

## Summary Funding Statement

### Explanatory note

The Trustee is required by law to issue an annual funding statement to members of the MNOFP. This is the third such statement and relates to the interim review of the MNOFP undertaken as at 31 March 2007.

It is intended to summarise the financial position of the MNOFP in a non-technical manner, so that members can understand the ability of the MNOFP to pay their benefits as they fall due.

Defined benefit schemes such as the MNOFP are set up to provide pension on retirement or death, the benefits being based on a combination of earnings and length of membership. As such, they represent a very long-term obligation on the part of Employers and it is not possible to know with certainty what contributions are needed to ensure that there is sufficient money available to pay the benefits as they fall due.

Contributions from members and their Employers are paid into the MNOFP and are invested in a wide range of investments.

Dividends and interest are received and added to the fund. With the passage of time, the value of the investments, dividends and interest is expected to increase and provide the money from which benefits are paid.

In order to address the “unknown” factors, such as when members will retire or die and how investments will perform over time, the Trustee commissions actuarial valuations. These valuations normally take place once every three years and using his specialist knowledge of statistics, economics and finance, the Actuary recommends to the Trustee what contribution rates are required to provide benefits, such recommendations being based on reasonable assumptions as to the future.

As part of the valuation, he calculates the amount required in the MNOFP if benefits are to be paid as they fall due. If there is more in the fund than he deems necessary, the fund is said to be in surplus. On the other hand, if there is insufficient in the fund, it is said to be in deficit.

## Summary Funding Statement as at 31 March 2007

### Dear Member

The MNOFP is looked after by the Board of Directors of MNOFP Trustees Limited (the “Trustee”).

As a person entitled to benefits from the scheme we are writing to give you an update of the scheme’s funding position. We will send you a statement like this each year to let you have updated information about the funding of the scheme. This statement is based on an interim review of the scheme’s funding position carried out as at 31 March 2007.

The Old and the New Sections are treated as separate arrangements within the MNOFP. The deficit of £151 million within the New Section is being addressed by collecting additional contributions from Participating Employers over a period of 7 years from 30 September 2007. There was no change in the rate of active members’ contributions.

### The last ongoing funding valuation

The most recent funding valuation of the MNOFP showed that on 31 March 2006 the funding position was as follows:

	Old Section	New Section
Assets	£1,473m	£1,931m
Estimated amount needed to provide benefits	£1,376m	£2,082m
(Shortfall)/excess	£97m	(£151m)
Estimated funding level	107%	93%

### Change in funding position

An interim review of the scheme’s funding position has been carried out as at 31 March 2007. This reflects the estimated change in the funding position due to the investment returns achieved on the scheme’s assets over the year to 31 March 2007 and the effect of market conditions on anticipated future investment returns. The results indicate that the funding position of the New Section is estimated to have improved over the year, as shown below, due to the favourable investment returns achieved. In the case of the Old Section, the effect of the bonus granted in April 2007 and lower than anticipated investment returns has more than offset the effect of an increase in expected future asset returns.

	Old Section	New Section
Assets	£1,413m	£1,969m
Estimated amount needed to provide benefits	£1,344m	£2,072m
(Shortfall)/excess	£69m	(£103m)
Estimated funding level	105%	95%

### Payment to Participating Employers

There has not been any payment to Participating Employers out of scheme funds in the previous twelve months.

### The Pensions Regulator

During the year, the Pensions Regulator has not issued any financial support directions or contribution notices relating to the scheme.

**Important:** If you are thinking of leaving the scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.

## How the scheme operates

### How is my pension paid for?

Participating Employers pay contributions to the pension scheme so that the scheme can pay pensions to scheme members when they retire. Active members also pay contributions to the scheme, and these are deducted from gross pay.

The money to pay for members' pensions is held in a common fund. It is not held in separate funds for each individual.

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

The Trustee obtains regular valuations of the benefits earned by members. Using this information, the Trustee sets the rate of future contributions.

### The importance of the Employers' support

The Trustee's objective is to have enough money in the scheme to pay pensions and other benefits now and in the future. However, success of the funding plan relies on the Employers continuing to support the scheme because:

- they will be paying the future expenses of running the scheme;
- the funding level can fluctuate, and when there is a funding shortfall, they will usually need to put in more money; and
- the target funding level may turn out not to be enough so that they will need to put in more money.

### Why does the funding plan not call for full solvency at all times?

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. By contrast, our funding plan assumes that the Employers will continue in business and support the MNOPF.

#### Additional documents available on request

*The Statement of Funding Principles.* This explains how the Trustee decides the amount of assets that the Scheme needs to pay members' benefits.

*The Statement of Investment Principles.* This explains how the Trustee invests the money paid into the scheme.

*The Schedule of Contributions.* This shows how much money is being paid into the scheme.

*The Recovery Plan.* This sets out how any deficit is to be eliminated.

*The Annual Report and Accounts of the Merchant Navy Officers Pension Fund,* which shows the scheme's income and expenditure in the year up to 31 March 2007.

The full report on the *Actuarial Valuation* following the actuary's check of the scheme's situation as at 31 March 2006.

The *Actuarial Report* on the actuary's review of the scheme's situation as at 31 March 2007.

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

If the scheme winds up, you might not get the full amount of pension you have built up even if the scheme is fully funded under our ongoing funding plan. However, whilst the scheme remains ongoing, even though funding may temporarily be below target, benefits will continue to be paid in full. If the scheme were to start to wind up, the Employers are required to pay enough into the scheme to enable the members' benefits to be completely secured with an insurance company. It may be, however, that they would not be able to pay this full amount. Estimates made as at 31 March 2007 indicated that in the very unlikely event that the Fund had discontinued, then with no further financial support being available from the Employers and with the assets being invested in very low risk investments such as government bonds, the assets of the Old Section would have been sufficient to cover about 101% of the Section's liabilities (with no future bonuses). This compares with about 100% as at 31 March 2006, with the improvement being due to an increase in expected future asset returns, which was partly offset by the effect of the April 2007 bonus. For the New Section the corresponding coverage was about 72% overall at 31 March 2007, compared with about 67% at 31 March 2006, with the improvement being due to the effect of favourable investment returns. In the very unlikely situation where all the Employers became insolvent, the Pension Protection Fund might be able to take over the scheme and pay all or part of the benefits due to members.

Further information and guidance is available on the Pension Protection Fund's website at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk), or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

### What is the scheme invested in?

The Trustee's policy is to invest in a broad range of assets. At 31 March 2007 the assets of the MNOPF were invested as follows:

	Old Section	New Section
Company shares	12.6%	47.1%
Government securities and corporate bonds	59.2%	14.0%
Commercial property	9.3%	8.2%
Pooled investment vehicles	15.1%	20.6%
Cash/other	3.8%	10.1%

### Where can I get more information?

If you have any queries about your benefits, you should contact MNPA Limited, Leatherhead House, Station Road, Leatherhead, Surrey KT22 7ET (Tel: 01372 386000). (Please note that a notification of change of address should be advised in writing and sent to MNPA Limited).

Any requests for copies of documentation should be made in writing to MNOPF Trustees Limited, Ashcombe House, The Crescent, Leatherhead, Surrey KT22 8LQ. Alternatively, they can be viewed on the MNOPF's website ([www.mnopf.co.uk](http://www.mnopf.co.uk)).

#### Peter McEwen

Chairman

MNOPF Trustees Limited

September 2008