

## **Questions from the AGM**

### **Question1: from Mr James Booth:**

On page 6 of the Summer 'Pensions News', the last paragraph states that pensioners overseas are checked by a private company called 'Tracesmart'. Are their checks as reliable as the checks on UK residents?

Answer:

The annual checks on pensioners resident overseas used to be carried out by issuing paper 'life certificates'. These asked pensioners to sign (and have witnessed) a form confirming that they continued to be entitled to their BCSSS pension. Unfortunately this system was open to fraud and the Scheme has had one recent case where a substantial overpayment arose because a pensioner's family continued to sign and return forms long after the pensioner had died.

We now use a company called 'Tracesmart' who write to any pensioner aged over 75 who is resident overseas and ask that they contact them to confirm their details. This is combined with Tracesmart checking publicly available records in the overseas country to ensure that the pensioner's details are correct.

So whilst there is likely to always be a greater risk of fraud from overseas pension claimants (simply because there is not the same reliability in the public records) we feel we have struck the right balance between cost and risk in the processes we have adopted.

### **Question 2: from Mr Dennis Gadsby:**

During the next few weeks or months, there will certainly be major changes in one way or another to the Industry Wide Staff Superannuation Scheme, where members will be left with choices going forward that involve nothing like what they have left behind.... The future could be either DB or DC or even both. As you are aware, members of the IWCSSS do have treasured links back to BCSSS.....therefore could the Trustees of the BCSSS please confirm that ALL links back to the BCSSS from the IWCSSS (wherever it goes in future weeks and months) will be preserved.

Answer:

The changes to the IWCSSS which Dennis refers to affect the future benefits of contributing members of the IWCSSS who are employed by UK Coal. They have now been voted on and agreed by the affected members of the IWCSSS. BCSSS's legal advisers considered the proposed benefit design changes put forward by UK Coal to IWCSSS and we see no reason for concern that any entitlement to early payment of BCSSS benefits as a consequence of the links that Dennis refers to will be affected by these changes

### **Question 3: from Mr John Clark**

In light of the difficult economic environment the Government finds itself in, how good is it's guarantee to continue increasing our pensions by RPI regardless of the size of any deficit in the Fund?

Answer:

Before answering the question itself, it is perhaps worth remembering that the guarantee to increase pensions in line with RPI year on year only extends to Guaranteed Pensions, those which were earned up to the time of the closure of the BCSSS on privatisation of the coal industry in the 1990s. Whilst there is a secondary guarantee from Government which will ensure that no pensions will ever fall in cash terms, there is no guarantee that total pensions will increase and in the worse case, no increases would ever be granted until all the bonuses awarded since the 1990s were eroded away by retail price inflation.

That said, specifically in respect of the Guaranteed Benefits, the guarantee was given by the Secretary of State in the form of a deed which is enforceable in law. We will hold Government to that commitment and fully expect them to honour a call on the Guarantee if it is so called, which (as Mr Clark rightly observes) is increasingly likely given the enormous challenges facing us in terms of the scheme's funding and investment goals.

### **Question 4: from Mr G Garwood**

[Mr Garwood has asked a question about the Levelling Option and drew reference to his own benefits, which we are unable to disclose here today]

Question:

I took advantage of the levelling option when I retired. I feel that once you have paid back double you have received you should not have to pay any more. I feel paying back double what we received is more than fair.

Answer:

The intention of the levelling option is to enable members to maintain a more uniform level of income throughout retirement, by paying an additional amount of pension to State pension age followed by a deduction from pension from State pension age. The option operates by linking the amount of addition and the amount of the subsequent deduction to the full State Basic pension for a single person at the date the Scheme pension starts. The amounts of the addition and deduction are determined by a member's sex and age at the date the Scheme pension started.

The levelling option in effect allows members to take account of their entitlement to the State Basic pension before it becomes payable.

Members do pay back more in deductions than they have received in additional pension. This takes account of the fact that the additional pension will have been paid to members over a period of potentially up to 15 years earlier than would otherwise be the case. It is important to note that the level of addition and deduction take into account the assumed investment returns lost to the Scheme as a consequence of advancing pension payments. This is reflected in the corresponding additional value to members of having more of their pension in advance. Assumptions about mortality also have to be factored in – some members will die before or shortly after attaining State pension age

and the Actuary has to ensure those losses are recovered through the rates of addition and deduction that he sets.

The amounts of the addition and deduction are calculated by the Scheme's Actuary, and they are calculated to be "cost neutral" to the Scheme at the time the option is selected. i.e. on average, for all members who voluntarily elect this option, the Scheme is expected to make neither a gain nor a loss from the transactions

**Question 5 from Mr Hubbard:**

'The government guarantee has enabled BCSSS to operate a higher risk/reward investment strategy compared with many other mature final salary pension schemes. Disappointing global market performance has now crystallised some of those risks and members now face the potential of reducing real total pensions.

In the light of continuing market volatility can the Trustees please set out to members, in simple terms, the underlying rationale behind their investment/risk management strategy including:

- a. The current remaining life expectancy distribution of scheme members (or if not available their age distribution)
- b. The Trustees' expected annual return and their 95% confidence interval around it for each class of asset the scheme holds and for the portfolio as a whole
- c. The Actuary's assumption of expected annual return for each class of asset the scheme holds and for the portfolio as a whole at the time of his/her last valuation.
- d. A comparison between items b) and c) above and historic market returns over the last 3,5,10 and 20 years.'

In compiling this question I referred to the scheme's website and I think the documents on the site are now out of date eg

- [http://www.bcsss-pension.org.uk/editorimages/documents/Bonus\\_pensions\\_factsheet.pdf](http://www.bcsss-pension.org.uk/editorimages/documents/Bonus_pensions_factsheet.pdf)  
and
- <http://www.bcsss-pension.org.uk/editorimages/documents/Deferred Bonuses factsheet.pdf>

Also 6/4/10 Valuation Statements reference the Winter 9/10 edition of Pension News as the information source on bonuses, this has been removed from the website. Could you please give consideration to amending these so that members have really clear information on their potential future prospect of a reducing real total pension. BCSSS really needs to explain this clearly to members (by a series of worked examples?) who might well have a frozen pension for 5+ years as I see it.

*Answer*

Dick Barfield has explained the rationale behind the Trustees' investment strategy in his presentation. He has stressed that significant future investment returns are required if we are to repay the investment reserve debt and provide new bonuses. This requires a continuation of the current high allocation to return seeking assets and inevitably, as he explained, this strategy carries investment risk. The risk to members is that the Schemes assets will not generate sufficient returns to pay new benefits and the more immediate risk that they may not generate sufficient returns to avoid standstill. A switch to bonds and other asset classes with lower expected returns at this time would crystallise that risk.

Turning to Mr Hubbard's specific points:-

a. The age distribution of pensioners and deferreds as at the last valuation can be supplied, but I can advise that there are about 6,000 members below age 50 the vast majority of which are deferred. Between ages 50 and 60 there are about 13,000 members, of which about 3,500 are deferred. Over age 60 all but a thousand or so members are pensioners – about 15,000 in their sixties, 18,000 in their seventies and around 17,000 aged 80 or over.

b. Our current portfolio is targeting an annual nominal return, of around 7%. Value at Risk is the name used for the measure of the 95% confidence interval suggested by Mr Hubbard. Value at Risk is a concept that has been designed for the management of short term trading risk and we feel that its application to pension funds should carry something of a health warning. However, we estimate that the Value at Risk on the total portfolio is about 20%, which means that one year in 20, we would expect the returns to be outside the range -13% and + 27%.

c. The actuary doesn't make assumptions for the underlying asset classes. He made an overall assumption at the last actuarial valuation that the portfolio would increase by 3.8% per annum real until 2020, but then assumed a reduced return thereafter. He describes this in his report as "reflect[ing] an element of prudence compared to the actual historic experience of return-seeking assets over long time periods".

d. Mr Hubbard asks for a comparison between b and c (that's our current portfolio and the actuarial assumptions). As you can see, the actuary's assumption does indeed include an element of prudence when compared to our own assumptions, both in terms of the discount rate being below the expected return on assets, and in his assumption of a lower return after 2020.

We have looked at total returns over 10 years for 3 indices. For the FTSE All World (sterling) they were 3.7% per annum, for the FTSE All Share they were 4.7% per annum and for the FTSE All Gilts they were 5.1% per annum. We can provide these published indices over other periods if needed.

As regards the website we are aware that an increasing proportion of members are using the website and we are planning a major review and will implement actions arising from that in 2012