

# Merchant Navy Officers Pension Fund

## Summary Annual Report 2009



### Chairman's Message

As in previous years, the Summary Report is being sent to all members of the Fund. It is based on the formal Annual Report for the year ended 31 March 2009 but is presented in a shorter form to enable members to see more easily the activities of the Fund during the year.

The Trustee wants to ensure that you receive sufficient information to enable you to have a reasonable understanding of the operations of the Fund and its development during the year. If you have any comments on the content of this summary, please write to the MNOFP.

A copy of the full Annual Report is available on the Fund's website or from the Administrator, MNPA Ltd (see contact details in this report).

### Strategic Review

As reported last year, the Trustee commenced a Strategic Review covering both sections of the Fund. The purpose was to investigate the options available for enhancing the security of members' benefits.

As you know, investment markets have been severely affected since the autumn of 2008 and this has had an impact on the actions the Trustee can take. Nevertheless, progress has been made and is explained in more detail inside.

### Actuarial Valuation

The triennial Actuarial Valuation as at 31 March 2009 is currently underway. As well as the calculations to be undertaken, the Trustee is required to enter into consultations with the participating employers and it is unlikely that the valuation will be finalised until the spring of 2010. It is to be expected that the adverse market conditions and improved longevity will have an impact on the results of both the Old Section and the New Section valuations. Members will be informed of the results, together with the actions the Trustee has decided to take in a letter, or in next year's Summary Annual Report.

### Delegated CIO

In October 2008 the Trustee appointed an external investment advisory firm as the MNOFP delegated Chief Investment Officer. This is a new approach to managing investment services to the Trustee and the MNOFP is one of the first schemes in the UK to enter in to such an arrangement. The purpose is to ensure that there is continuous oversight of investment managers and to ensure there is a clear focus of responsibility on the delegated Chief Investment Officer for the provision of investment advice.

### Early Retirement

Members have previously been advised of regulatory changes regarding early retirement. Inside this report is a reminder for those thinking of taking early retirement that the minimum age at which you can take your pension will be 55 from April 2010.

### Mr Brian Orrell OBE

Brian Orrell OBE was appointed as a Director of the Trustee representing members in 1985 and has been the senior such Director since 1993. In May 2009 he retired from the Trustee Board on ceasing to be General Secretary of Nautilus UK. The Trustee Board Directors express their gratitude to Brian Orrell for his services to the MNOFP.

**Peter McEwen**  
Chairman  
November 2009

### Trustee and Executives Trustee Board Directors

P G McEwen (*MC, I*)  
(Chairman)  
Nautilus International

W D Everard CBE (*IC, M*)  
(Vice Chairman)  
Employer Representative

E J N Brookes (*A, M*)  
The Chamber of Shipping

G Craven (*I*)  
Shell International Limited

A M Dickinson (*M*)  
Nautilus International

A Graveson (*I, A*)  
Nautilus International

K Howarth (*AC*)  
P&O Ferries Limited

D E Jones (*M*)  
Carnival (UK)

P Keenan  
Nautilus International

J McGurk (*I*)  
The Maersk Line (UK) Limited

P L Moloney (*M, I, A*)  
Nautilus International

L D Stracey  
Stena Line Limited

Capt R Stuart  
Nautilus International

Vacancy  
Nautilus International

*I* Member of the Investment Committee  
*A* Member of the Audit Committee  
*M* Member of the Management Committee  
*C* Committee Chairman

**Executives**  
A G Waring  
Chief Executive

P Greenwood  
Deputy Chief Executive

**As at November 2009**

## Strategic Review

As reported last year, the Trustee decided to undertake a Strategic Review of the options available for the funding and securing of members' benefits.

### Old Section

During 2008 the Trustee commenced a strategic review of the Old Section investigating the possibility of securing all Old Section benefits by means of a buy-in. A buy-in is the purchase of a bulk annuity held by the Trustee as an investment of the scheme. It is an insurance policy issued by a Financial Services Authority (FSA) authorised insurer. The purpose is to match some or all of the scheme's liabilities and therefore reduce the level of risk although it does not change the contractual liability of participating employers.

The buy-in potentially reduces the risk that members' benefits will not be paid in full. Members' benefits are protected under the MNOPF by the resources of the participating employers and ultimately the Pension Protection Fund. An insurance buy-in policy provides additional security through the FSA and the Financial Services Compensation Scheme together with collateral arrangements that are put in place in case the insurer's financial strength reduces.

The recent economic crisis has reduced the value of Old Section assets and there are insufficient liquid assets available to purchase a buy-in policy to secure members' benefits in full. However, a plan for securing a significant portion of Old Section pensioner liabilities has been developed whereby a partial buy-in using about 40% of the assets could be undertaken and the remaining assets managed in future with a view to ultimately achieving a position whereby the remaining liabilities can be secured.

The Trustee has been working towards selecting an insurer which meets the key requirements of ensuring a high degree of security to protect members' benefits and a premium for the policy which fits the expectations of the overall Old Section plan.

A decision to proceed was made by the Board in September 2009 and a letter was sent to all Old Section members, a copy of which can be found on the MNOPF's website.

### New Section

The Trustee has considered ways of reducing risk within the New Section and during 2008 undertook consultations with employers representing over 65% of New Section liabilities. Various options were discussed with employers, including ideas on employers securing their own share of liabilities, whether it was possible to secure some of the orphan liability risk (i.e. liabilities of employers who no longer exist or who might wind-up in future) and also whether employers might form a consortium to secure all liabilities.

Although some employers showed an interest in securing their own share of liabilities in 2008, the cost of securing benefits (e.g. through a buy-in policy) is substantially greater than the assets and the recent economic crisis has adversely impacted on the affordability of achieving such settlements. With regard to insuring future orphan liability risk, there currently is no market. With regard to the consortium, this was not an idea that most employers were able to support.

The action most favoured by employers was to continue to operate the New Section by continued management of investment, mortality and other risks.

The Trustee will continue the risk management process in conjunction with the 2009 Actuarial Valuation.

## Fund Management

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

Mr Alan Davies resigned as an Employer Director on 4 November 2008 and Mr Giles Craven was appointed as an Employer Director on the same date. Since the year end, Mr Brian Orrell has resigned as an Officer Director and the resulting vacancy remains to be filled.

The Trustee Board met six times during the year.

The Board has appointed a number of committees and sub 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 agreed by the Board.

### Management Committee

The Management Committee consists of six members, supported by the Scheme Actuary, legal advisers and Executive. Its role is to make recommendations to the Board on matters such as the strategy relating to the management and future structure of the Fund, consideration of actuarial reports and the monitoring of legal and administration issues. A Sub-Committee was set up during the year to conduct a strategic review of the Fund, details of which are set out above.

A further Sub-Committee which was established in 2006 monitors the receipt of deficit contributions and decides on action to be taken to pursue recovery of unpaid deficit

contributions. The Management Committee and its Sub-Committees met a total of thirty-one times during the year, a reflection of the substantial amount of work that has been required to manage the Fund.

### Investment Committee

The Investment Committee is responsible for the implementation of the Trustee's Statement of Investment Principles, strategic asset allocation and, in conjunction with Watson Wyatt, the delegated Chief Investment Officer, the monitoring of the performance of each specialist investment manager. The Committee met nine times during the year.

### Audit Committee

The Audit Committee consists of four members and met four times during the year to receive reports from the independent internal and external auditors, to review matters relating to the Fund's financial statements and to review the Fund's risk management processes.

### MNOPF Executive

The Board is supported by the Fund's Executive, consisting of a small number of staff who assist the Board through the development of the Fund's overall strategy, coordinate the activities of the Fund's various managers and advisers, oversee the implementation of decisions made by the Board and generally supervise the day to day affairs of the Fund. This team is entirely separate from MNPA Limited.

## Financial Report - Year to 31 March 2009 Financial Report - Year to 31 March 2009

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 re-stated information for the previous year. This re-statement was necessary because of revisions to the Statement of Recommended Practice ("SORP") 2007 in relation to the accounting treatment of deficit contributions.

In previous years allowance was made for deficit contributions already invoiced, even though payment might not be due until some future date. This arose because some employers were allowed to pay their deficit contributions arising from the 2003 and 2006 Actuarial Valuations in annual instalments up to 2014. The revised SORP requires that only contributions due to date are taken into account. The effect of this re-statement has been to reduce the previously reported net assets at 31 March 2008 by £199.5m. Deficit contributions receivable in future will be accounted for as they fall due. This change does not affect the amount to be collected but only when such amounts appear in the accounts.

The value of investments has fallen over the year, primarily as a result of the severe declines in global financial markets,

Fund Account	2009			2008
	Old Section £m	New Section £m	Total £m	Total Re-stated £m
<b>Contributions and Benefits</b>				
Normal contributions plus AVCs	-	12.4	12.4	13.6
Deficit contributions	-	50.1	50.1	84.3
Transfers In	-	0.2	0.2	0.2
	-	<b>62.7</b>	<b>62.7</b>	<b>98.1</b>
Benefits payable	94.0	97.8	191.8	171.1
Transfers out	0.7	1.5	2.2	4.7
Administrative expenses	3.9	4.2	8.1	5.6
Other expenses and provision for doubtful debts	0.2	(1.7)	(1.5)	24.7
	<b>98.8</b>	<b>101.8</b>	<b>200.6</b>	<b>206.1</b>
<b>Net (withdrawals) / additions from dealings with members</b>	<b>(98.8)</b>	<b>(39.1)</b>	<b>(137.9)</b>	<b>(108.0)</b>
<b>Returns on investments</b>				
Investment income	53.8	42.8	96.6	107.2
Change in market value of investments	(134.6)	(246.9)	(381.5)	(161.6)
Investment management expenses	(3.0)	(9.9)	(12.9)	(16.6)
<b>Net returns on investments</b>	<b>(83.8)</b>	<b>(214.0)</b>	<b>(297.8)</b>	<b>(71.0)</b>
<b>Net (decrease) / increase in the Fund during the year</b>	<b>(182.6)</b>	<b>(253.1)</b>	<b>(435.7)</b>	<b>(179.0)</b>
<b>Net assets of the Fund at the beginning of the year</b>	1,295.2	1,799.7	3,094.9	3,273.9
<b>Net assets of the Fund at the end of the year</b>	<b>1,112.6</b>	<b>1,546.6</b>	<b>2,659.2</b>	<b>3,094.9</b>

Net Assets Statement	2009			2008
	Old Section £m	New Section £m	Total £m	Total Re-stated £m
<b>Investments</b>	1,121.7	1,528.6	2,650.3	3,093.4
<b>Net current assets / (liabilities)</b>	(9.1)	18.0	8.9	1.5
<b>Net assets of the Fund at the end of the year</b>	<b>1,112.6</b>	<b>1,546.6</b>	<b>2,659.2</b>	<b>3,094.9</b>

combined with benefits paid to members and their dependants being significantly greater than the contributions received.

As reported in previous years, the Trustee continues to monitor changes in market conditions and to act in response to those changes. In this context, your attention is drawn to the Strategic Review section of this report.



## Actuarial Valuations

The last Actuarial Valuation was carried out as at 31 March 2006 separately for the Old Section and the New Section. Copies of the valuation reports are available on request from the MNOPF or may be found on the MNOPF's website (see contact details elsewhere in this report).

The next full Actuarial Valuation will be carried out as at 31 March 2009 although it is not expected that the results will be available until spring 2010. However, regulations require the Actuary to undertake annual financial updates. The update as at 31 March 2008 was reported to members in the Summary Funding Statement issued in December 2008. The results disclosed were as follows:

	Old Section £m	New Section £m
Value of past service liabilities	1,300	2,082
Market value of assets	1,295	1,999
Surplus / (deficit)	(5)	(83)*
Cover of assets over liabilities	100%	96%

\*The deficit shown in the New Section assumes that future instalments relating to the previously disclosed deficits will be received.

It should be noted that the figures give a snapshot of the Fund's financial position as at a given date and can change significantly due to market movements.

## Deficit Contributions

As previously reported, the Trustee has used its powers under Rule 5.2A to require deficit contributions from participating employers as follows:

- In relation to the deficit disclosed by the 31 March 2003 Actuarial Valuation, deficit contributions of £234.2m as at 30 September 2005.
- In relation to the deficit disclosed by the 31 March 2006 Actuarial Valuation, further deficit contributions of £164.6m as at 30 September 2007.

The Trustee Board has taken, and continues to take, all reasonable action to recover contributions not received by the due date. This has included using the services of accounting firms to investigate corporate finances and initiating legal action where appropriate.

Despite the Trustee's best endeavours to obtain payment of the deficit contributions invoiced, some employers are not able to fulfil their obligations, either on account of being in insolvent liquidation or having insufficient assets with no means of obtaining further financial resources. The Trustee previously estimated that some £28m of the £234.2m originally invoiced would not be recoverable and, using its powers under Rule 5.2A, the Trustee reallocated this shortfall amongst the remaining New Section employers.

In a number of cases, debts are outstanding from employers who are part of a corporate group or which are manning agencies who

supplied Officers to ship-owners. Legal advice has been obtained which confirmed that the Trustee has the power to make the original participating employer and, according to the circumstances, either another participating employer within the same corporate group or a ship-owner who is also a participating employer, jointly and severally liable for the debt. The Trustee has put in place a policy for pursuing payment of such debts on a joint and several basis where the connection between the employers concerned is considered sufficiently strong.

It is estimated that approximately £9m of the £164.6m March 2006 Valuation deficit will not be recovered and this amount will be taken into account in the March 2009 Actuarial Valuation.

## Credit Support Arrangements

Where an employer's deficit contributions are in excess of £100,000 in respect of any given deficit, that employer has been allowed to pay those particular deficit contributions by annual instalments until 2014, provided the employer is considered sufficiently creditworthy. In some cases, there are several participating employers in a single corporate group where the group is sufficiently creditworthy, but some of the individual participating employers are not. In these cases, the Trustee will continue to allow payment by instalments but only on the condition that a bank guarantee or corporate guarantee etc is provided. Where such security is not forthcoming, full payment will be required.

## Pension Increases

### Old Section

There are no guaranteed increases to Old Section pensions whether in payment or in deferment and any increases are granted at the discretion of the Trustee.

Discretionary increases are considered after each triennial valuation. The last such valuation was as at 31 March 2006 and as reported last year, pensions in payment and deferred pensions were increased by 4% with effect from April 2007. Each year the Trustee gives consideration as to whether any additional increase can be awarded.

However, the recent economic turmoil has severely constrained the

Trustee's ability to award discretionary increases in the Old Section. The position was set out in the Chairman's letter in February 2009 to all members which stated that it was unlikely that any pension increases could be awarded in the Old Section for the foreseeable future.

### New Section

As members are aware, there is an actuarial deficit in the New Section. Unfortunately, it is not possible to award any discretionary increases from the New Section while it remains in deficit, although those increases (relating to Guaranteed Minimum Pensions and to pension accrued from April 1997) required to be paid by law (also known as statutory increases) are paid as they fall due. Statutory increases are taken into account and allowed for in the Actuarial Valuations.





## Investment Portfolio

In October 2008 the Trustee appointed Watson Wyatt as Delegated Chief Investment Officer. As well as providing an investment advisory service, investment manager selection and de-selection decisions are delegated to Watson Wyatt. This arrangement enables the Trustee to operate more quickly and efficiently on investment matters and will be reviewed in 2009/10.

Most investment managers have full discretion over selecting investments within the restrictions to holding investments in specific categories. Investment managers have been set targets and timeframes for monitoring purposes in relation to their investment portfolios. Investment managers are largely remunerated according to the market value of investments under their management.

Barclays Global Investors was appointed to manage a passive global equity mandate for the Old Section during October 2008.

The asset allocation of the Old and New Sections as at 31 March 2009 is shown in the table.

The Old Section table illustrates the higher proportion of assets invested in fixed income investments to generate a reliable income and to preserve capital, whereas the New Section table 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	55.9%
Equities	5.2%
Pooled investment vehicles	28.6%
Property	7.5%
Cash and other	2.8%
New Section	
Fixed Interest Securities	9.1%
Equities	35.7%
Pooled investment vehicles	48.0%
Property	6.7%
Cash and other	0.5%

## Investment Performance

The investment performance of the Old and New Section is measured independently and externally by The WM Company ("WM"). The Delegated Chief Investment Officer and Investment Committee monitor the performance of each specialist investment manager on a regular basis with reference to the appropriate time frames of each mandate.

WM compares the investment performance results of each Section against a specific benchmark, which reflects the asset allocation of each Section.

The Strategic Asset Allocations of Old Section and New Section are different reflecting the different liability profiles. Accordingly, the investment performance of the two Sections differed over the year.

In the year to March 2009, the Old Section, which is substantially invested in fixed income securities, had an investment return of -6.6%. The investment return of the New Section, which has a greater equity content, was -12.8%.

The annualised performance over the one and five year periods ended 31 March 2009 was below the benchmarks, as set out in the table.

To 31 March 2009	1 Year (%)	5 years (% p.a. annualised)
<b>Old Section</b>		
Actual performance	-6.6	2.8
Benchmark	-1.3	4.2
<b>New Section</b>		
Actual performance	-12.8	4.5
Benchmark	-5.6	6.2

Over the year to 31 March 2009, the world economy was extremely strained, and global markets suffered severe declines. Liquidity and solvency issues led to a series of bailouts and defaults, and national governments and central banks intervened repeatedly in efforts to improve market liquidity. The impact of the financial crisis has been felt on a global scale, across developing and developed countries. Both equity and credit markets were severely impacted.

A result of the extreme volatility seen over 2008 was a significantly wider deviation from benchmark performance for many investment managers than would be expected in more normal conditions. A proportion of the Fund is measured against inflation based or absolute return benchmarks and in periods when markets decline, the dispersion from benchmark returns can become very pronounced.

The Investment Committee took the decision to suspend its regular rebalancing programme, which provided some protection to the Fund by not mechanically buying equities in falling markets.

## Late Contributions

As previously reported the Trustee has put in place a Schedule of Contributions stating the level of normal contributions payable and the dates by which they are required to be paid. Legislation requires that contributions must be received by the 19th day of the month following the month in which they relate.

The number of employers who have paid contributions late on more than one occasion during the year has reduced from last year. The employers concerned are set out below.

Bibby International (Cayman Islands) Limited, C-Mar Services Limited, Celtic Marine (Hong Kong) Limited, Columbia Shipmanagement Limited, Gardline Shipping Limited, GWF Management Services Limited, Heyn Engineering (NI) Limited, Orkney Towage Company Limited, Southampton and Isle of Wight Royal Mail Steam Packet Company Limited.





<b>Membership</b>	<b>31 March 2009 Old Section</b>	<b>31 March 2009 New Section</b>	<b>31 March 2009 Combined</b>	<b>31 March 2008 Combined</b>
<b>Note:</b> Some members have both Old and New Section benefits and the combined membership is therefore less than the sum of the separate Old Section membership and New Section membership.				
<b>Actives</b>	-	1,452	1,452	1,635
<b>Deferreds</b>	19,483	12,303	26,040	27,382
<b>Pensioners</b>	22,274	14,182	24,824	24,150
<b>Totals</b>	<b>41,757</b>	<b>27,937</b>	<b>52,316</b>	<b>53,167</b>

### Early Retirement From 6 April 2010

Previous reports have drawn members' attention to a legislative change affecting early retirement. From 6 April 2010 early retirement will not be permitted before age 55, except in cases of ill health. Current legislation allows early retirement at any time from 50. There is no minimum age for drawing benefits due to ill-health although, in these circumstances, it is necessary for appropriate medical evidence to be provided.

If you are considering drawing your benefits from the MNOFF in the next few months and your date of birth was between 6 April 1955 and 5 April 1960, you are advised to contact MNPA in order to ensure that the necessary arrangements can be put in place in good time.

It is no longer a requirement for members to stop working in order to draw early retirement benefits from the MNOFF, although whether this would be beneficial is a matter for you to decide, after taking appropriate advice from a suitably qualified independent financial adviser. Neither the Trustee nor MNPA is authorised to give financial advice.

### Expression of Wish Forms

The MNOFF provides lump sum death benefits when contributing members die in service or when pensioners die within five years after they begin drawing their pensions. The Rules provide for the Trustee to decide to whom such benefits should be paid because this avoids liability to inheritance tax arising in respect of such payments.

In many cases it will be quite clear who should receive the lump sum; usually it will be the member's widow(er) or some other close family member. In less straightforward cases it can be helpful to the Trustee if you have completed an 'Expression of Wish' form nominating the person(s) whom you wish to receive any lump sum payable on death. The Trustee would take full account of your Expression of Wish form, although it is not bound to follow your wishes.

If you have previously completed an Expression of Wish form it will have been retained on your file; however it may be that the form was completed several years ago and your wishes may have changed. You are therefore encouraged to complete a new form to ensure that the Trustee is aware of your current wishes. Forms are available on request from MNPA or can be found on the MNOFF website and may be updated at any time as required.

### Administration of the Fund

MNPA Ltd 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 Ltd provides similar services to a number of external clients.

### Revaluation of Deferred Pensions after 6 April 2009

Pension benefits accrued in respect of service on or after 6 April 2009 will be revalued between the date of leaving service and Normal Pension Age at the increase in the Retail Prices Index, capped at 2.5% per annum. For service prior to this date, the revaluation remains at the increase in the Retail Prices Index, capped at 5.0% per annum. This new statutory revaluation cap applies automatically to the MNOFF.

### Contacts for further information

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

#### The contact details are as follows:

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

Alternatively, various documents can be found on the MNOFF website ([www.mnopf.co.uk](http://www.mnopf.co.uk)) which is also a useful source of general information on the MNOFF.

### Overpaid Pensions

The Trustee has various mechanisms in place for establishing whether pensions are paid to the intended recipients.

During the year, the Trustee had reason to believe that there had been a small number of instances where pensions had continued to be paid for some time after the member had died. Further enquiries revealed that there appeared to have been two deliberate attempts to make false representations to the Trustee.

Pensions payable from the MNOFF cease on the death of the recipient or, in the case of dependant children, when they cease to meet the criteria for receiving dependant children's pensions.

All members and beneficiaries are asked to note that the Trustee will take action to recover benefits that have been overpaid as the result of false representation having been made. In almost all cases the Trustee will report the incident to the police which could lead to prosecution of individuals in fraudulent cases.

