newsletter interesting and informative. If you have any questions or would like copies of any of the Fund's governing documents, you should contact:

Stephanie May, Pensions Officer, Pensions Office,
University of Reading, Whiteknights, PO Box 217, Reading, RG6 6AH.

Email: **pensions@reading.ac.uk**

Phone: (external) **0118 378 7121** (internal) **7121**

[Insert name]
[Insert title]
University of Reading

In this edition:

Markets in turmoil

It would not have escaped your attention that the financial markets have been in turmoil over the last year or so. The financial figures shown in this newsletter relate to the Fund's position at the end of July 2008, and although the market problems started before this, a lot has happened since. So what's happened and how is the Fund affected?

The trigger for this turmoil was deterioration in what is known as the 'sub-prime' mortgage market in the US – a market worth hundreds of billions of dollars. These mortgages are loans made to house buyers who are potentially more likely to default on their loan – missing repayments or not repaying at all for example. Many of these loans have actually defaulted following interest rate increases in the US and a reduction in house prices.

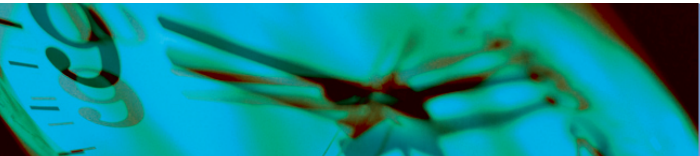
To make matters worse, the loans themselves have been packaged up by the original lenders and sold on to other financial institutions around the world in the form of 'mortgage backed securities'. Because of the loan defaults these securities consequently fell in value, sometimes disastrously. Once the prices started falling, the task of putting a value on these securities became difficult and considerable uncertainty arose as to the size of the losses the holders of the securities might be experiencing.

If there's one thing the financial markets dislike it's uncertainty and the banks subsequently became nervous about lending money to each other and to companies; one of the first high profile casualties of this so-called drying up of liquidity was of course Northern Rock, although more recently Lehman Brothers, Bradford & Bingley, HBOS and other banks have been in the news.

What are the effects on the Fund? Importantly, the Fund itself is not a direct investor in these mortgage-backed securities and we are not directly exposed to the sub-prime market. However, we are not immune to the effects on the financial markets as, like most pension funds, we do invest in financial institutions which have themselves invested in these securities. The values of many of these securities have subsequently fallen. But it is important to remember that the Fund's assets are spread across a range of investments with no great reliance on any one sector or any one company.

Pensions are a long-term investment and it is the returns achieved over the longer term that are important.

As the Fund is a defined benefit (DB) scheme the market turmoil will not impact upon the DB benefits that individual members have built up, providing the University continues to support the Fund (see last year's Summary Funding Statement for more information). You were sent the Fund's latest Summary Funding Statement in May last year, which included highlights of the most recent actuarial valuation (this is an in-depth 'healthcheck' on the financial state of the Fund) as at 31 July 2005 and the actuarial report as at 31 January 2008. As outlined in the Summary Funding Statement, the funding situation has deteriorated due to adverse market conditions since the actuarial valuation and actuarial report were undertaken. An actuarial valuation on the Fund as at 31 July 2008 is being carried out and this year's Summary Funding Statement will provide details of the latest funding position.



The University’s financial support for the Fund

Like most UK pension schemes, the Fund operates as a Trust and manages its own investments independent of the University. However, the Fund is still reliant on the University contributing towards the cost of pensions earned by future service and topping up any shortfalls in past service funding. For this reason, the Trustees keep an eye on the financial strength of the University and receive reports from the Director of Finance and Corporate Services. At the last Trustees’ meeting it was noted that the University had significant surplus land and invested endowment assets that could be made available to support the Fund if required. The University group balance sheet at 31 July 2008 had net assets of £289m. The Trustees will continue to monitor the position.

Peace of mind from the Pension Protection Fund

Over the past few years there have been some high profile pension scheme failures, where an employer has gone bust and its pension scheme did not have enough money to provide the benefits promised. In some cases pensioners have had their benefits cut and those looking forward to a comfortable retirement have seen most of their savings vanish.

A measure of protection

As a response, the Government introduced the Pension Protection Fund (PPF) in 2005. The PPF is designed to provide a guaranteed minimum level of protection for those employees who have benefits in a pension scheme, where the employer can no longer afford to provide those benefits.

For example, if the employer of a pension scheme is put into liquidation and the scheme’s assets are not sufficient to buy all the promised benefits with an insurance company, the scheme could get help from the PPF if the employer cannot provide the extra money required.

If a scheme enters the PPF, its assets will be applied by the PPF to provide benefits for members. The benefits members would receive from the PPF may be less than the full benefits they may have been entitled to from their employer’s pension scheme.

It should be remembered that the PPF is designed only to be a safety net. The Government hopes that the PPF will go some way to repair the damage to confidence caused by the recent and well publicised collapse of a small number of pension schemes.

How is the PPF funded?

To fund the PPF, most pension schemes have to pay a yearly ‘levy’. The PPF has stated that future levy payments should be spread more fairly across all eligible pension schemes. Its aim is for the total levy for all schemes to remain stable over the next three years.

Find out more

If you want to find out more about the PPF you can visit their website at **www.pensionprotectionfund.org.uk**. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Calculation of pension for part-time workers

The Pensions Office receives many enquiries from members who work part-time and who are concerned about how this affects their pension benefits. Without going into all of the mathematical formula used to calculate pension entitlement, the basic principle is that benefits earned during any period of part-time service are calculated in proportion to full-time service. So, for example, if you work half of your full-time hours then the pension you earn during that period of part-time service is equivalent to half what you would have earned if you were working full-time.

Some members who change from full-time to part-time hours, or who vary their part-time hours, are particularly worried about how their final pensionable salary is worked out. Please rest assured that even if you reduce your salary because of moving to fewer hours, this does not reduce the pension you have already earned. For example, if you had worked full-time for ten years and then part-time for ten years, the pension earned in the first ten years would be based on your equivalent full-time final pensionable salary. Only the pension earned in the second ten years would reflect part-time working.

Example

A member worked full-time for ten years (36 hours a week) and then part-time for ten years (18 hours a week) on a full-time final pensionable salary of £20,000, so the member's pension is worked out as follows:

$$10 \times (20{,}000/60) + ((10 \times 18/36) \times (20{,}000/60)) = £5{,}000 \text{ per annum}$$

For more information, your annual benefit statement will provide you with details of the pension benefits you have built up as a member of the Fund.

All about investments

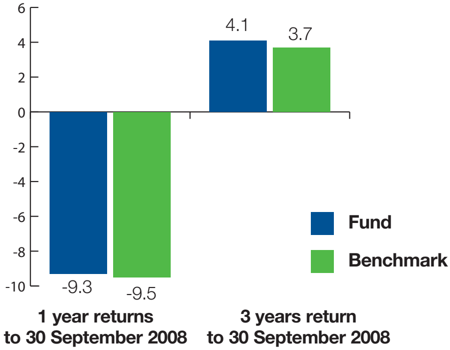
Although the Trustees have overall responsibility for the investment of the Fund's assets, they delegate the day to day management of the Fund's investments to specialist investment managers.

The Trustees then measure the performance of the Fund by comparing the returns achieved by these managers to a performance target or 'benchmark'.

Investment performance

The performance for the Fund is shown in the graph opposite, and is compared with the performance of its benchmark.

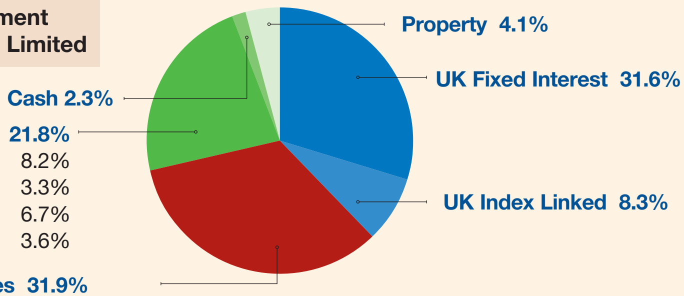
More recent investment performance figures to 30 September 2008 show that the Fund's investments have fallen by 9.3% over the year to 30 September 2008 compared to the benchmark which has fallen by 9.5%. Over the three year period ended 30 September 2008, the total return on the Fund's investments on an annualised basis was 4.1% compared to the benchmark performance of 3.7%.



Investment assets

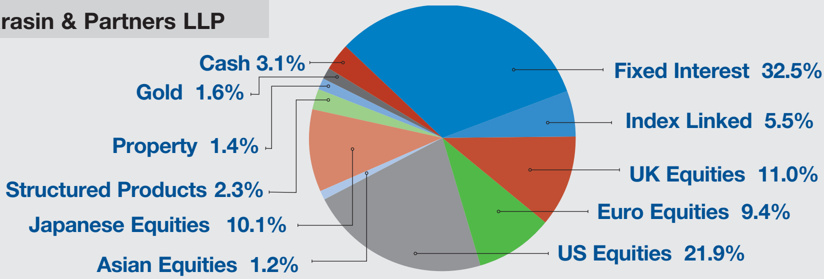
The investment managers will distribute the Fund's assets over a wide range of investment funds. The Fund's assets are split between BlackRock Investment Management (UK) Limited and Sarasin & Partners LLP, 77.3% and 22.7%, respectively. At 31 July 2008 the Fund's assets were invested as follows:

BlackRock Investment Management (UK) Limited



North America	8.2%
Japan	3.3%
Europe	6.7%
Pacific Basin	3.6%

Sarasin & Partners LLP



Amounts & accounts - for the period ended 31 July 2008

In this section of your newsletter we give you a brief summary of the full Annual Report and Accounts, which if you'd like a copy, is available on request – see the front page for whom to contact.

	£
TOTAL FUND AS AT 1 August 2007	**82,803,104**
INCOME	
Investment income	3,359,959
Company contributions	3,799,228
Employee contributions	993,787
Other income	411,194
Total Income	**8,564,168**
EXPENDITURE	
Pension payments	(1,961,143)
Payments to leavers	(30,672)
Commutation of trivial pension	(38,643)
Retirement cash	(660,006)
Death benefits	(71,197)
Transfers out	(73,586)
Other payments	(71,764)
Investment management fees	(378,031)
Fund administration expenses	(609,925)
Total Expenditure	**(3,894,967)**
INVESTMENT RETURNS	
Change in the value of investments	(6,912,837)
TOTAL FUND AS AT 31 July 2008	**80,559,468**

Please note that in the table above brackets denote a negative figure.

Membership profile

TOTAL MEMBERSHIP AS AT 1 AUGUST 2007	**2,220**
EMPLOYED MEMBERS	
Employed members at 1 August 2007	800
Employed members at 31 July 2008	**761**
PENSIONERS	
Pensioners at 1 August 207	680
Pensioners at 31 July 2008	**718**
DEFERRED MEMBERS	
Deferred members at 1 August 2007	740
Deferred members at 31 July 2008	**773**
TOTAL MEMBERSHIP AS AT 31 JULY 2008	**2,252**

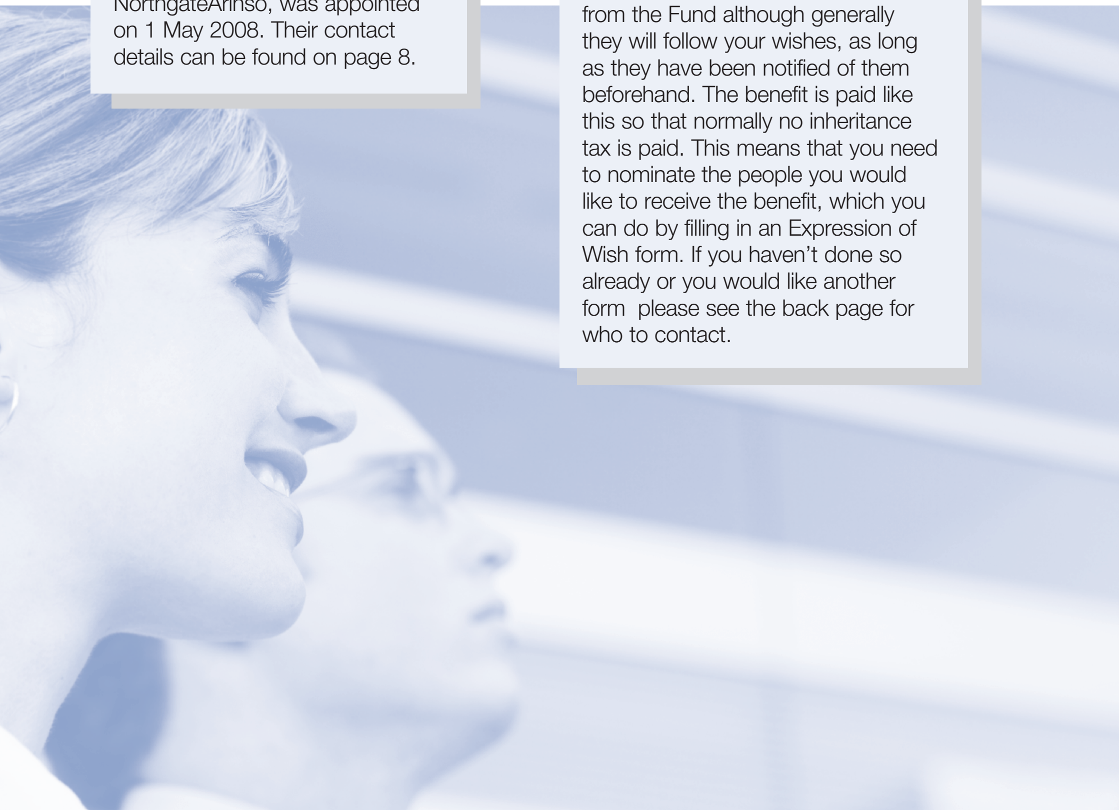
Fund noticeboard

Important - change in accrual of pensionable service to years and days
With effect from 1 May 2008, the method of determining a member's pensionable service was changed from years and complete months to years and complete days. This means that, for members leaving or retiring after 1 May 2008 with a part month's service, this will now count towards your pensionable service.

New Fund administrator
The Trustees regularly review the performance of their professional advisers and, as mentioned in the last newsletter, the Trustees have carried out a review of the Fund's administrators. Following the review a new administrator, NorthgateArinso, was appointed on 1 May 2008. Their contact details can be found on page 8.

Keep us informed
Don't forget that it is important you keep us informed about any changes to your personal circumstances, such as a new marriage or divorce or a change of address.

The Trustees decide who receives any lump sum death benefit paid from the Fund although generally they will follow your wishes, as long as they have been notified of them beforehand. The benefit is paid like this so that normally no inheritance tax is paid. This means that you need to nominate the people you would like to receive the benefit, which you can do by filling in an Expression of Wish form. If you haven't done so already or you would like another form please see the back page for who to contact.



Looking after your interests

The Trustees of the Fund are:

With effect from 21 August 2008, the Trustees appointed Mr K N Hodgson as Secretary to the Trustees. Mr Hodgson is Head of the University's Governance Directorate.

Although the Trustees make decisions which affect the day to day running of the Fund, they do so with the help and support of a team of professional advisers. Investment managers, actuaries, lawyers, auditors and administrators are some of the professionals that work alongside the Trustees. Their information, advice, recommendations, calculations and financial risk assessments are all part and parcel of the regular materials the Trustees consider at their Trustee meetings.

Details of the Trustees' current advisers are shown below:

Actuary	C Maggs - Mercer Limited
Administration	NorthgateArinso UK Limited
Auditors	KPMG LLP
AVC Providers	Clerical Medical Investment Group Limited The Equitable Life Assurance Society
Bankers	Barclays Bank Plc (appointed 1 May 2008) National Westminster Bank plc (resigned 30 April 2008)
Custodians	Bank of New York Europe Limited
Investment Advisers	Jewson Associates Limited
Investment Managers	Blackrock Investment Management (UK) Limited Sarasin & Partners LLP (appointed June 2007)
Solicitors	Linklaters LLP

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Who to turn to...

If you have any queries which relate specifically to your own benefits, or your personal circumstances change, please contact:

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BS1 9EB
Fax: 0844 39 11 999
Tel: 0844 39 12 414
Email: **uor@pensionsoffice.com**