BCSSS

pensions news

For members of the British Coal
Staff Superannuation Scheme

Special Edition

February 2015

This edition of Pensions News is a Special Edition, devoted solely to letting you know about some positive changes to the benefits you will receive from the Scheme in the future. The Government Guarantee remains firmly in place, so there is no impact on the security of your benefits.

Read more about these important changes in the following pages.

BCSSS

Future Pension Increases

The letter from the Scheme's Chairman that came with this Pensions News summarised the four key positive points for members. We give more detail on each point below, and on page 7 we tell you of a number of ways in which you can get more information.

If these changes had not taken place, the most likely outcome would have been a long period with no increases to total pensions. This period was likely to be until 2021, but could well have been longer.

The key points that were outlined in the Chairman's letter are:

1. **New bonuses to be awarded in 2017, 2018 and 2019**
2. **Bonuses will stop reducing from 2020**
3. **Annual increases to pensions**
4. **Continued support from the Government Guarantee**

Read more about each of these points below and on the page opposite.

1. New bonuses in 2017, 2018 and 2019

Since privatisation, any surplus arising in the Scheme's Guaranteed Fund is split equally between members and Government, with the members' share being used to provide bonus pensions. As a result, the Trustees have been able to grant significant bonuses to members since 1994, in addition to members' Guaranteed Pensions.

In recent years, however, it has been more difficult for the Trustees to grant bonus pensions, because the financial position of the Scheme, in common with that of most pension schemes, has been much less healthy than in the past. The Government Guarantee does not apply to bonus pensions, which means that bonuses can be reduced and eventually lost.

Following the 2012 Actuarial Valuation, new bonuses were announced that saw increases of 2% of Guaranteed Pensions in each of January 2014, 2015 and 2016.

We are now able to confirm that bonuses of 2% of Guaranteed Pensions will also be payable in each of January 2017, 2018 and 2019. These will, however, be the last new bonuses to be awarded under the current structure.

A very small number of members do not qualify for these bonuses, primarily those members who have taken the majority of their benefits out of BCSSS but have left a small residual pension in the Scheme.

2. Bonuses will stop reducing from 2020

When the surplus sharing agreements were put into the Scheme at privatisation, a mechanism known as 'standstill' was also included in the Rules. This means that if, after an Actuarial Valuation, there is not enough money to support the continued payment of bonuses, any bonuses already in payment are converted to 'reducing' bonuses. As a result, the RPI increases applied to Guaranteed Pensions are cancelled out by corresponding reductions to existing bonuses. The overall effect of this standstill is that total pensions do not increase. All bonuses awarded prior to 2014 are currently in standstill, meaning that they fall each year by an amount equal to the increase in the Guaranteed Pension.

It has now been agreed that, although the bonuses awarded before 2014 will continue to be in standstill, those awarded between 2014 and 2019 cannot be reduced. Then from 2020 onwards, all the bonuses that each member is receiving at the end of 2019 will be consolidated into one total bonus. Although no new bonuses will be awarded thereafter, the existing bonus will no longer reduce - the standstill provisions will therefore be abolished from 2020.

3. Continued annual increases to pensions

Under the Scheme Rules, members' Guaranteed Pensions are increased in January each year, in line with the increase in RPI to the previous November. Those annual increases are unaffected and will continue to be applied each year.

Because of the announcement of the new 2% bonuses in 2017, 2018 and 2019, and the abolition of standstill from 2020, you can now look forward to annual* increases to your total pension.

Importantly, the level of increases to total pensions in future is now defined and will not depend on the future financial strength of the Scheme. Those increases are shown alongside:

In 2016, 2017, 2018 and 2019: total pensions will increase by an amount equal to 2% of the Guaranteed Pension (this is the same as the increases already received in 2014 and 2015).

From 2020 onwards: the Guaranteed Pension (excluding GMP) will increase each year with RPI and all bonuses will remain level from then onwards. For further information regarding GMPs, see Q7 on page 6.

4. Your pension continues to be supported by the Government Guarantee

The Government Guarantee was established at privatisation. Should the funding position of the Scheme require it, the Government is legally obliged to contribute to the Scheme, to ensure that future pensions can be paid in full. This obligation ensures that the Scheme will remain adequately funded, so there is no impact on the security of your benefits.

Other key points of the agreement

The Government's position

The Government has a financial interest of about £2.0bn in the Scheme, in the form of the Investment Reserve, which represents the current value of British Coal's share of the surplus in the Scheme at privatisation (the members' share of surplus was used to award benefit improvements prior to privatisation). Under the Rules of the Scheme, the Investment Reserve was to be repaid in full to the Government by 2019. We have now agreed to make a part payment to the Government of £500m this year, but the whole of the remainder of the Investment Reserve will remain in the Scheme until 2033 to protect its financial position.

The Government has to pay money into the Scheme if there is a deficit. We have restructured the timing and amounts of these payments in future, to reflect the wider changes being made to the Scheme. However, the Government continues to have an obligation to ensure that sufficient funds exist to meet future benefit payments.

Surplus sharing

As part of this agreement, the surplus sharing provisions will no longer apply. In return, the additional bonus pensions set out above will be awarded, and standstill will be abolished.

Overall impact of these changes

The changes summarised above are a positive outcome for BCSSS members, resulting in:

- higher bonuses than could have been expected in years 2017, 2018 and 2019
- total pensions that will increase* annually from 2020 onwards as a result of the abolition of standstill
- the ending of the surplus sharing arrangements which, due to the poor financial outlook, will have little practical impact on members

More detail on these changes, including a number of questions and answers and ways to find further information, can be found in the rest of this edition of Pensions News.

We show in the tables on the next page an example of how a member's pension has developed since privatisation, and how that pension is likely to increase in future.

**Except in circumstances where inflation is negative, when your pension will not be increased, but will not go down.*

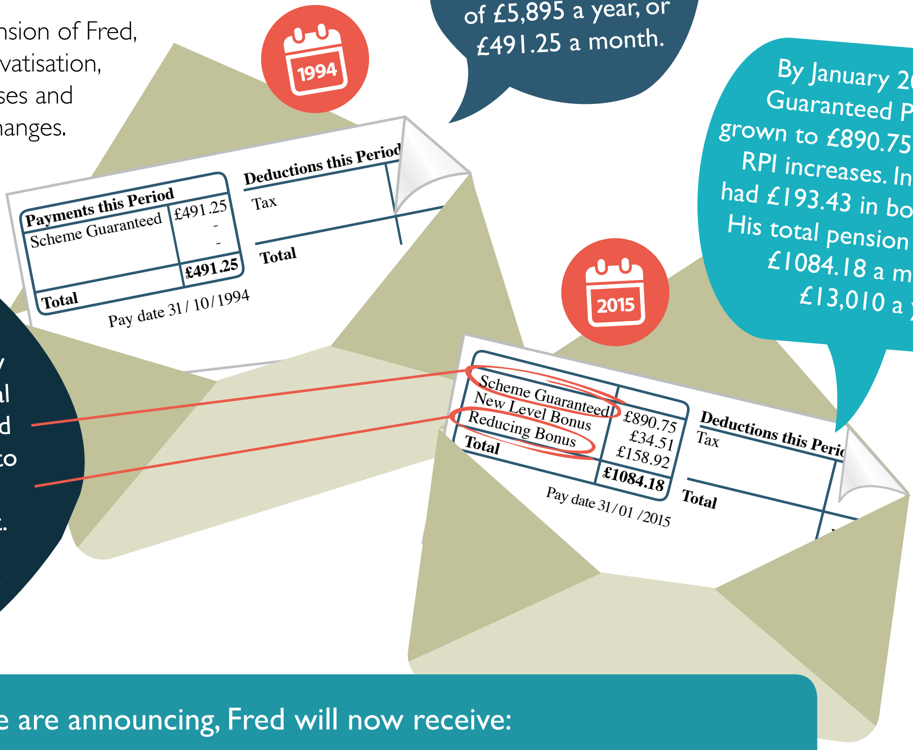
What will this mean in practice?

The diagram below shows how the pension of Fred, who was a pensioner at the time of privatisation, has grown through increases and bonuses and what will happen as a result of these changes.

In 1994, at privatisation, Fred had a Guaranteed Pension of £5,895 a year, or £491.25 a month.

By January 2015, Fred's Guaranteed Pension had grown to £890.75 a month from RPI increases. In addition he had £193.43 in bonus pensions. His total pension is therefore £1084.18 a month or £13,010 a year.

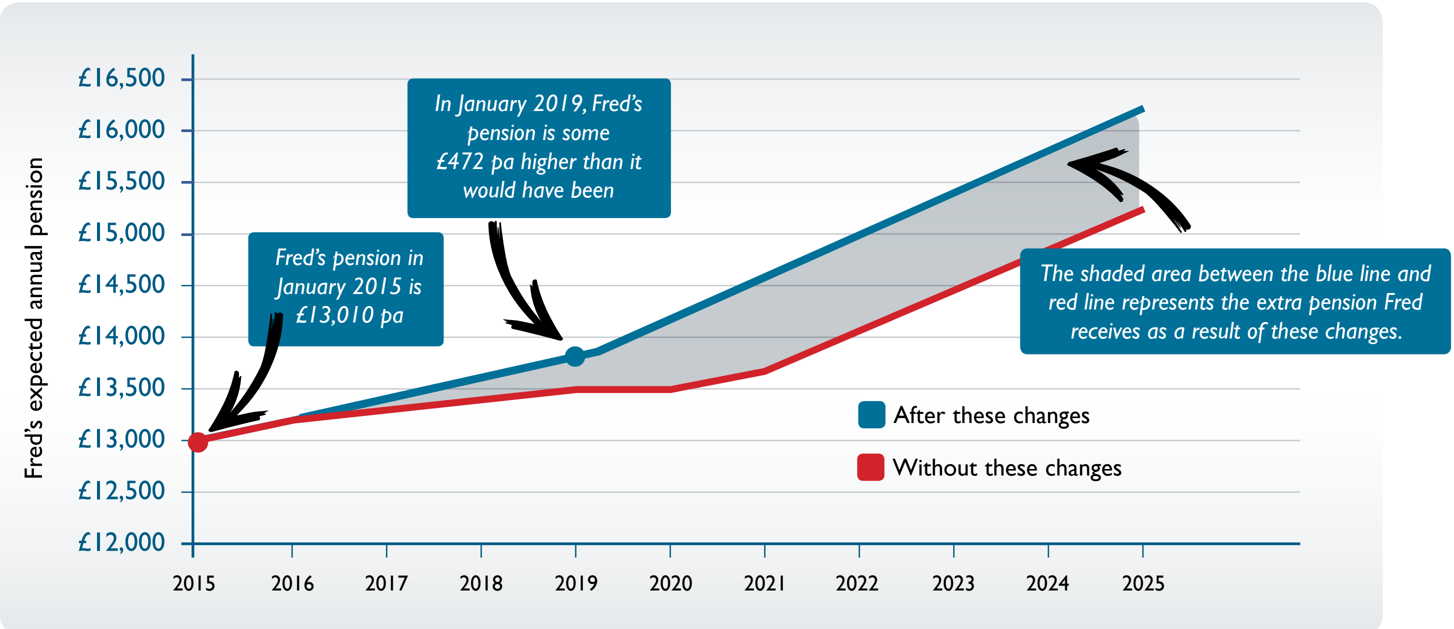
The financial position of the Scheme means that Fred would have been unlikely to receive any increases to his total pension, because as his Guaranteed Pension increases through its link to RPI, his 'reducing bonus' pension reduces by an equivalent amount. The only significant increase he can look forward to is a further 2% bonus in 2016.



As a result of the changes we are announcing, Fred will now receive:

- Further 2% bonuses in 2017, 2018 and 2019 (as well as the 2% increase in 2016)
- From 2020, his bonus pension will stop reducing and will be protected
- So his Guaranteed Pension will get increases every year linked to RPI, and from 2020 the increases will no longer be offset by a reduction to his bonus.

And the graph below shows how Fred's annual pension will increase in future (the blue line) compared to what would have been likely to happen if the changes had not been made (the red line)



Note: In preparing this comparison, we have taken Fred's annual pension in 2015 (his current pension of £13,010 a year is that of an average pensioner) and assumed that RPI runs at 3% pa

Questions and Answers

Your Questions Answered

The questions and answers below go into more detail to help you understand these changes. We've tried to put them in layman's terms, so where there are technical terms, we tell you where to find more information.

The history of the Scheme

Q1: How did the Scheme work before these changes?

A1: On privatisation in 1994, the Scheme was split into four 'sub-funds':

- ***The Guaranteed Fund,*** *which paid the pensions that members earned when contributing to the Scheme, including the benefit improvements awarded before privatisation. These pensions, including annual increases, are fully guaranteed.*
- ***The Bonus Augmentation Fund,*** *made up of the 50% members' share of surpluses after 1994. Bonuses were paid from this sub-fund: they were usually awarded as annual pensions, payable for life. However, they were not guaranteed and, if insufficient funds were available, they could be reduced (known as standstill – see Q3 below).*
- ***The Guarantor's Fund,*** *made up of the Government's 50% share of the surpluses arising after 1994. These were paid to the Government over a 10 year period.*
- ***The Investment Reserve,*** *made up of British Coal's share of surplus in 1994. This was due to be repaid to the Government by 2019. The Investment Reserve has acted as a buffer which protects members' bonuses and provides some protection for the Government from having to make new contributions.*

The Government Guarantee is made up of two parts:

- *Firstly the Guaranteed Pension, including annual increases to this pension, is guaranteed (see Guaranteed Fund, above)*
- *Secondly, even if bonuses are reduced through standstill, there is a guarantee that a member's total pension, including bonus pension, cannot fall.*

Q2: How have the amounts of bonuses been decided?

A2: Every three years, the Government Actuary assesses the finances of the Scheme. Previously, if the position was strong, equal amounts were transferred from the Guaranteed Fund to each of the Bonus Augmentation Fund and the Guarantor's Fund. The funds in the Bonus Augmentation Fund were used to award bonuses to members.

If the position was weak, there were two potential consequences:

(i) Money needed to be transferred from the Investment Reserve (and possibly also from the Bonus Augmentation Fund and the Guarantor's Fund) to make up the shortfall in the Guaranteed Fund (in extreme situations, the Government may have needed to inject further funds); and

(ii) Level bonuses were converted to reducing bonuses (standstill).

Q3: Why have my bonuses been reducing in recent years?

A3: The Rules included what are known as 'standstill' provisions, under which if there were not sufficient funds in the Bonus Augmentation Fund to support the continued payment of bonus pensions, level bonuses were converted to reducing bonuses. Over time, these reducing bonuses would have reduced to nil.

When bonuses are in standstill, they reduce by an amount which fully offsets the annual RPI increases to Guaranteed Pensions, meaning that total pensions remain level. In these circumstances, if no new bonuses had been awarded, total pensions would have remained level until those reducing bonuses had reduced to nil.

All bonuses awarded prior to 2014 are currently in standstill, which means that, in the absence of any new bonuses, total pensions would have remained level for a considerable period.

Q4: So why are the arrangements being changed?

A4: The Trustees concluded that the outlook for new bonuses in future was poor. As explained in Q3 above, if no significant new bonuses could be awarded, pensions from the Scheme would have remained almost level until the current reducing bonuses had reduced to nil. So, after 2016, members were faced with the likelihood of no significant increases to total pensions until at least 2021, and possibly for longer. When the effect of inflation is taken into account, members would have been worse off.

The Government was also concerned about the impact of the current arrangements on its financial obligations. The Rules specified in great detail the amounts that had to be paid into the Scheme in different circumstances. On some occasions, including after the 2012 Actuarial Valuation, this could have led to the Government being obliged to pay significant funds into the Scheme which were not required to meet the benefit obligations and which would not have been available to increase members' benefits.

So both the Trustees and the Government were concerned about the current situation and decided to investigate whether an alternative structure could be found that improved the position for both parties.

Q5: How was this allowed to happen?

A5: Most final salary pension schemes have been in a difficult financial position in recent years, partly because of the recent financial crisis and partly because people are living longer. BCSSS has been affected, in common with other schemes. Although the existence of the Government Guarantee ensures that BCSSS pensions will always be paid and cannot fall, the outlook for future increases was poor.

Amount of Pension

Q6: How will my pension change in future?

A6: Your Guaranteed Pension (excluding any GMP – see Q7 below) will continue to increase every year, in line with the annual increase in the Retail Prices Index (RPI).

In each of January 2016, 2017, 2018 and 2019, your reducing bonus will fall by the same amount as your Guaranteed Pension increases. If there had been no new bonuses in these years, therefore, your total Scheme pension would not have increased. However, in each of those years, a new level bonus of 2% of your Guaranteed Pension will now be awarded, meaning that your total pension will increase. This is the same as the position in 2014 and 2015.

No new bonuses will be awarded after 2019, but your existing bonuses will no longer be subject to standstill. So from 2020 onwards, the RPI increases to your Guaranteed Pension can no longer be offset by reductions in your bonus.

Q7: Why don't I get increases on all of my Guaranteed Pension?

A7: If your pension relates to employment with British Coal between 1978 and 1997, part of your pension is likely to be Guaranteed Minimum Pension (GMP). The GMP is that part of your pension resulting from British Coal being contracted out of SERPS (the State Earnings-related Pension Scheme).

The GMP is paid as part of your Scheme pension, but annual increases to GMP are paid by the State once you reach the qualifying age (usually 65 for men and 60 for women), along with your State Pension. For this reason, your GMP does not normally get increased by the Scheme.

For members aged 65 or over (men) and 60 (women), your annual pension increase letter (issued in January each year) will provide details of how much of your pension is GMP.

Q8: What happens if inflation goes negative?

A8: If RPI is negative or zero in any year, the Guaranteed Pension will not increase in that year, but it will not fall.

Q9: What happens to my pension if there is a surplus in future? Or a deficit?

A9: These changes mean that the amount of pension that you will receive in future will no longer depend on the financial position of the Scheme. The amounts of pension explained above are guaranteed, irrespective of the financial position.

Surplus sharing no longer applies, so no further bonuses can be awarded. However the Trustee view is that the benefit improvements provided as part of these changes exceed the likely level of future bonus pensions.

Q10: Would I have got a higher pension under the current structure?

A10: Had we retained the current structure, the first £2bn of Guaranteed Fund surpluses would have been used to repay the Investment Reserve debt. No surpluses would have been transferred to the Bonus Augmentation Fund to provide new bonuses until that debt had been repaid in full.

Given the size of the Investment Reserve debt, it is highly likely that the debt could not have been repaid in full for a considerable amount of time, and a real possibility that it would never have been repaid. The implication of this is that, in the near future, increases, if any, to total pensions would have been very small; this situation would almost certainly have continued until at least 2021, and possibly for much longer than this.

Although the abolition of surplus sharing may at first appear an unfavourable outcome for members, the low likelihood of significant new bonuses in future means that the Trustees believe these changes, which provide certainty of pension increases every year, are in members' best interests.

Security of my Benefits

Q11: Is my pension still safe?

A11: The Scheme has a guarantee from the UK Government which was enacted in law at the time of privatisation. It means that the Government has to stand behind the Scheme at all times; this Government Guarantee remains in place after these changes. The amended benefits, as set out above, will remain covered by that guarantee.

Q12: If there is insufficient money to provide new bonuses, why are we giving the Government £500m?

A12: Our projections are that the total assets of the Scheme, including the Government's interest in the Scheme, should be sufficient to meet all future benefit payments, even after the payment of £500m to the Government. Under the Rules, the Investment Reserve was due to be repaid in full to the Government by 2019. As part of these changes, we have agreed that the majority of the Investment Reserve will now remain in the Scheme until 2033, but that a part payment of £500m will be paid now.

We have also agreed that the remainder of the Investment Reserve will now be indexed in line with increases in the Consumer Prices Index (CPI) until it is repaid. Previously, it increased in line with the investment returns achieved by the Scheme (historically well in excess of CPI), in line with the Scheme Rules. Although CPI will be used for the indexation of the Investment Reserve, increases to members' benefits will continue to be linked to RPI.

Q13: What happens if there is a deficit in future?

A13: Your pension remains secure, because of the Government Guarantee.

Q14: And what if there's a surplus?

A14: As explained in Q9 above, surplus sharing no longer applies, so no further bonuses can be earned. But your pension continues to be covered by the Government Guarantee.

Q15: The Government has already taken over £2bn out of the Scheme since privatisation. Why should they get any more?

A15: The money paid to the Government from the Scheme since privatisation relates primarily to its share of the significant surpluses generated since 1994. Members have received 50% of these surpluses in the form of bonus pensions.

The Investment Reserve represents the Government's 50% share of surplus at privatisation, which remained in the Scheme. The members' share was used to provide benefit improvements at that time.

How can I find out more about these changes?

We hope that this special edition of Pensions News will have answered many of your questions, but there are a number of other ways you can get more detailed information:

Attend a regional information session:

We have arranged for a number of regional sessions (see details on the back cover).

At each session you'll be able to:

- Hear a brief presentation about these changes
- Ask any general questions about the changes, and
- Check how they affect your own pension

These sessions have been booked on the dates shown on the back cover. If you want to attend one, please call **0114 253 6450** or email bcsss.enquiries@coal-pension.org.uk to book a place, so that we know how many people to expect.

Read more detail on the scheme website

Although we have included a significant amount of detail in this newsletter, including some questions and answers, we have also added further information on the Scheme website (www.bcsss-pension.org.uk) including some more detailed questions and answers. These questions and answers will be updated as we receive any further questions, either from your letters or calls or at the information sessions.

Copies of all of these documents are also available on request to the Scheme Secretary; contact details can be found below:

Helpline

You can call a helpline **0845 600 1699** (local rate number) and can talk to a member of the administration team between (8.30am and 5.30pm) Monday to Friday. Outside these hours you can leave a message and someone will call you back.

From mobile phones or outside UK, you should ring **01442 205267**.

Write or email

You can also email us at bcsss.enquiries@coal-pension.org.uk, or you can send a letter to:

BCSSS Pensions News Helpline
Coal Pension Trustees Services Limited
Ventana House
Concourse Way
Sheaf Street
Sheffield
S1 2BJ

Your written queries will normally be responded to within 10 working days of receipt.

The regional information sessions will be held as follows:

Location	Date and time	Venue details	How to get there**
Doncaster	Wednesday **4th March** 2.00 - 3.30pm	Holiday Inn, High Rd, Warmsworth Doncaster, DN4 9UX	Hotel is 200 yards from Junction 36 of A1(M).
Newcastle upon Tyne	Thursday **5th March** 2.00 - 3.30pm	Thistle Hotel, Neville St, Newcastle upon Tyne, NE1 5DF	Hotel is opposite Newcastle Central station.
Coalville	Friday **6th March** 2.00 - 3.30pm	Heartwood Conference Centre, Coalville Business Park, LE67 3NR	Venue is located between M42 and M1.
Mansfield	Monday **9th March** 2.00 - 3.30pm	The Towers Conference Centre, Botany Avenue, Mansfield, NG18 5NG	Venue is located near to A38.
Stoke	Tuesday **10th March** 10.00 - 11.30am	Holiday Inn Stoke on Trent, Clayton Road, Newcastle under Lyme, ST5 4DL	Hotel is just off Junction 15 of M6.
Warrington	Tuesday **10th March** 2.00 - 3.30pm	Daresbury Park Hotel, Warrington, Cheshire, WA4 4BB	From the M56 heading towards Chester, come off at junction 11 and take the 'Daresbury Park' exit off the motorway roundabout, and the Hotel is situated approximately 400m on the right.
Edinburgh	Wednesday **11th March** 2.00 - 3.30pm	The Balmoral Hotel, 1 Princes St, Edinburgh, EH2 2EQ	Hotel is opposite Edinburgh Waverley train station.
Leeds	Thursday **12th March** 2.00 - 3.30pm	Park Plaza Leeds, Boar Lane, City Square, Leeds, LS1 5NS	Park Plaza Leeds is situated in City Square opposite Leeds Railway Station.
Cardiff	Friday **13th March** 2.00 - 3.30pm	The Angel Hotel, Cardiff City Centre, Castle Street, Cardiff, CF10 1SZ	Hotel is in the City Centre, next to Cardiff Castle and 150 metres from the Millennium Stadium.
London	Monday **16th March** 2.00 - 3.30pm	Pullman Hotel, St Pancras, 100-110 Euston Road London, NW1 2AJ	Hotel is 5 minutes' walk from both Euston and Kings Cross St Pancras stations.

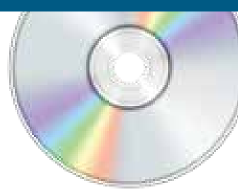
Please note: at the end of each meeting there will be time for you to raise in private any questions about how the changes impact on your own personal position.

You can book to attend any session. Tea and coffee will be provided at all the sessions.

More detail on how to get to all these venues (including a map) can be found on the website, **www.bcsss-pension.org.uk, or call **0114 253 6450** and we'll put this in the post to you.

Have we got the right address for you?

It is important that we know how to contact you. Remember to notify the administration office if you move house. If you know of any former colleagues who have moved recently, why not remind them to give the administration office their new address.



BCSSS Pensions News is also available on CD, please contact the Scheme Secretary, at the address at the foot of page 7, if you wish to receive a copy on CD.