

Merchant Navy Officers Pension Fund Summary Annual Report 2007



Chairman's message

This summary report is being sent to all members of the Fund. As in previous years, it is based on the formal Annual Report but is 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 that members should be given sufficient information to enable them to have a reasonable understanding of the operations of the Fund and would welcome comments on the content of this summary.

A copy of the full Annual Report is available on the Fund's website (www.mnopf.co.uk) or from the MNOFP at the address shown on the back page of this document.

Actuarial Valuation

The actuarial valuation of the New Section of the Fund as at 31 March 2006 disclosed a deficit of £151 million. This was in addition to the deficit disclosed by the valuation three years earlier. This additional deficit will be made good by further contributions from employers.

The valuation of the Old Section of the Fund at 31 March 2006 disclosed a surplus of £97 million, part of which has been used to provide benefit increases. Further details will be found in the remainder of this document.

Enclosed with this report is a Summary Funding Statement for the year ended 31 March 2006 which gives details of the funding position.

Deficit Contributions

The recovery of deficit contributions required following the 2003 actuarial valuation of the New Section continues to progress satisfactorily and collection of the deficit contributions required following the 2006 valuation is underway.

Legislation

Although the amount of new and proposed legislation affecting occupational pension schemes has been rather less than in recent years, there have nevertheless been some important changes, primarily in relation to Age Discrimination. The Trustee has amended the Rules of the MNOFP in order to be fully compliant with the new legal requirements and details of the main changes are covered later in this report.

Peter McEwen

Chairman

September 2007

Trustee and Executive

Trustee Board Directors

P G McEwen (Chairman) *+x
Nautilus UK

W D Everard CBE
(Vice Chairman) x
James Fisher & Sons plc

E J N Brookes *●x
The Chamber of Shipping

A J Davies +
Shell International Limited

A M Dickinson ●x
Nautilus UK

A Graveson +●
Nautilus UK

K Howarth +
P&O Ferries Limited

D E Jones ●x (Chairman – Audit Committee)
Carnival (UK)

P Keenan
Nautilus UK

J McGurk
The Maersk Company Limited

P L Moloney +
Nautilus UK

B D Orrell OBE x
Nautilus UK

L D Stracey + (Chairman – Investment Committee)
Stena Line Limited

Capt R Stuart
Nautilus UK

Executive

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 31 August 2007

Benefit increases

Old Section

An increase of 4% to Old Section pensions in payment and deferred pensions was put into effect from April 2007. Pensioners affected were advised at the time and the annual benefit statements to be issued to deferred pensioners later in the year will reflect this increase.

New Section

The Trustee is required to review the question of discretionary increases each year, in accordance with the Rules of the MNOFF.

No discretionary increases were awarded during the year ended 31 March 2007.

It is not possible to award any discretionary increases from the New Section while it remains in deficit, although

those increases required to be paid by law (statutory increases) are paid as they fall due. Statutory increases are taken into account and allowed for in the actuarial valuations.

Membership

Fund membership at the end of the year	31 March 2007	31 March 2006
Actives	1,833	2,047
Deferreds	28,383	29,312
Pensioners	23,772	23,381
	53,988	54,740

Deficit contributions

(1) Arising from the 2003 valuation

The Trustee and Executive have continued to focus on collecting the deficit contributions from the Participating Employers within the New Section. The 2003 valuation disclosed a deficit of £194 million which was increased with interest to £234 million as at 30 September 2005, the effective date at which the collection could begin, following the outcome of the Court case in March 2005.

Not all amounts invoiced to date have been received. This may be for any one of a number of reasons, including the following:

- Employers that are dormant companies with few assets after their shipping activities ceased;
- Companies that have gone into liquidation where 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 by the Court.

The Trustee has vigorously pursued those companies that have not met their deficit contribution liability. In some cases, there are no assets out of which recovery can be made. However, where the Trustee has ascertained that it is appropriate, legal action has been or is being taken. It has been estimated that around £25 million of the £234 million originally invoiced to Participating Employers cannot be recovered. Using its powers under the Rules to reallocate contributions that cannot be recovered, the Trustee has already invoiced the remaining New Section employers for their share of this shortfall.

Those employers who are considered sufficiently creditworthy are allowed to pay their deficit and shortfall contributions in annual instalments up to 2014 if their liability exceeds £100,000; otherwise, employers are required to pay them as lump sums.

(2) Arising from the 2006 valuation

The actuarial valuation of the New Section as at 31 March 2006 disclosed a further deficit of £151 million. As in the case of the 2003 deficit, Participating Employers have been invoiced for their respective shares for payment commencing 30 September 2007. The amount invoiced was £164.6 million, after allowing for interest between the effective date of the valuation and 30 September 2007. As in the case of the 2003 deficit, employers will be offered instalment terms (but over a shorter period, ending in 2014) where their share of the deficit is more than £100,000 and they are considered sufficiently creditworthy.

Employer Covenant Assessment

During the year the Trustee instructed a major accountancy firm to assess the ability of a sample of the New Section employers to meet their financial commitments to the MNOFF using publicly available information. The employers assessed in this way accounted for around two-thirds of the New Section's liabilities. The main conclusions were as follows:

- The large employer base includes some large organisations with high asset levels and gives the MNOFF a generally strong employer covenant;
- The strength of that covenant could theoretically be disproportionately weakened if a number of the larger employers suffered a significant deterioration in their financial strength;
- Crewing or ship management agencies typically do not have significant assets but have significant liabilities for paying deficit contributions. The Trustee is therefore looking at ways to reduce the risk that deficit contributions will not be paid in these circumstances.

Financial report - Year to 31 March 2007

The financial statements of the Fund have been audited by Deloitte & Touche LLP, the independent auditor appointed by the Trustee.

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 2007, including the 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 (as the Fund is closed to new members) and both the number of pensioners and the total amount of their benefits increase.

Overall, the value of the Fund has reduced slightly over the year, the reason being that the benefits paid exceeded the contributions and the growth in the value of the investments. Fluctuations in the value of the Fund are expected from one year to the next as a result of changing investment values and do not have any short-term significance for the Fund. It is the long-term progress of the Fund, as measured by the three-yearly actuarial valuations which is the significant measure of the Fund's financial well-being.

Fund Account	2007			2006
	Old Section £m	New Section £m	Total £m	Total £m
Contributions receivable				
Normal plus AVCs	-	13.7	13.7	14.8
Deficit contributions and interest	-	8.7	8.7	239.0*
Transfers in	-	0.3	0.3	0.1
	-	22.7	22.7	253.9
Benefits payable	84.5	82.7	167.2	158.0
Transfers out	1.5	3.1	4.6	2.9
Administrative expenses	2.6	4.6	7.2	6.2
	88.6	90.4	179.0	167.1
Net (withdrawals)/additions from dealings with members	(88.6)	(67.7)	(156.3)	(86.8)
Returns on investments				
Investment income	59.4	53.7	113.1	119.1
Change in market value of investments	(28.0)	65.3	37.3	410.1
Investment management expenses	(3.3)	(13.2)	(16.5)	(17.5)
Net returns on investments	28.1	105.8	133.9	511.7
Net (decrease)/increase in the Fund during the year	(60.5)	38.1	(22.4)	598.5
Net assets of the Fund at beginning of the year	1,473.1	1,930.7	3,403.8	2,805.3
Net assets of the Fund at end of the year	1,412.6	1,968.8	3,381.4	3,403.8

Net Assets Statement	2007			2006
	Old Section £m	New Section £m	Total £m	Total £m
Investments				
Fixed interest securities	836.1	274.9	1,111.0	1,169.9
Equities	178.4	926.5	1,104.9	1,326.1
Pooled investment vehicles	212.5	404.7	617.2	367.3
Properties	132.0	160.6	292.6	268.9
AVC investments	-	3.2	3.2	3.3
Cash deposits and other outstanding income entitlements	62.4	57.0	119.4	109.7
	1,421.4	1,826.9	3,248.3	3,245.2
Net current assets/(liabilities)	(8.8)	31.9	23.1	53.4
Debtors: Amounts falling due after more than one year	-	110.0**	110.0**	105.2**
Net assets of the Fund at end of year	1,412.6	1,968.8	3,381.4	3,403.8

* Note: For technical reasons, the whole of the deficit contributions invoiced in September 2005 was included under contributions receivable for the year ended 31 March 2006.

** Note: 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 allocation of the Old and New Sections as at 31 March 2007.

The Old Section chart illustrates the higher proportion of assets invested in fixed income investments to generate a reliable level of income and to preserve capital, whereas the New Section chart

shows the higher proportion invested in equity type investments intended to generate future capital growth. The Old Section is a more mature fund and a greater proportion of its liabilities is represented by pensions in payment whereas the New Section is a less mature fund where a significant proportion of its liabilities will not be paid for some years into the future.

Old Section

Fixed Interest Securities	58.8%
Equities	12.6%
Pooled Investment Vehicles	14.9%
Properties	9.3%
Cash & Other	4.4%

New Section

Fixed Interest Securities	15.0%
Equities	50.7%
Pooled Investment Vehicles	22.2%
Properties	8.8%
Cash & Other	3.3%

Investment performance

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

The WM Company compares the investment performance results of each Section against a specific benchmark which reflects the asset allocation of each Section and its expected investment performance.

Within each Section of the Fund there are different proportions of equity and fixed interest investments and consequently the investment performance of each Section differs.

The investment returns achieved in the calendar year 2006 exceeded their respective benchmarks and have either matched or exceeded them over the past five years as shown in the table opposite.

To 31 December 2006	1 year (%)	5 years (Average % p.a)
Old Section		
Actual performance	2.9	7.3
Benchmark	2.8	7.3
New Section		
Actual performance	9.7	7.7
Benchmark	8.4	7.0

Late contributions

As required by legislation, the Trustee has put in place a Schedule of Contributions stating the level of normal contributions payable and the dates by which they are due to be paid. As in previous years there was a small number of employers who paid contributions after the due date and they have been reminded of their legal obligations regarding the timing of remitting contributions to the Trustee.

Those employers who made payments late on more than one occasion during the year are listed opposite.

The Trustee is also collecting deficit contributions from employers and under its contribution collection policy interest is charged on deficit contributions not paid by their due date.

Acergy Singapore Pte
 C-Mar Services Limited (also listed in 2005)
 Celtic Marine (Hong Kong) Limited
 Condor Ferries Limited
 Condor Marine Services Limited
 GB Agencies Limited
 Hebridean (Guernsey) Limited
 G Heyn & Sons Limited (also listed in 2004)
 Irish Ferries Limited (also listed in 2006)
 The Marine Society and Sea Cadets (also listed in 2006)
 RFG Marine (Guernsey) Limited
 Swire Pacific Ship Management Limited (also listed in 2004 and 2005)
 United European Car Ferries (Grimsby) Limited

Actuarial valuations

The last valuations were carried out as at 31 March 2006 separately for the Old Section and the New Section.

The Pensions Act 2004 has introduced a new legislative framework governing actuarial valuations. The actuarial valuations of the MNOPF as at 31 March 2006 have been undertaken within the new legislative requirements.

The Pensions Regulator has issued a Code of Practice which gives guidance on implementing the legislation. In summary, the Trustee is required to:

- draw up a Statement of Funding Principles;
- obtain a triennial actuarial valuation;
- draw up a Recovery Plan if a deficit is disclosed;
- obtain a Schedule of Contributions certified by the Actuary;
- obtain annual actuarial reports between triennial actuarial valuations;
- undertake consultations with employers.

The process followed by the Trustee has been to obtain preliminary valuation results from the Actuary on a number of different funding assumptions and then to consult with employers in order to obtain their views.

The consultation on the New Section preliminary results was co-ordinated through the Chamber of Shipping (who communicated with all employers, including those who were not members of the Chamber of Shipping). The consultation was in two phases and included meetings with employers.

The consultation on the Old Section preliminary results was undertaken directly with Old Section employers.

The Trustee received valuable input from employers which was used by the Trustee to finalise the actuarial valuations and to decide on a Recovery Plan in respect of the New Section.

The results of the actuarial valuations are shown opposite.

The figures were calculated on financial assumptions agreed between the Actuary and the Trustee. No allowance was made for any discretionary benefits. The assumptions are different for the New Section and the Old Section reflecting the different natures and investment policies of the two Sections.

Copies of the valuation reports are available on request to the Director of Pensions, or may be seen on the MNOPF's website.

The next full actuarial valuations are due as at 31 March 2009. However, regulations require the Actuary to undertake annual financial updates as at 31 March 2007 and 31 March 2008.

Legislation

(1) The Pensions Regulator - Codes of Practice

The Pensions Act 2004 created the Pensions Regulator to replace the former Occupational Pensions Regulatory Authority. To support the legislative principles set out in that Act, the Pensions Regulator has issued a number of Codes of Practice. The Codes of Practice now in force include the following:

- reporting breaches of pensions law to the Regulator;
- notifying the Regulator of certain events (employers and the Trustee have obligations to make reports);
- scheme funding requirements - following the removal of the Minimum Funding Requirement, schemes can now adopt their own specific funding basis, but they must adopt relatively prudent assumptions in actuarial valuations;
- trustee knowledge and understanding - trustees are required to have a greater degree of knowledge than in the past about the technicalities of pension schemes in general and in particular of the schemes for which they are responsible. Training arrangements for the Trustee directors meet the new requirements and include access to a specially designed education website;
- internal controls - the Trustee has already established a risk register and control procedures that meet the requirements of the Code of Practice.

(2) Pension Protection Fund ("PPF")

Established in April 2005 to provide a degree of protection for members of defined benefit pension schemes should their employer become insolvent when their pension scheme is underfunded, the PPF is financed by a levy on pension schemes. Further levies to finance the administration of the PPF and the Pensions Regulator are payable each year. The total paid in levies during the year by the MNOPF amounted to approximately £660,000.

In the case of a multi-employer scheme such as the MNOPF, the PPF would only come into effect if the last remaining Participating Employer became insolvent and the scheme at that time was underfunded.

(3) Age Discrimination

In order to comply with regulations that came into effect from 1 December 2006, the Trustee made some amendments to the Rules of the MNOPF. The effects of these changes were:

- to allow members and their employers to continue to contribute after the normal retirement age of 61, provided that they continue in employment;
- to ensure the enhancement to the ill-health pension applicable where members meet certain terms and conditions does not contravene the new regulations;
- to ensure that there is no discrimination in the death benefits payable in respect of members who continue contributing after age 61 compared to those who contribute below age 61.

(4) State Pension System

The Pensions Act 2006 incorporated the recommendations of the Pensions Commission and will:

- re-establish the link between earnings increases and the Basic State Pension;
- raise the State Retirement Age in stages to 68 by 2046;
- introduce a national pension scheme providing defined contribution benefits. These have been referred to in the media as Personal Accounts.

As is always the case, the Trustee will continue monitoring legislative developments to ensure that the MNOPF remains fully compliant with changing requirements.

	Old Section £m	New Section £m
Amount required to cover past service liabilities for:		
Current contributors	-	445
Pensioners and dependants	878	990
Deferred pensions and AVCs	473	612
Expenses	25	35
Value of past service liabilities	1,376	2,082
Market value of assets	1,473	1,931
Surplus / (deficit)	97	(151)
Percentage cover of assets over liabilities	107%	93%

Contacts for further information

Your own benefits

Members may contact MNPA if they have any queries about their benefits. Although general enquiries may be made by telephone or by e-mail, changes of address or pensioners' bank details have to be made in writing for reasons of security.

The contact details are as follows:

- Telephone number: 01372 200200
- E-mail: mnopf@mnpa.co.uk
- Address: MNPA, Leatherhead House, Station Road, Leatherhead, Surrey KT22 7ET

Any requests for copies of documentation should be made in writing to the Director of Pensions, MNOPF Trustees Limited at the Leatherhead House address.

Members who have access to the internet can find most of the Fund's documents and other information on the MNOPF website (www.mnopf.co.uk).

State Benefits

Members wishing to obtain a forecast of their State Pension are advised to contact the Department for Work and Pensions ("DWP"). It is necessary to quote your National Insurance number and the application form may be accessed on their website (www.dwp.gov.uk); alternatively they can be contacted by telephone on 0845 300 168.

Personal Financial Planning

A financial planning service is available to members through Pensions & Wealth Planning Limited. The contact names are Russell Warman or Mike Buckley and they can be contacted by telephone on 01252 861380 or by e-mail to enquiries@penwp.co.uk

Fund management

The Fund is managed by MNOPF Trustees Limited. There is provision for fourteen directors, with employers and members being equally represented.

The Trustee Board (the "Board") meets at least four times a year to review the management of the Fund.

The Board has appointed a number of committees to undertake various tasks relating to the management of the Fund. All such committees reflect the principle of equal representation between employers and members and operate within terms of reference determined by the Board.

Management Committee

The Management Committee consists of six members supported by the Actuary, legal advisers and Executive. It 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. During the year there were fourteen meetings of the Management Committee including six meetings of a Sub-Committee formed to monitor the collection of deficit reduction contributions and three of a Sub-Committee formed to assess the strength of the employers' covenants.

Investment Committee

Investment matters are reviewed by the Investment Committee which meets at least four times a year. It consists of six members, supported by investment advisers and the Executive. This Committee has responsibility for the implementation of the Trustee's Statement of Investment Principles, strategic asset allocation and for considering the investment performance achieved by the investment managers. The Investment Committee also sets investment performance objectives for the investment managers who are given specific mandates and targets.

Audit Committee

The Audit Committee consisting of four members meets with the independent auditors four times a year to review matters relating to the Fund's financial statements and to consider any updates that may be required to be made to the risk register.

MNOPF Executive

The Board is supported by a dedicated Executive which, in conjunction with a small number of staff, implements decisions made by the Board and supervises the day-to-day affairs of the Fund. This team is entirely separate from MNPA.

The Board has delegated certain authorities and discretions to the Executive.

Administration of the Fund

MNPA is a wholly-owned trading subsidiary of the Fund and provides administration, financial accounting and pension payroll services to the Trustee, for which it receives a fee.

MNPA provides similar services to an increasing number of external clients and this business is intended to provide a return on the investment made in it by the Fund.