



BCSS

Members' fact sheet
For members of the British Coal Staff Superannuation Scheme

Bonus pensions in payment

Bonus pensions in payment

The 2003 valuation revealed deficits in the Guarantor's Fund, the Guaranteed Fund and the Bonus Augmentation Fund. The deficit in the Bonus Augmentation Fund meant that new arrangements for bonus pensions had to be made. The bonuses awarded prior to 2003 reduced under 'standstill' but new replacement **level bonuses** were initially paid in January 2005, 2006 and 2007 to avoid any reduction in the total amount of bonus.

The 2006 valuation revealed surpluses in the Guarantor's Fund, the Guaranteed Fund and the Bonus Augmentation Fund. As a result of the surplus in the Bonus Augmentation Fund, a new **level bonus** of 5.5% of **guaranteed pension** was paid to pensioners effective from April 2007. In addition, it was agreed that further replacement **level bonuses** would be paid in January 2008, 2009 and 2010 to offset the continued reduction in pre 2003 bonuses. *These arrangements ensure that you will continue to benefit from RPI increases on your guaranteed pension up to and including January 2010.*

This fact sheet explains how bonus pensions work. It is aimed at members with pensions in payment. The arrangements are summarised below and are explained in greater detail inside.

Summary

Guaranteed pension: there is no change to your guaranteed pension (the part of your pension fully covered by the Government Guarantee) and you will continue to receive annual RPI linked increases on that part of your pension.

Reducing bonus: the bonus pensions awarded prior to 2003 have been consolidated and converted to a "reducing bonus". This has reduced each year with effect from January 2005 by the amount of the RPI increase added to your guaranteed pension. These annual reductions will continue until this bonus is reduced to zero.

Level bonus: those bonuses awarded as replacement bonuses in 2005, 2006, 2007, 2008 and 2009 (and those that will be awarded in 2010) and the new bonus awarded in April 2007 of 5.5% of Guaranteed pension for pensioners (10.5% of Guaranteed pension if you were a deferred pensioner on 1 April 2007). In the event of a future deficit, level bonuses would become reducing bonuses.

Bonus Pensions – how the government guarantee works

The guarantee was designed to protect benefits at times when the Scheme is in deficit. So the first section of this fact sheet explains how benefits are protected by the guarantee. Your BCSSS pension has two key parts; the guaranteed pension and bonus pensions. Each has a different level of protection.

Guaranteed pension: this is paid from the Scheme's Guaranteed Fund and is the part of your pension that is fully guaranteed by the Government. It is your entire BCSSS pension apart from bonus pension and any non scheme pension which may be payable. The guarantee means that you can be sure that this part of your pension, including the full RPI linked increases added in January each year, will always be paid even when there are valuation deficits in the Guaranteed Fund. The annual cost of living increase is the full increase in the Retail Prices Index (RPI) for the 12 months to the previous November.

Your **guaranteed pension** should not be confused with **Guaranteed Minimum Pension (GMP)**. Your GMP is the minimum the Scheme must provide to you as a consequence of being contracted out of the State Earnings Related Pension Scheme (SERPS). Members over State pension age who have a GMP receive RPI increases in January on the amount of **guaranteed pension** in excess of their GMP.

Bonus pensions: these are the increases awarded from valuation surpluses after October 1994. They are paid from the Scheme's Bonus Augmentation Fund. They do not have the full protection of the Government guarantee and have to be reduced if there is a valuation deficit in the Bonus Augmentation Fund. They do, however, have the protection of 'standstill'. This ensures there is no reduction in the total amount of pension (guaranteed pension plus bonus) being paid. It works by limiting the reduction applied to bonuses in any year to the amount of the RPI increase added each January to guaranteed benefits. So the RPI increase is offset by a matching reduction in the bonus pension and the total pension 'stands still'. The process continues at each January pensions increase until the bonuses are reduced to zero.

Note for members who contributed to the Scheme after 5 April 1988 and who are over State pension age. The Scheme pays increases each April on your GMP accrued in respect of service after 5 April 1988 by 3% or the RPI at the preceding September if this is lower. It is important to note that this increase is not matched by a reduction in bonus pension.



Bonus pensions following the 2003 valuation

This section of the fact sheet explains what happened to bonuses as a result of the deficit revealed by the 2003 valuation.

The deficit in the Bonus Augmentation Fund meant that the assets in that fund were no longer sufficient to meet the cost of paying bonuses for life. In accordance with the BCSSS Scheme and Rules the 'standstill' process outlined above had to be started. This meant converting the pre 2003 bonuses to **reducing bonuses** (referred to as Crystallised Augmentations in the BCSSS Scheme and Rules). The first reduction was made on 1 January 2005 since that was the first occasion following the completion of the 2003 valuation that there was an RPI increase on **guaranteed pensions**.

The conversion to **reducing bonuses** had the effect of reducing the liabilities of the Bonus Augmentation Fund to less than its asset value. As a result there were then surplus assets available in the Bonus Augmentation Fund. The trustees, with the agreement of the Guarantor, used the residual surplus (referred to in the Scheme Rules as a Bonus Augmentation Residue) to pay new replacement **level bonuses** for a three year period to January 2007.

These replaced the standstill reductions that were made to the pre-2003 bonuses in January 2005, 2006 and 2007 equal to the RPI increase on **guaranteed pensions**. Clearly the surplus was not big enough to replace all the reductions that had to be made to the pre-2003 bonuses over the years to come. If it was, there wouldn't have been a deficit in the first place.

Bonus pensions following the 2006 valuation

The 2006 valuation revealed surpluses in the Guarantor's Fund, the Guaranteed Fund and the Bonus Augmentation Fund.

As a result of the surplus in the Bonus Augmentation Fund, a new **level bonus** of 5.5% of guaranteed pension was paid to pensioners with effect from April 2007 (10.5% of Guaranteed pension if you were a deferred pensioner on 1 April 2007). In addition, it was agreed that further replacement **level bonuses** would be paid in January 2008, 2009 and 2010 to offset the continued reduction to pre 2003 bonuses.

There are now two types of bonus:

Reducing bonus: the bonus pensions awarded prior to 2003 have been consolidated and converted to a "**reducing bonus**". This has reduced each year with effect from January 2005 by the amount of the RPI increase added to your **guaranteed pension**. These annual reductions will continue until this bonus is reduced to zero.

Level bonus: those bonuses awarded as replacement bonuses in 2005, 2006, 2007, 2008 and 2009 (and that due to be awarded in 2010) and the new bonus awarded in April 2007 of 5.5% (10.5% if you were a deferred pensioner on 1 April 2007) of **guaranteed pension**. In the event of a future deficit, level bonuses would become **reducing bonuses**.

Whether the total amount of bonus can be protected in future years will depend on the outcome of future valuations.

Bonus Pensions – how the government guarantee works *continued*

Example

The best way of seeing how these arrangements work is by way of an example. The example looks at the position of someone who, in January 2004 had a pension of £8,000 made up of a guaranteed pension of £6,000 a year and bonus pensions totalling £2,000 a year. It assumes an RPI increase of 3% for January 2010 and for ease of reference all figures have been rounded to the nearest pound.

*Note: the example is for illustrative purposes only – the proportion of the initial reducing bonus relative to the **guaranteed pension** is not accurate. Members over state pension age who have a Guaranteed Minimum Pension (GMP) only receive RPI increases in January on the amount of **guaranteed pension** in excess of their GMP. The example works in principle for those members, but the RPI increase, the amount deducted from the reducing bonus and the amount of the replacement bonus will all be correspondingly smaller.*

For simplicity, the example disregards any increase paid by the Scheme in April each year on GMP accrued after 5 April 1988.

	2005	2006	2007	2008	2009	2010
Guaranteed Pension	£6,000	£6,204	£6,353	£6,601	£6,885	£7,092
Annual RPI at preceding November	3.4%	2.4%	3.9%	4.3%	3%	3% (assumed)
RPI increase	£204	£149	£248	£284	£207	£213
New Guaranteed Pension Rate	£6,204	£6,353	£6,601	£6,885	£7,092	£7,305
Reducing Bonus	£1,796	£1,647	£1,399	£1,115	£908	£695
Level (Replacement) Bonus	£204	£149	£248	£284	£207	£213
April 2007 New Level Bonus of 5.5%	N/A	N/A	£363	£363	£363	£363
Total Level Bonus	£204	£353	£964	£1,248	£1,455	£1,668
Total Bonuses	£2,000	£2,000	£2,363	£2,363	£2,363	£2,363
Total Pension	£8,204	£8,353	£8,964	£9,248	£9,455	£9,668

Bonus Pensions – how the government guarantee works *continued*

The pre-2003 bonuses were converted to a consolidated reducing bonus in April 2004, but there is no change to the amount of bonus until January 2005. In January 2005 the annual RPI increase is added to the **guaranteed pension** as normal, and the same amount has to be taken off the **reducing bonus pension**. So on 1 January 2005 the **guaranteed pension** will increase by £204 (i.e. 3.4% of £6,000) to £6,204 and the **reducing bonus pension** will reduce by £204 to £1,796. That is the standstill part of the operation. But also on 1 January 2005 the first part of the new replacement **level bonus pension** was awarded. The new **level bonus pension** replaces the standstill reduction

and so (in the example) the replacement **level bonus pension** awarded in January 2005 will be £204. The total amount of bonus will, therefore, be unchanged at £2,000 and the total pension will have gone up by the amount of the RPI increase on the **guaranteed pension** to £8,204.

The process is repeated until January 2010. Whether replacement **level bonus pensions** will continue after January 2010 will depend on the outcome of future valuations.

More information

If you have a question about Trustee policy on this matter please contact the BCSSS Scheme Secretary:

Address

Coal Pension Trustees Services Limited
Hussar Court
Hillsborough Barracks
Sheffield
S6 2GZ

Telephone 0114 285 4602

E-mail bcsss.enquiries@coal-pension.org.uk.

For more information about your benefits, please contact the Scheme's administration office:

Address

The Administration Office
BCSSS
5th Floor
The Fountain Precinct
Balm Green
Sheffield
S1 1JA

Telephone (UK local numbers)

Surname A-J **0845 6090012**
K-Z **0845 6090013**

Telephone (Abroad standard charge numbers)

Surname A-J **(+44) 114 203 4613**
K-Z **(+44) 114 203 4629**

E-mail

bcsss.enquiries@aonconsulting.co.uk

Please remember to quote your **National Insurance Number/Scheme Membership Number**.