



Pearl Group Staff Pension Scheme

The **Trustee's Report** to members  
for the year ended **30 June 2011**

# Welcome

## Welcome to the latest summary of the Pearl Group Staff Pension Scheme Report and Accounts.

2011 brought the pensions team a change of scenery as we moved in to our new office in July; the new address can be found on page 12 of this report. Our telephone number remains unchanged (and can also be found on page 12). Pearl Group Holdings (No. 2) Limited continues to be the principal sponsoring employer for the Scheme and is referred to throughout as 'the Company'.

A summary of the Scheme's finances for the year ending 30 June 2011 can be found on page 4. The next actuarial valuation of the Scheme will be conducted as at 30 June 2012.

If you have any comments about this report, or any queries about your pension, please call the administration team on 01733 393020, or email [pearl@firstactuarial.co.uk](mailto:pearl@firstactuarial.co.uk). Alternatively, you can visit the Scheme website at [www.pearlstaffpensionscheme.co.uk](http://www.pearlstaffpensionscheme.co.uk).



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**IMPORTANT** – keeping our records up to date. It is important to inform the Scheme Administrators if there is a change in your personal circumstances or address. Contact details are shown on the back page.

# Scheme news

## Warning against early release pension offers

The Pensions Regulator, together with the FSA and HMRC is warning members to avoid offers that claim to be able to provide loans or release tax-free cash from members' pension pots before they reach age 55. The Trustee urges members not to be taken in by website promotions, cold-calls or adverts encouraging members to transfer their existing pensions to a new arrangement to access a cash payment or loan. Further information is available on the Pensions Regulator's website, [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk).

## Pension Increase Exchange

The Company wrote to eligible pensioners in November to offer them the option of receiving a one-off increase to their current level of pension income by giving up the right to future **non-statutory** increases that would otherwise be applied to part of their pension. The offer was made to exchange these for a higher flat pension; this part of the pension will not then increase in the future. This is known as a Pension Increase Exchange (PIE). This was a Company initiative but the Company kept the Trustee fully informed throughout the process. Approximately 40% of eligible pensioners contacted by the Company accepted the Company's offer. The exercise resulted in a reduction of £19m in the Scheme's liabilities.

## Consumer Prices Index (CPI) and Retail Prices Index (RPI)

The Government announced a change to the basis for minimum statutory increases to pensions in payment and revaluation of deferred benefits to a CPI based measure instead of the existing RPI based measure. It has confirmed that it will not make it a statutory requirement to increase pensions or revalue deferred benefits by reference to CPI in those cases where pension scheme rules specifically refer to RPI. The Trustee can confirm the following applies under the Scheme:

- **Increases to pensions in payment**

Pension increases on eligible pension will continue to be based on RPI. However Guaranteed Minimum Pension (GMP) earned between 6 April 1988 and 5 April 1997 receives statutory increases and will increase in line with CPI in the future.

- **Revaluation of deferred pensions**

Pension in excess of GMP also receives statutory revaluation in deferment which will be in line with CPI in the future.

## Changes in Trustee Directors

The Law Debenture Pension Trust Corporation plc was re-appointed as an Independent Trustee on 26 January 2011.

## Amendment to Scheme Rules

There has been no change to the structure of the Scheme during the period under review. During the year, one rule amendment was made to close the final salary and hybrid sections of the Scheme to future accrual – this amendment was effective from 30 June 2011.

# A summary of the Scheme's finances

## Fund Account for the year ended 30 June 2011

Value of Fund at 1 July 2010: £1,673,499,000

	2011 Final Salary benefits £'000	2011 Money Purchase benefits £'000	2011 Total £'000	2010 Total £'000
<b>Income for the year</b>				
Contributions	29,140	251	29,391	64,322
Investment income	24,462	-	24,462	36,208
Other income	-	-	-	2
<b>TOTAL</b>	<b>53,602</b>	<b>251</b>	<b>53,853</b>	<b>100,532</b>
<b>Expenditure for the year</b>				
Benefits payable	(73,696)	(241)	(73,937)	(71,950)
Payments to, and on behalf of, leavers	(5,244)	(1,903)	(7,147)	(14,210)
Administrative expenses	(7)	-	(7)	(51)
Investment management expenses	(657)	-	(657)	(1,361)
<b>TOTAL</b>	<b>(79,604)</b>	<b>(2,144)</b>	<b>(81,748)</b>	<b>(87,572)</b>
<b>Returns on investments</b>				
Income less expenditure	(26,002)	(1,893)	(27,895)	12,960
Change in market value of investments	127,064	7,019	134,083	134,670
<b>Net increase/(decrease) in the Fund during the period</b>	<b>101,062</b>	<b>5,126</b>	<b>106,188</b>	<b>147,630</b>

Value of Fund at 30 June 2011: £1,779,687,000

# Membership

The table below shows the movement of Scheme members during the period 1 July 2010 to 30 June 2011.

	Final Salary	Money Purchase	Total
<b>Total Membership 1 July 2010</b>	<b>21,279</b>	<b>1,898</b>	<b>23,177</b>
Active members 1 July 2010	43	126	169
Active members 30 June 2011	-*	76	76
Pensioner members 1 July 2010	9,587	76	9,663
Pensioner members 30 June 2011	9,745	79	9,824
Deferred members 1 July 2010	11,649	1,696	13,345
Deferred members 30 June 2011	11,242	1,711	12,953
<b>Total Membership 30 June 2011</b>	<b>20,987</b>	<b>1,866</b>	<b>22,853</b>

The employer contribution rate during the period for each section of the membership was:

- 50.7% of pensionable salary for Final Salary section members
- 11.7% of pensionable salary for Money Purchase section members
- 20.3% of pensionable salary for the Hybrid members

\* Following the closure of the Scheme to future accrual, active members of the Final Salary and Hybrid sections became deferred members on 30 June 2011.

## Pension increases

Pension payments in excess of Guaranteed Minimum Pension (GMP) were increased in accordance with the Scheme rules by 3.7% on 1 April 2010, 5% on 1 April 2011 and 3.7% on 1 April 2012.

# Managing your investments

## Money Purchase section

Members of the Money Purchase section can choose to invest in five Henderson Funds, three Legal & General Funds as well as the Standard Life Managed Fund. If an investment choice is not made, the members' credits are invested in the default fund, which is the Legal & General World Equity Index Fund. Members may also choose to invest AVCs in the Henderson Global Technology and the Henderson Industries of the Future funds.

Fund	12 Month Performance to 30 June 2011	
	Fund	Benchmark
Henderson Cash Fund	1.0%	0.6%
Henderson Enhanced Balanced Fund	18.9%	18.8%
Henderson Global Bond Fund	2.7%	3.0%
Henderson Global (50:50) Enhanced Equity Fund	23.6%	23.5%
Henderson Global Technology Fund	21.0%	15.6%
Henderson Index-Linked Bond Fund	10.3%	9.7%
Henderson Industries of the Future Fund	18.7%	22.3%
Legal & General Global Equity (Passive) Fund	24.6%	24.7%
Legal & General Over 15 yr Gilts Index Fund	2.7%	2.8%
Legal & General World Equity Index Fund	22.4%	22.2%
Standard Life Managed Fund	21.3%	20.2%

**Notes:** **1.** Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations. Reviewing the suitability of the funds you invested in is advised. **2.** Detailed fund performance fact sheets are available on the website at [www.pearlstaffpensionscheme.co.uk](http://www.pearlstaffpensionscheme.co.uk)

## Final Salary section

The Trustee determines the investment policy to be adopted by the investment managers. The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy it selected is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting the Scheme's liabilities.

The Trustee has agreed the investment managers' responsibilities as follows:

- Legal & General Assurance (Pensions Management) Limited would manage the gilts and equity portfolios on a passive basis.
- DTZ Investment Management Limited would manage the property portfolio.
- Ignis Investment Services Limited would continue to manage the hedge fund portfolio, corporate bond (credit) portfolio, and cash fund.

The target allocation is as follows:

Portfolio	Mandate	Target Weight (%)	Weight at 30 June 2011 (%)
Legal & General	Index Linked Gilts	45.0	47.7
Legal & General	Equities	15.0	15.8
DTZ	Property	15.0	9.7
Ignis	Hedge Fund	15.0	13.4
Ignis	UK Corporate Bonds	10.0	9.2
Ignis	Cash, etc	0.0	4.2

# Summary Funding Statement – Final Salary Sections only

The valuation of the Scheme showed that on 30 June 2009 the funding position (excluding Money Purchase and AVC assets liabilities) was as follows:

Assets	£1,489 million
Amount needed to provide benefits	£2,244 million
Shortfall	£755 million
Funding level	67%

Further to this valuation, we have assessed the Scheme's funding level and as at 30 June 2011 the actuary's updated figures showed that the Scheme's funding level stood at **75%**.

## Change in funding position since the previous statement

The main reason the funding level of the Scheme has improved since the valuation was the deficit funding contributions paid by the Company of £50m in October 2009 and £25m in September 2010, plus the additional funding of £10.8m from the escrow account in September 2009 and the impact of the future assumed increases to deferred pensions being based on CPI rather than RPI. In addition, the return on the Scheme's actual assets being better than the corresponding return on gilts also improved the funding level.

It is important to remember that these figures are given as a snapshot of the Scheme's position at a particular date. You should keep in mind that funding for pensions is a long-term matter. Due to the impact of gilt yields it is likely that the funding level will have deteriorated since June 2011. More information on the impact of the markets is available on the Scheme's website.

## Payment to the Company

There has not been any payment to the Company out of Scheme funds since the last statement was issued.

## How the Scheme operates

### How your pension is paid

The assets of the Scheme are held in a common fund which is used to pay pensions and other benefits to Scheme members as they fall due. The Company pays contributions into this fund as required. The money to pay for the Final Salary benefits is held in a common fund. It is not held in separate funds for each individual (as is the case for Money Purchase section members).

### How is the amount the Scheme needs worked out?

The Trustee has a funding plan (the Statement of Funding Principles) agreed with the Company, which aims to make sure there is enough money in the Scheme to pay for

pensions now and in the future. The amount of money that the Company pays into the Scheme may go up or down following regular funding checks by our actuary.

### The importance of the Company's support

The success of the Scheme relies on the support of the Company continuing, because:

- The Company will be paying the future expenses of running the Scheme on an annual basis
- The funding level can fluctuate, and when there is a funding shortfall, the Company will usually need to put in more money
- If the target funding level should turn out not to be enough, the Company will need to put in more money.

### What would happen if the Scheme started to wind up?

If the Scheme had started winding up, the assets available as at 30 June 2011 would have been sufficient to secure approximately 69% of benefits for members of the Final Salary sections.

**The Pensions Regulator requires us to provide this information to members, and inclusion of this information does not imply that the Company is thinking of winding up the Scheme.**

Whilst the Scheme remains ongoing, even though funding is temporarily below target, benefits will continue to be paid in full. If the Scheme winds up, you might not get the full

amount of pension you have built up. If the Scheme were to start to wind up, the Company is required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. It may be, however, that the Company would not be able to pay this full amount. If the Company became insolvent, the Pension Protection Fund is likely to take over the Scheme and pay compensation to members.

### Why does the funding plan not call for full solvency now?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit, and administration costs also have to be taken into account when securing benefits in this way. In contrast, our funding plan assumes that the Company will continue in business and support the Scheme.

**Important – if you are thinking of transferring your benefits, or opting out of the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action.**

## Additional documents available on request

**The Statement of Funding Principles**, which sets out the Scheme's Funding Plan.

**The Recovery Plan**, which explains how the funding shortfall is being made up.

**The Statement of Investment Principles**, which explains how the Trustee invests the money paid into the Scheme.

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

**The Annual Report and Accounts of the Pearl Group Staff Pension Scheme**, which shows the Scheme's income and expenditure in the year to 30 June 2011.

**The full Report on the Actuarial Valuation** following the actuary's check of the Scheme's financial situation as at 30 June 2009.

**An Annual Benefit Statement** - if you are an active member of the Scheme (and have not received a benefit statement in the previous 12 months), you can ask for a statement that provides an illustration of your likely pension.



# Trustee and Advisers to the Scheme

## **Trustee**

P.A.T. (Pensions) Limited

## **Trustee Directors**

### **Chairman**

K Jones, BSc, FIA, MBA  
Independent Chairman,  
Pensioner member

### **Employer Nominated Directors**

G S Felston, BSc, FCII, MBA,  
Head of Diligenta Transformation,  
Pearl Group Holdings (No.2) Limited

A Roffey-Jones, BSc, MA, IPD  
Group HR Director, Pearl Group  
Holdings (No.2) Limited

### **Member Nominated Directors**

M J Mauchline, FCII  
Pensioner member

C A Munro, BSc, FIA  
Pensioner Member

T J Reedman-Taylor  
Head of Operational Governance,  
Pearl Group Holdings (No.2) Limited

## **Independent Director**

Appointed 26 January 2011  
The Law Debenture Pension Trust  
Corporation plc, normally represented  
by Mark Ashworth, MA, FCIS

## **Secretary**

C L Wilson, BSc, APMI  
First Actuarial LLP

## **Sponsoring Employer**

Pearl Group Holdings (No.2) Limited  
1 Wythall Green Way, Wythall,  
Birmingham B47 6WG

## **Actuary**

Towers Watson Ltd  
(formerly Watson Wyatt Ltd)  
Watson House, London Road  
Reigate, Surrey RH2 2PQ

N Wearing, FIA is the Scheme Actuary  
appointed for the purposes of the  
Pensions Act 1995.

## **Joint Legal Advisers**

Reed Smith LLP  
K & L Gates LLP

## **Investment Managers**

### **Final Salary sections**

Ignis Investment Services Limited  
DTZ Investment Management Limited  
Legal & General Assurance (Pensions  
Management) Limited

### **Money Purchase sections**

Henderson Fund Management plc  
(trading as Henderson Global Investors)  
Legal and General Assurance (Pensions  
Management) Limited  
Standard Life Investments Limited

## **Investment Advisers**

Aon Hewitt (formerly known  
as Hewitt Associates Limited)

## **Auditors**

PricewaterhouseCoopers LLP

## **Custodians**

State Street Bank and Trust Company

## **Bankers**

HSBC Bank PLC

## Your contacts

If members have any queries concerning their benefits, they should contact the Scheme Administrators at:

Pearl Group Staff Pension Scheme, First Actuarial LLP,  
First House, Minerva Business Park, Lynch Wood,  
Peterborough PE2 6FT

Telephone: 01733 393020

Fax: 01733 393049

Email: [pearl@firstactuarial.co.uk](mailto:pearl@firstactuarial.co.uk)

Website: [www.pearlstaffpensionscheme.co.uk](http://www.pearlstaffpensionscheme.co.uk)



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