

GMPF and the financial crisis

The news in the financial markets can be alarming, but it is important to know that the current credit crisis does not affect your retirement benefits, which are securely protected by law. The pension system is very long term and designed to withstand market fluctuations.

- GMPF remains sound amid the current market downturn – last year the money paid in by members, employers and from returns on investments was £250 million more than we paid out in benefits.
- Members' funded retirement benefits are guaranteed by law and remain secure, unthreatened by market swings.
- We will withstand current market fluctuations with our diversified portfolio, and by keeping focused on long term investments.

We don't keep all our eggs in one basket

Our investment portfolio is currently worth around £8 billion, and is spread across different types of investments. As well as shares in public and private companies, in both the UK and overseas, we invest in areas such as commercial property (eg retail parks), and Government bonds, loans to companies and cash. This means we can soften stock market losses by having investments in other areas. Our Annual Report provides more details of our investment strategy.

We'll survive this storm, as we've done with others

The financial environment is very difficult but we've been through similar falls in the past – examples include Black Monday in 1987, when we lost 20% of the Fund's value in the stock market crash, and the "dot com" bubble earlier this decade, when we lost over £1 billion on paper, but then built up around £4.5 billion in the five years that followed. When the value of some investments fall, it can be a good time to buy, and profit when the markets recover. Our managers are looking to take advantage of such opportunities.

No instant impact on employers

There won't be any knee jerk reaction to what is happening. Employer's contributions are set every three years and the Actuary is required to take account of the need for stability in employer contribution rates in setting their rates where this can be prudently achieved.



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What has caused the financial crisis?

You might be wondering how the world economy got in such a mess. There are a variety of causes stretching back over the last 5-10 years. These include:

- Independent mortgage brokers in the US making too many bad loans to people with little chance of paying them back. This became a problem when house prices started to fall and the fall in house prices is now having an effect in many other countries.
- Borrowing generally became too easy and too cheap and the risks were underestimated.
- The policing of the global financial institutions did not operate effectively
- Banks stopped lending to each other which increased their cost of borrowing and this is being passed on to their borrowers.

Next steps to fix the market

Continuing Government action is needed to restore stability – step by step, market by market; with losses being recognised and restoration of the banks capital base.

The US and UK Government rescue plans are positive first steps in what should be a thoughtful review of the Government's role in overseeing the financial markets.

The Governments both here and in the US are looking into improving the regulatory environment and ensuring it is comprehensive.