

Merchant Navy Officers Pension Fund Summary Annual Report 2006



Legislation

1. Simplification

As a result of legislation simplifying the taxation of pension arrangements a number of changes were made from 6 April 2006. Announcements were sent to members in November 2005 setting out the changes, the main ones affecting members being:

- The maximum allowable tax free lump sum on retirement has been changed to 25% of the capital value of the member's pension;
- From 6 April 2010 the earliest age at which a pension may be drawn (other than in the event of ill-health) will be increased from 50 to 55;
- It will no longer be necessary to cease working in order to draw a pension from the MNOFF;
- Members can continue to contribute and accrue pension if they continue working after normal pension age.

2. State Pension System

The government published a White Paper in May 2006 which proposes increasing the State Pension Age from 65 to 68 over a period from 2024 to 2046, as well as linking the basic state pension to earnings, rather than to prices. The Trustee will monitor developments and review the final arrangements at the appropriate time for any impact on the MNOFF.

3. The Pensions Regulator

From April 2005, this new body has taken over responsibility for the regulation of occupational pension schemes. A number of Codes of Practice have been issued during the year, including the following:

Scheme Funding – New scheme funding requirements will be implemented by the MNOFF in conjunction with the actuarial valuation as at 31 March 2006. The Trustee is required to draw up a Statement of Funding Principles; obtain a triennial actuarial valuation; obtain annual actuarial reports in the intervening years; draw up a recovery plan in respect of any deficit; put in place a certified Schedule of Contributions; and undertake consultations with employers. Members must be provided with a Summary Funding Statement and the first such statement was issued in September.

Trustee Knowledge and Understanding – Trustees are required to have knowledge and understanding of the law relating to pensions and trusts and the principles relating to funding and investment. They also must be familiar with the documents that relate to their scheme. In the MNOFF, the requirements are already met by the existing trustee training arrangements, although a review is being undertaken.

Notifiable Events – Employers and trustees of pension schemes are required to give written notice to the Pensions Regulator of certain notifiable events. In particular, employers are required to report certain types of events which might affect their ability to pay deficit contributions to the MNOFF. The Trustee has asked all employers to agree to report such events to the Trustee.

4. Pension Protection Fund ("PPF")

This commenced in April 2005 and is intended to provide a degree of protection to members of defined benefit pension

schemes (such as the MNOFF) should their employer become insolvent when their scheme is underfunded. In a multi-employer scheme such as the MNOFF, it would only have effect if all the employers participating in the MNOFF were to become insolvent. The PPF is funded by a levy on each scheme dependent on the insolvency risk of the participating employers.

5. Debts on Employers

Regulations came into force on 2 September 2005 which modified the obligations on an employer who ceases to employ any employees in the categories of employment covered by the MNOFF. In these circumstances, an employer becomes liable for a debt to the MNOFF based on its share of the cost of securing all the benefits by the purchase of insurance company annuities. As an alternative, a withdrawal arrangement can be put in place (provided the Trustee and the Pensions Regulator agree to it) requiring an initial payment plus a guarantee to meet the balance in the future.

6. Consultation by Employers

Regulations have been introduced that require trustees to notify employers of certain listed changes to scheme benefits (e.g. changing the rate at which benefits accrue in future) and in some circumstances require the employer to consult with its employees over the changes.

7. Cross-Border Schemes

Legislation has been brought into force that affects schemes that operate across European Union borders. Such schemes are subject to much more stringent funding requirements than is the case for schemes that operate only within the UK. The Trustee has decided that this would be detrimental to the future funding of the MNOFF and the Rules have been amended to ensure that it is not treated as a cross-border scheme.

8. Internal Controls

Regulations require that a scheme must establish and operate internal controls to ensure that it is administered and managed in accordance with the scheme's rules and the law. The MNOFF has established a comprehensive register of risks which is continually monitored by the Trustee and acted on as required.

9. Civil Partnerships

Regulations implementing the Civil Partnership Act 2004 came into force on 5 December 2005. This provided certain rights to benefits on the death of a member of the scheme who has a civil partner. The MNOFF's Rules have been amended accordingly.

10. Age Discrimination

These regulations come into force in relation to pensions on 1 December 2006 and seek to prevent age discrimination in employment. They have an impact on pension schemes and the effect on MNOFF benefits is being considered. In particular, they might affect the flexible retirement arrangements set out in the Announcement (referred to in 1 above).

Fund management

The Fund is managed by MNOFF Trustees Limited. There is provision for fourteen Directors with employers and members being equally represented.

During the year the Trustee Board met four times to review the management of the Fund.

The Trustee Board has appointed a number of committees to undertake various tasks relating to the Fund's management. All such committees consist of an equal number of Employer and Member representatives and operate under terms of reference agreed by the Trustee Board.

Management Committee

The Management Committee meets at least four times a year. It consists of six members supported by the Actuary, legal advisers and Executive, and is responsible for considering strategy relating to the management and future structure of the Fund, considering preliminary actuarial reports, monitoring legal and administration issues and making recommendations to the Trustee Board as appropriate.

A Sub-Committee has been formed to monitor the receipt of deficit contributions and deal with the recovery of unpaid deficit contributions. This Sub-Committee meets frequently, about once every 6 – 8 weeks.

Investment Committee

The investment management of the Fund is reviewed by an Investment Committee of six members supported by investment advisers and the Executive which meets at least four times a year. The Investment Committee is responsible for the implementation of the Trustee's Statement of Investment Principles and for dealing with such matters as strategic asset allocation, exercising investment powers, the appointment and removal of investment managers, performance review, implementation of investment strategies and setting specific performance objectives. To support the work of the Investment Committee an Investment Working Group meets quarterly to consider the performance of investment managers.

Audit Committee

The Audit Committee consisting of four members supported by the Executive now meets with the independent auditors four times a year to review matters relating to the Fund's financial statements and risk management.

MNOFF Executive

The Trustee Board has established a dedicated Executive together with a small number of staff to implement the Trustee Board's decisions and supervise the day-to-day affairs of the Fund. This team of people is separate from MNPA Ltd. The Trustee Board has delegated certain authorities to the Executive.

Administration of the Fund

The administration of members' benefits is undertaken by MNPA Limited ("MNPA"), a wholly owned trading subsidiary company of the MNOFF that receives a fee for providing this service under contract. MNPA also provides a financial accounting and pension payment service. Members' telephone calls are routed to the MNPA Member Liaison Service which is very often able to deal with enquiries at the time of calling.

MNPA also provides administration services to a number of external clients. This activity is intended to provide a return on the investment made in MNPA by the Fund, thereby reducing the Fund's operating costs.

Contacts for further information

Your own benefits

Members wishing to make enquiries about their own benefits or notify a change of address, or pensioners who have changed their bank details, should contact the MNPA Liaison Service. They may be contacted

- by telephone on 01372 200200
- by e-mail to mnopf@mnpa.co.uk
- by writing to MNPA, Leatherhead House, Station Road, Leatherhead, Surrey KT22 7ET

General queries

Members who have a query in relation to the Fund in general or who wish to obtain copies of the Fund documentation should address their enquiry to the Director of Pensions, MNOFF Trustees Limited, Leatherhead House, Station Road, Leatherhead, Surrey KT22 7ET.

The MNOFF website is an alternative source of information and can be found at www.mnopf.co.uk.

State Benefits

If you require a forecast of your State Pension you should contact the Department for Work and Pensions (DWP). Full details and a forecast application form are available on their website www.dwp.gov.uk or you can contact them by telephone on 0845 300 0168.

Personal Financial Planning

Members are reminded that a personal financial planning service is available to members through The Pensions Partnership. You should contact Russell Warman or Mike Buckley on 01252 861380 or by e-mail at russell.warman@pensionspartnership.co.uk or mike.buckley@pensionspartnership.co.uk.

Chairman's message

This summary report is being sent to all members of the Fund. It is based on the formal Annual Report but presented in a shorter and more readable form to enable members to see more easily the main issues affecting the Fund in the last year.

The Trustee is keen to communicate with members on matters affecting the Fund and would welcome comments on the content of this summary report.

Scheme funding

Last year's report explained the actions the Trustee was taking to deal with the deficit in the New Section following the ruling obtained from the Court. The Trustee invoiced New Section participating employers for their share of the deficit for payment on 30 September 2005 or, in some cases, by instalments over ten years. Although a large proportion of the amount due to date has been paid, for a variety of reasons there are a significant number of employers from whom the contributions due have not been received. The Trustee is taking all action it reasonably can to recover contributions that have not been paid in order to ensure as far as possible that each employer meets its fair share of the deficit.

Further actuarial valuations are being undertaken as at 31 March 2006. The new Pensions Regulator is expecting more cautious funding assumptions to be made for pension schemes in general and it remains to be seen what effect this might have on the funding position of the New Section.

The Old Section is expected to remain in surplus.

The results of these valuations will be considered by the Trustee towards the end of the year.

Legislation

A considerable number of Regulations (and Codes of Practice from the Pensions Regulator) have been published during the year, bringing into effect the various provisions of the Pensions Act 2004. One particular requirement is for members to be provided with a Summary Funding Statement and this was issued in September.

As announced to members in November 2005, the new simplified tax regime for pensions has led to a number of changes to the benefit structure. These became effective in April 2006 but since then, Regulations relating to age discrimination have been published which come into effect for pension schemes on 1 December 2006. The Trustee is considering if any further changes are required to comply with this legislation, particularly with regard to members who continue to work and contribute to the Fund beyond normal pension age.

Peter McEwen
Chairman
October 2006

Trustee and Executives

Trustee Board Directors

P G McEwen (Chairman) *+x
Nautilus UK
(formerly NUMAST)

W D Everard CBE
(Vice Chairman) x
F T Everard & Sons Limited

Vacancy
Nautilus UK

E J N Brookes *+x
The Chamber of Shipping

A J Davies +
Shell International Limited

A M Dickinson +x
Nautilus UK

T J Graves
The Maersk Company
(IOM) Limited

A Graveson +•
Nautilus UK

D E Jones • (Chairman –
Audit Committee)
Carnival (UK)

N L Luff (Chairman –
Investment Committee) +x
P&O Ferries Limited

A P Minns
Nautilus UK

P L Moloney +
Nautilus UK

B D Orrell x
Nautilus UK

L D Stracey +
Stena Line Limited

Executives

P Greenwood *
Director of Pensions

A Stevenson
Director of Investments

- * Director of MNPA Limited
- x Member of the Management Committee
- + Member of the Investment Committee
- Member of the Audit Committee

As at 24 October 2006

Financial report - Year to 31 March 2006

Pension increases

No discretionary increases were awarded during the year ended 31 March 2006.

It is not possible to award any discretionary increases from the New Section while it remains in deficit, although statutory increases are being paid as they fall due.

The Trustee will consider whether any discretionary increases can be awarded from the Old Section when the results of the 31 March 2006 actuarial valuation become available later in the year.

Membership

Fund membership at the end of the year	31 March 2006	31 March 2005
Actives	2,012	2,134
Deferreds	29,566	30,313
Pensioners	23,306	22,853
	54,884	55,300

All members are asked to ensure that they notify MNPA of any change of address.

The financial statements of the Fund have been prepared and audited in accordance with United Kingdom auditing standards issued by the Auditing Practices Board.

A summary of the financial statements for the Old and New Sections is set out alongside comparative information for the total Fund for the previous year. A copy of the full Annual Report for the year ended 31 March 2006, including the audited financial statements, is available on request.

It is to be expected that the amount of normal contributions received each year will tend to reduce and the benefits paid will increase. This is because the number of contributors reduces each year and the number of pensioners increases.

The continuing strength of world stock markets over the year has led to significantly higher net returns on investment. This has been more marked in the New Section, which has a greater exposure to equities than the Old Section.

The total net assets of the Fund have increased substantially over the year. Although this is a pleasing outcome, it is important to bear in mind that the value of the Fund will fluctuate as a result of changing investment values and comparisons should not be made between a single year's change in asset values and the actuarial deficit which is based on long term investment assumptions.

Fund Account	2006			2005
	Old Section £m	New Section £m	Total £m	Total £m
Contributions receivable				
Normal	-	14.8	14.8	16.2
Deficit contributions and interest*	-	239.0	239.0	-
Transfers in	-	0.1	0.1	5.7
	-	253.9	253.9	21.9
Benefits payable	79.2	78.8	158.0	150.0
Transfers out	0.6	2.3	2.9	2.0
Administrative expenses	2.8	3.4	6.2	6.6
	82.6	84.5	167.1	158.6
Net (withdrawals)/additions from dealings with members	(82.6)	169.4	86.8	(136.7)
Returns on investments				
Investment income	66.1	53.0	119.1	119.9
Change in market value of investments	115.9	294.2	410.1	127.9
Investment management expenses	(4.1)	(13.4)	(17.5)	(11.8)
Net returns on investments	177.9	333.8	511.7	236.0
Net increase in the Fund during the year	95.3	503.2	598.5	99.3
Net assets of the Fund at beginning of the year	1,377.8	1,427.5	2,805.3	2,706.0
Net assets of the Fund at end of the year	1,473.1	1,930.7	3,403.8	2,805.3

Net Assets Statement	2006			2005
	Old Section £m	New Section £m	Total £m	Total £m
Investments				
Fixed interest securities	882.8	287.1	1,169.9	1,385.5
Equities	231.1	1,095.0	1,326.1	1,026.9
Pooled investment vehicles	200.4	166.9	367.3	40.1
Properties	121.3	147.6	268.9	248.8
AVC investments	-	3.3	3.3	3.2
Cash deposits and outstanding income entitlements	46.9	62.8	109.7	115.7
	1,482.5	1,762.7	3,245.2	2,820.2
Net current assets/(liabilities)*	(9.4)	62.8	53.4	(14.9)
Debtors: Amounts falling due after more than one year*	-	105.2	105.2	-
Net assets of the Fund at end of year	1,473.1	1,930.7	3,403.8	2,805.3

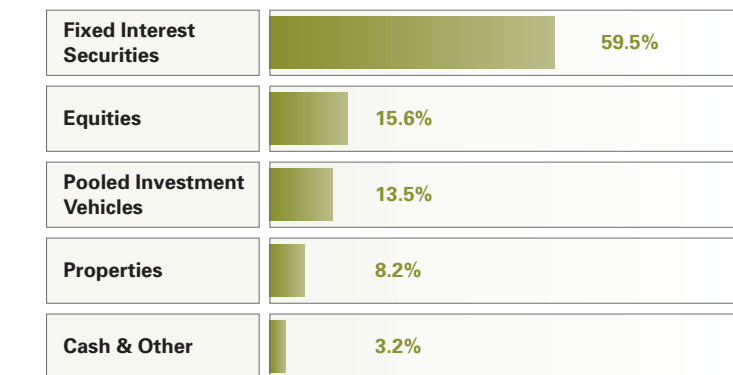
* For technical reasons, the whole of the deficit contributions invoiced is included under contributions receivable. Deficit contributions not yet received or not yet due are included in the figures for Net current assets and Debtors.

Investment portfolio

The following two charts reflect the asset allocations of the Old and New Sections as at 31 March 2006.

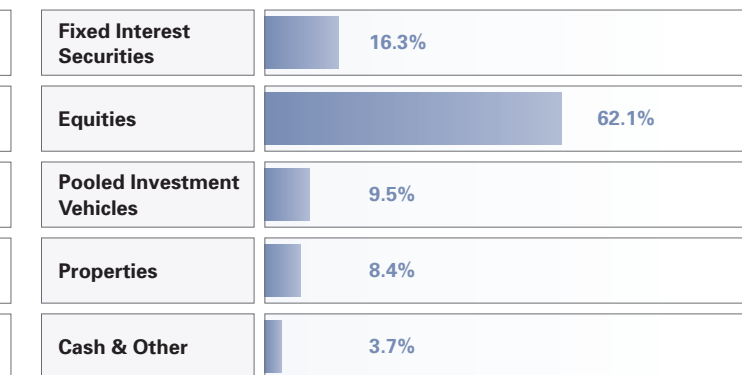
The Old Section chart reflects the high fixed income allocation necessary to generate income and preserve capital, whereas the

Old Section



New Section chart reflects the younger maturity of its beneficiaries and the need to generate capital growth rather than income.

New Section



Deficit contributions

Last year's report referred to the actions taken by the Trustee to address the deficit of £194 million disclosed by the 2003 actuarial valuation of the New Section. The efforts of the Trustee and the Executive over the year have focussed on the collection of deficit contributions from Participating Employers. Invoices were due to be paid by 30 September 2005 although employers with total deficit contributions exceeding £100,000 who, in the Trustee's opinion, were sufficiently creditworthy were given the option of paying in instalments over 10 years. The total amount invoiced was £234m (calculated as the £194m deficit referred to above with interest to 30 September 2005). The following table summarises the position as at 31 March 2006:

Amounts received as lump sums or instalments up to 31 March 2006	£66m
Value of instalments expected in future	£127m
Amounts due 30 September 2005 but not paid by 31 March 2006	£41m
TOTAL	£234m

Inevitably not all amounts invoiced to date have been received. The main reasons for non-payment relate to the following:

- Shipmanagement companies, who would normally expect to be reimbursed by the ship owners, but where such reimbursement has not been received. The responsibility remains with the shipmanager.

- Employers that are now dormant companies following restructuring after their shipping activities ceased. They often have a significant liability for deficit contributions, but limited assets from which payments can be met;
- Companies in liquidation, in which case the Trustee has to make a claim for a share of any distribution to creditors made by the liquidator;
- Companies claiming to be unable to pay, claiming to have no liability to pay or simply refusing to pay despite the ruling obtained from the Court.

The Trustee is in the process of taking action to recover contributions not paid to the extent reasonably possible. Interest is payable on late payments. Debt recovery specialists from accounting firms have been appointed to investigate, where appropriate, the affairs of companies who have not paid and to advise the Trustee on possible courses of action. These could vary from entering into special arrangements with the company concerned to winding-up a company in order to realise available assets. The Trustee is also monitoring corporate restructurings/takeovers involving participating employers as these might affect an employer's financial strength and ability to meet future deficit contributions. Where appropriate, the Trustee has also communicated the position to the Pensions Regulator.

If the 31 March 2006 actuarial valuation reveals that the deficit contributions already invoiced are not sufficient, further deficit contributions would be required from all participating employers. Any shortfall in collecting the £234 million already invoiced would also have to be met by the remaining employers.

Investment performance

The investment performance of the Old and New Sections is measured independently and externally by the WM Company. The Investment Committee monitors the performance of each specialist investment manager on a quarterly and on an annual basis.

The investment performance of each Section is compared against a specific benchmark which reflects the movements of appropriate indices and the asset allocation of each Section.

The proportions of each Section of the Fund invested in equities and fixed interest are different and, consequently, the investment performance of each Section differs.

The returns for both Sections in the year ended 31 December 2005 were ahead of their respective benchmarks. Moreover, the annualised performance over the five years ended 31 December 2005 exceeded the benchmarks as set out in the table opposite.

	To 31 December 2005	1 year (%)	5 years (Average % p.a)
Old Section			
Actual performance		13.0	7.3
Benchmark		12.2	7.1
New Section			
Actual performance		19.5	4.3
Benchmark		17.2	3.6

Late contributions

As required by legislation, the Trustee has put in place a Schedule of Contributions which states the level of normal contributions payable and the due dates. A small number of contributions were paid later than the due dates, although in most cases, only by a few days. Members' benefits were not affected by these late payments. Employers who made payments late on two or more occasions during the year are shown opposite.

The Pensions Regulator has the power to fine employers who pay contributions late and to date that power has been used against one of the Fund's employers.

BW Shipping Philippines Inc (also listed in 2004)
 C-MAR Services (UK) Limited (also listed in 2005)
 Data Marine Systems Limited (also listed in 2003)
 Dobson Fleet Management Limited
 G.Heyn Et Sons Limited (also listed in 2004)
 Irish Ferries Limited
 Northern Marine Management Limited
 Speedferries Limited
 Stena Drilling Pte Limited
 The Marine Society and Sea Cadets
 Trico Supply (UK) Limited