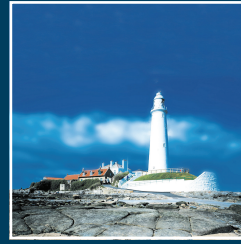


Tyne and Wear Pension Fund

Administered by South Tyneside Council



Members' Annual Report 2005/06

Dear Member...

We are pleased to present the Members Annual Report for 2005/06.

This report is a summarised version of the Fund's formal Report and Accounts, which is available on our website www.twpf.info.

This Report includes information on how the Fund is governed, the membership and the financial position. It also outlines the investment structure, describes the investment market environment during the year and shows how the Fund's investments have performed.

Vision Statement

We have a Vision Statement to help us to improve the service we provide.

Our goal is to provide an attractive and affordable pension arrangement that is seen by employers and members as an important and valued part of the employment package.

We will:

- promote membership of the Fund
- keep employers' contributions as low and as stable as possible through effective management of the Fund
- work with our partners to provide high quality services to employers and members
- make pensions issues understandable to all.

We will know we are succeeding when:

- we are consistently achieving our investment objective
- there are sufficient assets to meet the liabilities
- we are consistently achieving our service standards
- we are recognised as being amongst the leading UK pension funds.

Governance

A Pensions Committee is responsible for the control of the Fund. The Committee meets quarterly to consider all pension matters and has eighteen members. South Tyneside Council, as the administering authority for the Fund, nominates eight members and the other four district councils within the County area each nominate one member. The trades unions and the employers nominate three members each, who sit on the Committee in an advisory capacity.

An Investment Panel undertakes the detailed monitoring of investment performance. This Panel consists of three members of the Pensions Committee, the Fund's external Investment Advisor and two Officers. The Panel reports to the Pensions Committee.

We hold annual meetings for our employers and for the trades unions. The issues discussed at these meetings include investment performance, benefits and employers' contribution rates.

Membership

As at 31 March 2006, there were 121 employing bodies and 97,436 members participating in the Fund. This is an increase of 3,283 over the membership of 94,153 as at 31 March 2005.

	31 March 2005	31 March 2006
Active Members	48,660	48,986
Deferred Members	16,471	18,887
Pensioners	29,022	29,563
Total Membership	94,153	97,436

Scheme Regulations and Pensions Administration

There have been several recent changes to the Scheme rules, including the introduction of the new single tax regime, the removal of the Rule of 85 voluntary early retirement provision and the increase in the minimum retirement age from 50 to 55 for early retirement other than on grounds of ill health. In addition, consultation is taking place on more wide ranging changes to the Scheme that will be introduced from 2008.

This has involved updating of systems, staff training and a substantial communications exercise to advise members and employers of the changes.

Further details are included in newsletters and with your annual benefit statement.

During this busy period, we have continued to improve our services to members and employers. We have:

- Reduced our processing times.
- Issued 7,789 welcome packs to new members.
- Put 1,322 new pensions into payment.
- Taken over 45,000 calls on the Helpline.

We regularly seek the views of members and employers on the services we offer. This year, surveys were issued to our deferred members and employers. We were pleased to see that 97% of the deferred members who responded stated they were satisfied with the service we provide, as did 97% of the employers who responded to their survey. A number of helpful comments were received.

The Fund's branding had been in place for a number of years. We have redesigned this and changed to what we believe is a fresher, brighter and clearer look. The new branding was launched through the annual benefit statements and has been well received by members.

Funding Strategy

The Fund is valued every three years to ensure that there will be enough money to meet all promised benefits. This work is undertaken by our Actuary, Hewitt Bacon and Woodrow.

The latest valuation was undertaken as at March 2004. This showed that the Fund was in deficit and contained assets sufficient to meet only 64% of the pension liabilities. This figure is known as the funding level. Therefore, employers' contributions were raised from April 2005 in order to assist with meeting this deficit.

The long term strategy for meeting the deficit is set out in our Funding Strategy Statement, which was agreed by the Pensions Committee in February 2005. We consulted employers and considered their views when preparing the strategy.

The strategy includes a number of measures to assist employers to manage the increase in contributions, the most significant being an increased deficit recovery period for employers with a suitably strong covenant. The strategy will be reviewed for the 2007 valuation.

Since the 2004 valuation, we have been monitoring the estimated movements in the funding level. As at May 2006, this monitoring was showing an improvement in the funding level, but with the possibility that employer contribution rates may need to rise at the 2007 valuation due to people living longer and also the possibility of lower investment returns in the future.

Please note that the Tyne and Wear Pension Fund is part of the Local Government Pension Scheme. Under the present legislation the benefits of the Scheme are not dependant upon the funding level, but are defined in law.

Summary of the Accounts for 2005/06

The statement below shows the Fund's Income and Expenditure for 2005/06.

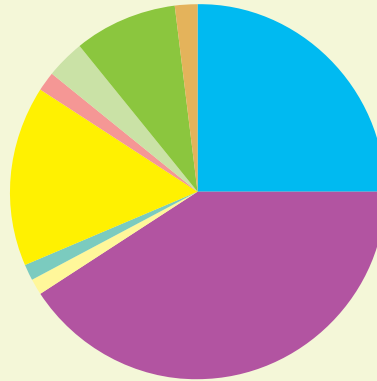
Income and Expenditure

Income	£m	Expenditure	£m
Employers' Contributions	165	Pensions	108
Employees' Contributions	49	Lump Sum Retiring Allowances	19
Transfer Values	17	Death Grants	4
Investment Income	55	Transfer Values and Refunds	23
		Administration Costs	2
Total Income	286	Total Expenditure	156
Net Income			130
Increase in the value of Investments			615
Total increase in the value of the Fund			745
Value of the Fund as at 31 March 2005			2,675
Value of the Fund as at 31 March 2006			3,420

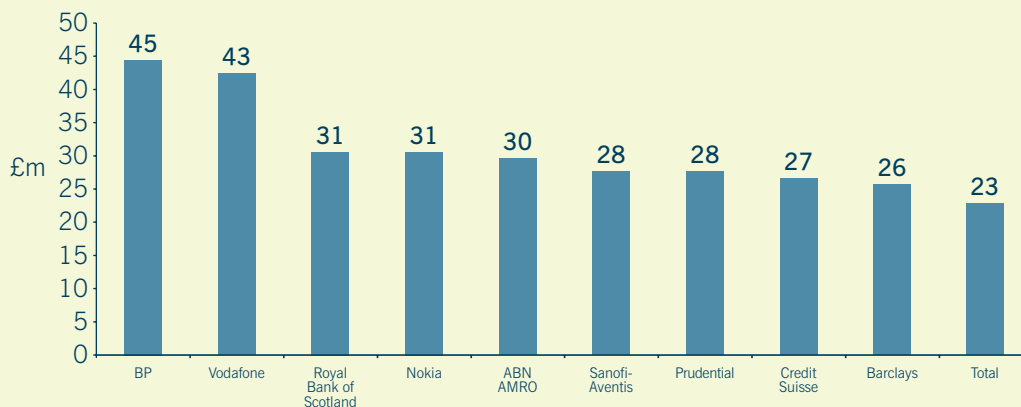
In addition, income was received from Fund members who have taken out additional voluntary contributions. The Fund has two external providers, The Prudential and Equitable Life. The total value of these funds at the year end was £7.2 million.

The value of the Fund as at 31 March 2006 was £3,420 million. This is invested into a range of UK and overseas assets, as shown below:

Investment	Value £m
UK Equities	851
Overseas Equities	1,396
Private Equity	50
Currency Funds	46
UK Fixed Interest	532
Overseas Fixed Interest	60
UK Index Linked	112
Property	306
Cash	67
	3,420



Our ten largest holdings (excluding managed and unitised funds) at the year end were:



Investment Framework and the Statement of Investment Principles

Our approach to investing the Fund is set out in a document called the Statement of Investment Principles.

The Pensions Committee approved the latest version of the Statement in June 2006. A copy is available on the Fund's website.

In the Statement we are required to set out our level of compliance with a Government published Code of Investment Principles. We are pleased to report that we are compliant with all ten of the Principles contained in the Code.

Investment Strategy and Management Structure

During the year, the Fund has introduced a new investment strategy that includes an increased allocation to equities and property, a reduced exposure to bonds and the introduction of an active currency management programme.

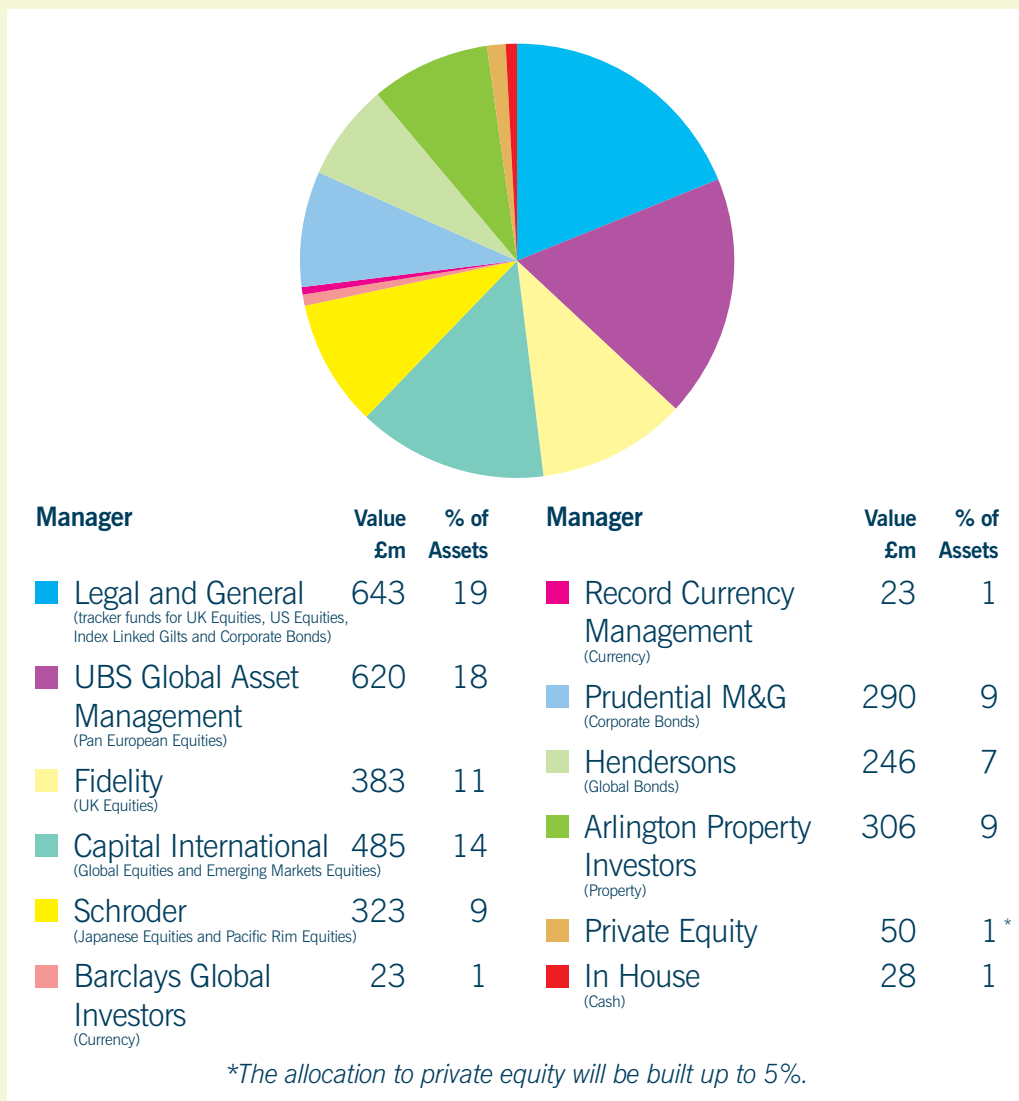
Within the equity allocation, there is an increased exposure to overseas equities and a reduction in the exposure to UK equities.

This revised strategy was implemented using the existing investment management structure, with the exception of the appointment of two currency managers.

We employ ten investment managers who work on fifteen investment mandates. Each manager is a specialist in the market in which they invest. In addition, the Fund has made a number of investments in private equity funds.

This broadly based management structure seeks to ensure that investment returns should not be overly influenced by the performance of any one manager.

The structure as at 31 March 2006 is:



Market Environment

Equity markets rose over the past year, continuing the impressive gains from the low point in markets in March 2003. This period of recovery has followed three years of negative returns during which equity values declined significantly from the high point reached in early 2000. Strong company profits and merger and acquisition activity were the main drivers of markets.

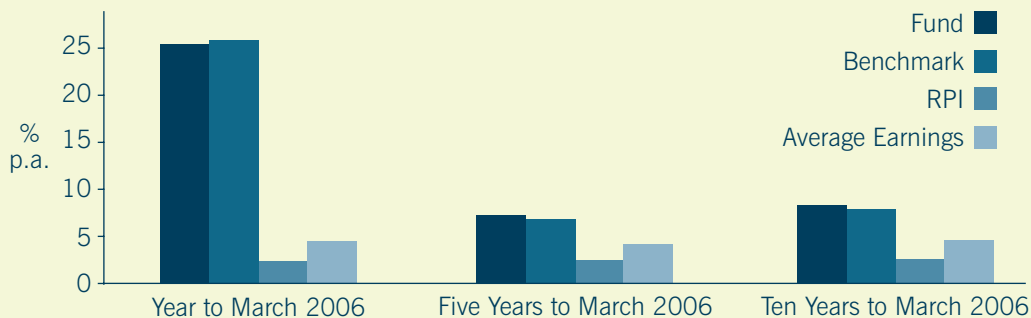
The best performing equity market was emerging markets, with a spectacular return of over 60%. The US market produced the lowest, but still a very good, return of 24%. Property again performed strongly with a return of 19% and UK bonds produced a return of over 7%. In this environment, pension funds have been able to post good positive returns for the third year in succession.

Investment Performance

Our investment return for the year was 25.4%, which was 0.4% below the benchmark return of 25.8%.

In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over at least five year periods.

The chart below shows the Fund's annual return over one year, five year and ten year periods.



The five year return is 7.3% per annum, which is 0.5% above the benchmark return of 6.8% per annum, whilst the ten year return is 8.3% per annum, which is 0.4% above the benchmark return of 7.9% per annum. The returns for all three periods are above both inflation and the increase in average earnings.

Corporate Governance, Voting and Socially Responsible Investment (SRI)

This is an important issue and the Pensions Committee takes its responsibilities in this area very seriously. Our Policy, which was last reviewed in June 2006, sets out how social, environmental and ethical considerations are taken into account in the buying, holding and selling of investments and in the use of rights, such as votes, that attach to investments.

Our investment managers have to report on their implementation of this Policy in their quarterly performance report and the subject is discussed regularly at meetings with them. A copy of the Policy is available on the Fund's website.

Councillor Shirley Stratford
Chair Of Pensions Committee

Stephen Moore
Head of Pensions

How to contact us

Our information is available in other ways on request.
We can provide information in other languages, Braille or large print.
We also have access to audio aids and BSL interpreters.

There are a number of ways you can get in touch with us.
If you need further information on the LGPS, please contact us at:



Postal Address
Tyne and Wear Pension Fund
PO Box 143
HEBBURN NE31 2WT



Pensions Helpline
Tel 0191 424 4141



Fax 0191 424 4171



Email pensions@twpf.info



Web www.twpf.info

Personal callers

You can visit us during office hours at the Civic Centre, Campbell Park Road, Hebburn, Tyne and Wear, NE31 2SW. You don't need to make an appointment.

Office hours

Monday to Thursday 8.30am to 5.00pm Friday 8.30am to 4.30pm.

Please quote your National Insurance Number and your Membership ID Number so we can quickly trace your records.