Updated at 3rd March 2015

Additional Q&As

BCSSS

IN ADDITION TO THE Q&As ON PAGES 5 AND 6 OF THE SPECIAL EDITION OF PENSIONS NEWS, THE FOLLOWING QUESTIONS GO INTO MORE DETAIL.

We will update this list of additional questions and answers, as we receive more questions through the phone helpline, from members' written questions and at the regional information sessions:

Q16: I've read the answer to Q7 in Pensions News, but I still don't understand why my GMP doesn't get increased by the Scheme. Can you explain how it gets increased?

A16: *The rules around GMPs are very complex. There are two types of increase – those applying to GMPs earned before 6 April 1988 ("pre-1988 GMPs") and those for GMPs earned between 6 April 1988 and 1997 ("post-1988 GMPs"). The rules on how increases are granted are different for these two types of GMP:*

Pre-1988 GMPs: *No increase to the pre-1988 GMP element of your pension is paid by the Scheme once you have reached GMP payment age (usually 60 for women and 65 for men); an increase is paid by the State based on the increase in price inflation (CPI); you receive this increase from April each year, with your State Pension.*

Post-1988 GMPs: *Post-1988 GMPs are increased in line with price inflation (currently CPI). The Scheme pays any increase up to 3% in April with your Scheme pension, and the State pays any increase over 3%: again you receive the element paid by the State from April as part of your total State Pension.*

So let's say you have both pre-1988 and post-1988 GMPs as part of your pension and CPI is say 4%: your pre-1988 GMP would get an increase of 4% from the State, paid with your State Pension; and your post-1988 GMP would get an increase of 3% from the Scheme and 1% from the State (with the 1% being paid with your State Pension).

When you have started to receive your State Pension, the annual letter you receive from the DWP, informing you of the latest increase to your State Pension, shows increases to your GMP as a separate item.

Q17: You say our pensions will increase every year. But if we get deflation (so that RPI is negative) that won't be the case. And deflation looks like a distinct possibility in the near future.

A17: *The bonuses of 2% of Guaranteed Pensions in 2016, 2017, 2018 and 2019 will be paid irrespective of the rate of inflation. So in these years, even if there is deflation, pensions will increase.*

We explain in Pensions News that, after 2019, you would not get an increase if RPI inflation in the relevant November is zero or negative. But in those circumstances your pension will not reduce, even if inflation is negative.

Talk of deflation is very much in the news, particularly because of the current impact of falling oil prices, which is one of the reasons we mention it in Pensions News. However, negative inflation has been very rare in the past, and it is still expected to be a very unusual event indeed in the future.

Q18: The graph showing the example of Fred shows his pension before the changes going up slightly. I thought you said there was no scope for any new bonuses?

A18: *Yes you are right: the red line that shows Fred's pension does go up slightly in 2017, 2018 and 2019. This is because, although any surplus in the Guaranteed Fund at future valuations would have had to be used to repay the debt to the Investment Reserve (as we explain in Q10), bonuses might still have been payable from surplus in the Bonus Augmentation Fund. So, at the 2015 Valuation, there would probably have been a small surplus in the Bonus Augmentation Fund, which the Trustees could have distributed as bonus. On its own, it was estimated that this might have been enough to enable the Trustees to award bonuses of a total of around 1.0% of Guaranteed Pension across a 3 year period (equivalent to about 0.3% for each of the 3 years). The red line on the graph shows the impact of these estimated 0.3% pa increases, which is why the red line goes up slightly in 2017 to 2019.*

The bonuses that have now been announced are much more meaningful; this is why we say in the example on page 4 that the "only significant increase that Fred can look forward to is a further 2% bonus in 2016". You will see from the graph that the blue line increases more sharply than the red line, because it reflects the 2% increases that have now been awarded in 2017 to 2019.

Q19: Have you taken legal advice on these changes?

A19: *Yes we have. The Trustees are advised on all matters relating to the Rules of the Scheme by Linklaters, a leading firm of lawyers, who have carried out the drafting of the documentation that put these changes into effect. A leading QC (who specialises in pensions matters) has provided his formal opinion that the Agreement correctly gives effect to the intentions of the Trustees and the Guarantor.*

Questions 20 to 24 below have been added on 3rd March following written questions from members

Q20: What consideration/analysis did the Trustees give in structuring the new deal and making their agreement with the Guarantor with regard to achieving equity between members of different age/life expectancy? In particular, won't young members receive lower bonuses than older members?

A20: *The Trustees have always considered the impact on different categories of members. In particular, when considering the benefits arising as part of this review, the Trustees considered the impact on members' benefits in a number of different future scenarios. The changes we have recently announced have a positive impact on all members. In particular, the abolition of standstill is positive for everyone, because until standstill ceases, those bonuses awarded up to 2014 would have continued to reduce in the future for all members, and only after they had reduced to nil could RPI increases have been applied to Guaranteed Pensions without a corresponding reduction to bonus. Further the bonuses available after 2014 could have gone into standstill should financial conditions be difficult at some stage in the future. These changes therefore have a positive impact on all members irrespective of age.*

Q21: Given that after 2020 we are effectively just going to receive pensions from government via the mechanism of the scheme, does it make sense for the assets simply to be transferred into government and the scheme to cease to exist for all practical purposes (pretty much what was done before the privatisation of Royal Mail)?

A21: *The Government Guarantee, as we have pointed out, continues to stand behind the security of members' benefits. Many public sector pension schemes are operated on a 'Pay as you go' basis, where pensions are funded each year from tax revenues. The Trustees continue to believe that the funded nature of our Scheme, with a Trustee Board overseeing the management of the assets and operation of the Scheme, with specific assets standing behind the Scheme's liabilities, provides greater security than 'pay as you go'. Having the Government Guarantee standing behind the funded arrangement provides a further level of security for BCSSS members.*

So the Trustees made it clear that continuation of the funded basis of the Scheme remained important and that is the basis on which the recent Agreement was implemented.

Q22: Will the investment strategy of the Scheme now change, as there is no need for the fund to achieve a surplus?

A22: *The Trustees will review their investment strategy for the future, taking account of their funding objectives and appropriate levels of risk. The investment strategy may well change to reflect these significant changes to the Scheme. The Trustees will still need to earn positive returns to meet future pension payments.*

Q23: Why have you given £500m of the Scheme's money to the Government – wouldn't it have been better spent on members' benefits?

A23: *The Investment Reserve is British Coal's 50% share of the surplus before privatisation that was left in the Scheme at that time as the 'Investment Reserve'. The original obligation was that this was due to be repaid in full over the 25 years to 2019. The Investment Reserve was useful to help protect pensions in difficult economic conditions but ultimately it was repayable in full to the Government and was never available to improve member benefits. The Trustees had no control over the timing of the repayment, as the decision was made by the Government Actuary, and it is likely that the Government Actuary would have decided on significant repayments over the coming years.*

The current agreement retains the majority of the Investment Reserve until 2033. In the absence of this agreement, this would have been repayable to the Government much sooner.

Q24: Is this a “done deal” or do we have the opportunity of influencing it? Why haven’t you consulted with us or allowed us to vote on it?

A24: *The Agreement giving effect to these changes has recently been finalised and the Trustees wanted to use the special edition of Pensions News (and the other ways of getting information that were contained in it, such as the regional sessions) to inform members as soon as possible after the agreement was concluded – so yes, it is a ‘done deal’.*

The discussions with Government have been going on for some time and recent issues of Pensions News have alluded to these discussions and the issue the Trustees were trying to resolve (namely the poor outlook for future pension increases).

These benefit improvements are not the type of change that requires a vote or consultation: the role of the Trustees is to run the Scheme in the interest of the beneficiaries and that is what they have done on this occasion.