



BRITISH COAL STAFF SUPERANNUATION SCHEME

Annual General Meeting

Derby

9 September 2014





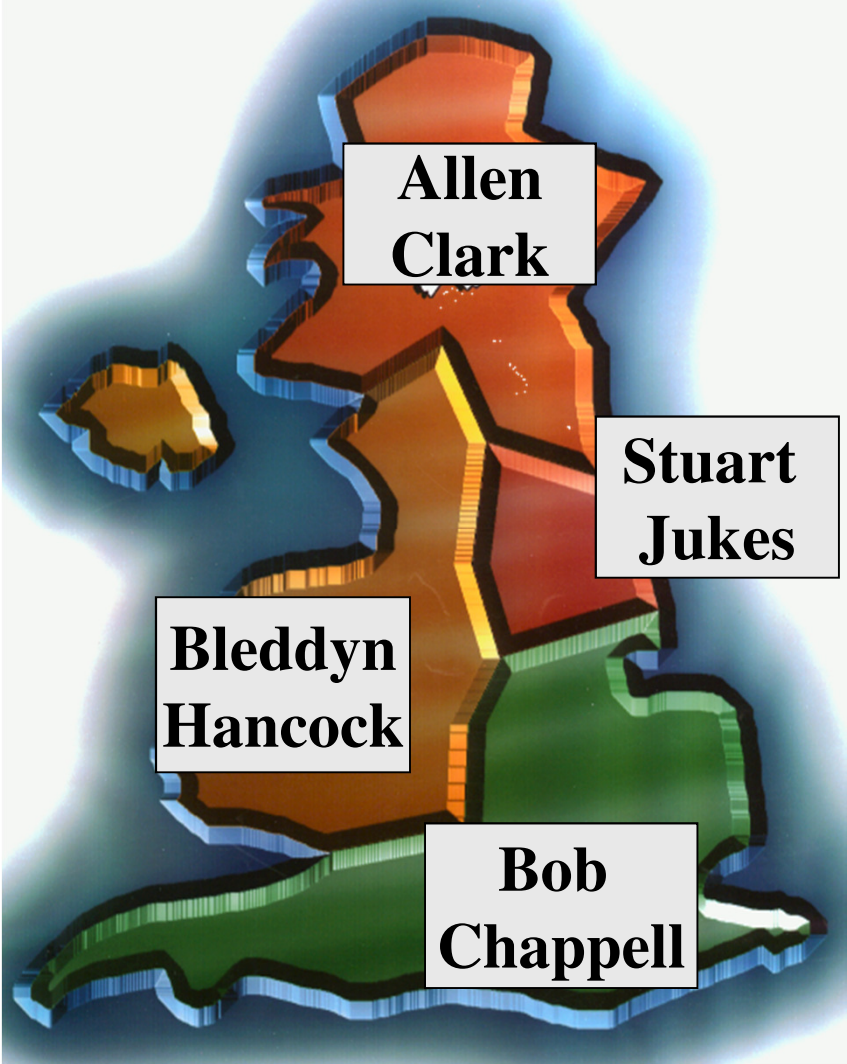
Introduction

Philip Read

Chairman of the
Committee of Management



**Pensioner
Representatives**





Appointed Members

Philip Read

Chairman of the Committee of Management

Dick Barfield

Chair of the Investment Sub-committee

Ray Proctor

Chair of the Risk and Assurance Sub-committee
and the Discretions & Appeals Sub-committee

Heather McGuire

Chair of the Administration and Benefits Sub-committee

Dame Kate Barker

Chairman elect of the Committee of Management



AGM Programme

- | | |
|---|------------------------|
| 1. Chairman's Report | Philip Read |
| 2. Report and Accounts
and Results of 2012 Actuarial Valuation | Geoff Mellor |
| 3. Investment Strategy & Performance | Dick Barfield |
| 4. Written Questions | Jon Heathfield |
| 5. Open Forum | Chaired by Philip Read |
| 6. Chairman's Summary | Philip Read |
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Discussions with the Guarantor were difficult but productive.

Objectives:

Trustee – provide increases to members

Guarantor – avoid paying money into the Scheme

No assumptions satisfied both parties' objectives



2012 Actuarial Valuation Outcome

Increases equivalent to 2% of guaranteed pensions for each of the next three years

Waive call on the Guarantor
(but able to make a call at future valuations)

Unlikely to be increases to pensions from 2017



Changes to the Scheme

	31 March 2005	31 March 2014
Pensioners	66,850	56,615
Deferred pensioners	17,677	5,862
Annual Guaranteed Pensions	£499 m	£525 m
Annual bonus pension	£125 m	£125 m
Fund value	£10.1 bn	£8.973 bn





Actuarial Valuations

Year	Result	Effect on members' benefits
2006	Surplus	<ul style="list-style-type: none">▪ Level replacement bonus equal to RPI for 2008, 2009 and 2010▪ 5.5% bonus to pensioners▪ 10.5% bonus to deferred pensioners
2009	Deficit	<ul style="list-style-type: none">▪ New level replacement bonus equal to RPI for 2011, 2012 and 2013
2012	Deficit	<ul style="list-style-type: none">▪ 2% bonus to pensioners and deferred pensioners



CEO Presentation

Geoff Mellor

Chief Executive Officer
Coal Pension Trustees Services Limited





Fund Account & Net Assets

	£ million	£ million
Pensions & lump sums	(666)	
Administration Expenses	(6)	
Payments to Guarantor	(37)	
<i>Total expenditure</i>		<i>(709)</i>
Investment income less expenses	118	
Increase in market value of investments	465	
<i>Total return on investments</i>		<i>583</i>
<i>Net decrease in the value of the Fund</i>		<i>(126)</i>
Net assets at 31 March 2013		9,099
Net assets at 31 March 2014		8,973



Sub-Fund Structure

- **The Guaranteed Fund** – holds the money that pays your guaranteed benefits
 - **The Bonus Augmentation Fund** – holds the members' 50% share of post 1994 surpluses and pays bonus pensions
 - **The Guarantor's Fund** – holds the Guarantor's 50% share of post 1994 surpluses
 - **The Investment Reserve** - holds the Guarantor's share of pre 1994 surplus and is due to be repaid to the Guarantor in full by 2019
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Guaranteed Fund

Funding Position after 2012 Valuation

At the 2012 valuation, there was a deficit in the Guaranteed Fund; money had to be transferred from the other three sub-funds in order to cover this deficit. After these transfers, the Guaranteed Fund was in balance.

	£ million
Assets	7,703
Liabilities	<u>7,703</u>
Surplus/(Deficit)	0

Investment Reserve debt: £1,584 million

The first use of any future Guaranteed Fund surpluses is to repay the Investment Reserve debt. Only when that debt is repaid in full can surpluses be transferred from the Guaranteed Fund to the Bonus Augmentation Fund to provide new bonuses.



Bonus Augmentation Fund

Position at 2012 Valuation

	£ million
Assets	893
Liabilities	<u>604</u>
Surplus	289

The surplus was used to provide pension increases of 2% of guaranteed pensions in each of January 2014, January 2015 and January 2016.

A Bonus Augmentation Fund surplus of about £300m will be required to provide the same level of increases in 2017, 2018 and 2019.

Based on an estimated funding position at 31 March 2014, we estimate that investment returns of over 40% over the year to 31 March 2015 will be required to provide this level of increases.



Outlook for 2015 Valuation - Conclusion

- Investment returns unlikely to be sufficient for Investment Reserve debt to be repaid in full.
- As a result, no new surplus will be transferred to Bonus Augmentation Fund.
- Surplus in Bonus Augmentation Fund will be insufficient to provide significant new bonuses.
- Pensions likely to stay level, or possibly very small increases (less than 1% per annum) in 2017, 2018 and 2019.



ISC Chairman's Presentation

Dick Barfield

Appointed Trustee and
Chairman of the
Investment Sub-committee





Investment Update

Investment Objectives

Strategic Asset Allocation

Investment Performance



Strategic Asset Allocation

	<i>Asset %</i>
<u>Fixed income</u>	14.2
Emerging market debt	7.2
Private debt	7.0
<u>Equities and property</u>	85.8
Developed markets	53.8
Emerging markets	7.0
Private equity	10.0
UK property and infrastructure	15.0
<u>Total</u>	100.0



Annualised Return on Assets

	<i>% p.a.</i>
1 year	6.76
3 years	7.48
5 years	12.50



Investment Performance

The table below shows the Scheme Returns versus the Benchmark Returns

	Scheme Return %	Benchmark %
2014	6.8	5.0
2013	12.9	12.5
2012	3.0	2.0
2011	10.8	9.4
2010	31.0	31.3



AGM Written Questions and Answers

Jon Heathfield
Scheme Secretary

Question 1

From Mr M Whitfield

As contributors to the BCSSS were we “Contracted Out” of the State second/Serps? Pension(s). This is now becoming an important question as the Government have been revealing some of the qualifying rules for the “single state pension/Single Tier Pension” which they announced earlier in the year. My understanding is that pensioners who were “contracted out” of the state scheme paid a reduced NI contribution rate and this will now mean that they will not get the full single tier state pension in 2016 when it comes into force for people reaching OAP retirement age.

I am unclear whether BCSSS contributors were “contracted out”. If so when did this apply to and from? For example I worked for British Coal between 1974 and 1995 - was I contracted out for the whole of this time or did contracting out only come about from a specific date? Or indeed was I not contracted out at all?

Assuming BCSSS is a contracted out scheme then a related question is whether the new announcements will effect pensioners who have taken the levelling option.

Question 2

from Mr M Frost

I would like the Scheme to address the possibility of a vote for Scottish Independence following the referendum on September 18th and to report on this to the meeting on the September 9th. Presumably, there are Scheme members who live abroad, so the Scheme will have some experience of how members' pensions are paid and how they are affected by, for example, exchange rates and different tax regimes.

In the event of a “no” vote, there could still be changes because the promise of further devolution includes the probability that income tax could be paid in both England and Scotland, so how would this be administered?

I fully understand that definitive answers cannot be given until after the referendum and when negotiations have been completed. However, I expect the Scheme to have considered the likely outcomes and to have investigated how the best interests of members may be served.

Question 3

from Mr JWW Morley

What happens at 2019 when I understand that our agreement for the scheme say we must pay back ALL monies owing to the government (our Guarantor). This will no doubt leave the scheme somewhat short on assets for investment for the future so no possible surplus or a new deficit after that date.

Therefore how will this affect our members' pensions and the scheme in general?



OPEN FORUM

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Looking Forward

- Challenging times still with us
- 2% increases in 2015 and 16
- Longer term outlook uncertain
- Working hard to repay the Investment Reserve Debt, before we can resume paying bonuses
- Thank you for your questions and for attending today



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