BCSSS pensions news

For members of the British Coal Staff Superannuation Scheme

inside this issue:

WINTER 2006/07

2006 Actuarial Valuation

Work on the 2006 actuarial valuation is now nearing completion and the results have been presented to the Committee. These show the funding position of the Scheme to be strong and substantial surpluses will be declared in both the Guaranteed Fund and Bonus Augmentation Fund.

The results:

Sub-fund	Value of Assets	Liabilities	Surplus
Guaranteed Fund	£8,207m	£7,349m	£858m
Bonus Augmentation Fund	£1,208m	£767m	£441m
Guarantor's Fund	£464m	£249m	£215m

You may remember the 2003 valuation showed the Scheme to be in deficit and that the shortfall in the Guaranteed Fund was met by a transfer from the Investment Reserve. Under the Rules of the Scheme, the first call on the 2006 surplus must be to restore the Investment Reserve so that it is in the position it would have been in had the 2003 transfer not been made. At today's values, we will need to use the first £364m of the surplus in the Guaranteed Fund to restore the Investment Reserve. The Investment Reserve is made up of British Coal's share of pre-privatisation surpluses and under the Scheme Rules, it is due to be paid to the Government by 2019, 25 years after privatisation. We are making representations to the Government that it should continue to be available to the Scheme for longer, but we must expect to see the Actuary beginning to recommend substantial payments to the Government in the next decade or so.

After rebuilding the Investment Reserve, the remaining surplus is divided equally between Scheme members and the Guarantor under the surplus sharing arrangements. This means that £247m will be transferred to each of the Guarantor's Fund and the Bonus Augmentation Fund. In addition, the Bonus Augmentation Fund itself has a surplus of £441m, so in total there is £688m available to improve benefits for members.

The Committee's proposals for benefit improvements have been agreed by the Minister and are as follows:

- The effect of 'Standstill' is deferred for a further three years ensuring that replacement level bonuses will continue to be awarded up to and including 2010;
- An additional level bonus of 5.5% will be awarded to all pensions in payment;
- An additional level bonus of 10.5% will be awarded to deferred pensioners;
- For deferred pensioners who left service before 21 June 1990 the new bonus will also apply to the lump sum payable on retirement;
- An amount will be allocated to the Discretionary Fund to allow the Committee to continue to award benefits on a discretionary basis in cases of hardship where benefits are not normally payable under Scheme Rules.

The Committee has been mindful that since 1996 pensioners have received over 10 years of bonus payments. However, members who have not yet started to draw their pensions (deferred pensioners) have seen no cash benefit from their bonuses. Standstill, even though its effect has been put off by the award of replacement bonuses, also had a bigger effect reducing the value of deferred pensioners' benefits more than it did for pensioners. The Committee, therefore, decided to award a higher bonus to deferred pensioners to ensure that at least at today's values, we correct that position.

For both pensioners and deferred pensioners, the additional bonus will be awarded as at 1 April 2007. If you are a deferred pensioner considering retirement and you have recently received a letter setting out your benefit options, you should note that you may wish to delay taking your benefits until after 1 April 2007 to take advantage of the improved terms. In particular the new bonus awarded will be dependent upon your status as at 1 April 2007, so to qualify as a deferred pensioner your benefits must not come into payment until after that date.

The Scheme Administration Office is working to ensure the new bonus is paid with the April 2007 payroll and we will write to each individual pensioner in due course with details of the increase to individual benefits. Deferred pensioners are due to be issued with a benefit statement in May 2007, this may be delayed to include details of the new bonus.

Example of how pension and bonus will operate after 2006 valuation for a pensioner awarded the 5.5% bonus in April 2007. For ease of reference all figures have been rounded to the nearest pound.

	2006	2007	2008	2009
Guaranteed pension	£7,000	£7,210	£7,426	£7,649
Annual RPI increase (assuming RPI at 3%)	£210	£216	£223	£229
New Guaranteed pension rate	£7,210	£7,426	£7,649	£7,878
Reducing bonus	£1,336	£1,120	£897	£668
Level (replacement) bonus	£414	£630	£853	£1,082
April 2007 new bonus	-	£408	£408	£408
Total level bonus	£414	£1,038	£1,261	£1,490
Total bonus	£1,750	£2,158	£2,158	£2,158
Total pension	**£8,960**	**£9,584**	**£9,807**	**£10,036**

There are now two types of bonus:

- Reducing bonus: Those bonuses awarded prior to 2004, these reduce each year by an amount equivalent to the increase in Guaranteed pension.
- Level bonus: Those bonuses awarded as replacement bonuses in 2005, 2006 and 2007 (and those that will be awarded in 2008, 2009 and 2010) and the new bonus to be awarded in April 2007 of 5.5% of Guaranteed pension for pensioners and 10.5% of Guaranteed benefits for deferred pensioners. Level bonuses would become reducing bonuses in the event of a future valuation deficit.

Annual General Meeting

The 2006 Annual General Meeting (AGM) was held in Newcastle-upon-Tyne on Thursday 28 September. The AGM was attended by almost 100 Scheme members who joined the Committee of Management, advisers, Scheme officials and guests to hear presentations by the Chairman, Scheme Secretary and Chief Executive of Coal Pension Trustees Services (CPT).

This was the last presentation to the AGM by Sheila Gleig as Chairman; her term of office as both a member of the Committee of Management and Chairman comes to an end in April of this year, prior to the next AGM. It was also David Morgan's last presentation. He will be retiring in the summer as Chief Executive of CPT – the company that acts as the executive arm of the trustees. His replacement as Chief Executive of CPT was announced as Geoff Mellor, who is currently the Pensions Director at Whitbread. He will be joining CPT in the spring.

Copies of the presentations made to the AGM and the Minutes of the meeting can be requested from the Scheme Secretary. Contact details can be found on the back page of Pensions News.

Details of the 2007 AGM will be set out in the next edition of BCSSS Pensions News due out in the summer.

Message from the Chairman

"I have enjoyed working with the BCSSS and am pleased to be leaving it in a sound position. I am confident that the Scheme is in capable hands under the new Chairman, Philip Read, but I will be sorry to go. I have met so many of you over the years at AGMs and you deserve the best retirement available. Best wishes to you all".

Sheila Gleig CBE

Pensioner Representative Elections 2006

In the summer of 2006 we had elections in two of the Scheme's constituencies and the serving trustees, Bleddyn Hancock and Allen Clark stood for re-election.

In the North West England, West Midlands, Wales and Northern Ireland constituency there was only one candidate – the current Pensioner Representative Bleddyn Hancock. Under the terms of the election rules contained in the Memorandum and Articles of Association of the trustee company, Mr Hancock was declared to be re-elected and will serve for a two year term from 1 October 2006. In the last edition of Pensions News we explained the changes that we had introduced to the election arrangements to achieve terms of office of four years and an annual election in each constituency in turn. The elections in summer 2006 were the first under the transitional arrangements and under these new arrangements Bleddyn's period of office will exceptionally be for two years.

In the Scotland and North East England constituency Allen Clark was re-elected obtaining over 78% of the votes cast, Allen's term of office is three years from 1 October 2006. Bob Chappell and Stuart Jukes were elected in 2005 so their terms will end in March 2008 and elections will be held in the spring of that year in their constituencies, Bob for East Midlands and Southern England and overseas and Stuart for Yorkshire and North Lincolnshire.

This is the first time we have held elections where a constituency has been uncontested. The number of candidates in Scotland and North East England was also the lowest that we have ever had; only two members stood for election. The job of a trustee is an important one. Collectively, the trustees are responsible for ensuring that systems are in place to pay benefits accurately and on time and to invest the assets in line with agreed objectives. It is healthy if we have a good field of candidates at every election but this is most crucial when the sitting candidate decides to retire. We are very interested to know what members think we might do to encourage members to stand for these posts. If you have any ideas, please contact Jon Heathfield, the Assistant Scheme Secretary at the same address as the Scheme Secretary on the back page.

Results in detail – Scotland and North East England constituency

- *Two candidates stood for election*
- *7,298 members voted, 47% of the 15,433 who were eligible to vote*
- *Allen Clark, the successful candidate received 5,709 of the votes cast.*

Our congratulations go to the successful candidates and our thanks to all those who got involved.

2007 RPI Pensions Increase

The Rules of the Scheme provide for the excess of the guaranteed pensions over the GMP* to increase in January each year in line with the rise in the Retail Prices Index (RPI) over the 12 months to the previous November. RPI means the all-items RPI, not one of the RPI derivatives such as RPIX or the new European version of the index known as the Consumer Prices Index (CPI).

In his November 2003 pre-budget statement, the Chancellor confirmed that the UK inflation target is now based on the CPI, previously know as the Harmonised Index of Consumer Prices. This is a standard approach to measuring inflation in European Union member states which enables comparisons of inflation to be made on a like for like basis. The principal difference between the CPI and the RPI is that the CPI excludes a number of items that are included in the RPI, mainly related to housing costs.

The RPI increase is published by the Office of National Statistics and this year the increase to November has been published as 3.9%. All pensioners will receive notification of the new rates of pension with their January pensions payslip.

* Members who contributed to the Scheme after April 1978 were contracted-out of the State Earnings Related Pension Scheme (SERPS). The BCSSS has to pay a pension at least as good as the pension that would have been earned in SERPS. This equivalent amount of pension is called the Guaranteed Minimum Pension (GMP) and it forms part of the BCSSS pension. For GMP arising from service between April 1978 and April 1988 the State pays the RPI linked increase following the pensioner's attaining State Pension Age. For GMP arising from service after April 1988 the BCSSS pays PRI increases up to 3% a year. Those increases are paid in April each year.

The arrangements for replacement bonus pensions outlined in previous editions of Pensions News took effect again in January 2007 when we added this year's RPI increase to your guaranteed pension. ***These arrangements ensure that, despite the deficits revealed by the 2003 actuarial valuation, you will continue to benefit from RPI increases on your guaranteed pension until 2010***. In January 2007 your reducing bonus pension reduced as a result of 'standstill', but the award of this year's replacement bonus pension avoided any reduction in the total amount of bonus pension being paid. This protection will now continue in January 2008, 2009 and 2010.

2007 RPI Pensions Increase continued

In Summary

Guaranteed pension: this is the part of your pension fully covered by the Government Guarantee. It increases in January each year in line with the increase in the Retail Prices Index (RPI) for the 12 months to the previous November. The Government Guarantee means you can be certain that these increases will be paid. The increase added in January 2007 is 3.9%.

Reducing bonus: the bonus pensions awarded in 1996, 1998 and 2001 have been consolidated and converted on standstill to a 'reducing bonus' pension. This will reduce each year by the amount of the RPI increase added to your guaranteed pension. These annual reductions will continue until this bonus pension is reduced to zero.

2007 bonus: the new bonus, 5.5% for pensioners and 10.5% for deferreds, to be awarded in the spring of 2007, effective from 1 April.

Level bonus: this is the sum of the replacement bonus pension awarded in January 2005, 2006 and 2007, equal to the amount by which the reducing bonus pension has been reduced in each of those years. Your total level bonus will be increased in the spring by this year's additional bonus from surplus. It will also increase in January 2008, 2009 and 2010 with the replacement bonuses to be awarded in those years. Level bonuses would become reducing bonuses in the event of a future valuation deficit.

Deferred pensioners who left service before 21 June 1990

Deferred pensioners who left employment before 21 June 1990 are entitled to a retirement lump sum separate from their pension. This lump sum has both a guaranteed and a bonus element. Following the 2003 valuation of the Scheme, the reducing bonus lump sum also reduces whenever the guaranteed lump sum increases, and replacement bonus lump sums were awarded for a three year period. As a result of the surplus revealed in the 2006 valuation, replacement bonus lump sums will be awarded for a further three years until 2010/11. Taken together, this means that the guaranteed lump sum increases with RPI over time and the total of reducing lump sum bonus and of replacement bonuses remains at a level amount – making sure that the total lump sum increases each year at least until 2010/11.

Website security

Over recent months there has been increased press coverage of cases where fraudsters have used e-mail to contact individuals seeking personal data.

In such cases the criminals assume the identity of a legitimate organisation or website and use e-mail to get consumers to share their user name, passwords and personal financial information for the purpose of using it to commit fraud. This is also referred to as 'identity theft'.

Please note that the BCSSS will never send unsolicited e-mail to members to request or confirm personal details. The Scheme does, and will continue to, answer e-mail enquiries, but any personal information will only be issued by letter to your home address.

If you receive an e-mail about your BCSSS pension which is unsolicited, we strongly advise you not to answer it. You can, of course, contact the administration office to check if you are concerned.

Summary of the Scheme's accounts for the year to 31 March 2006

At the Scheme year-end, 31 March 2006, the Fund stood at just under £11.9 billion. This was almost £1.8 billion more than at the last Scheme year-end.

Income

The Scheme's main source of income is the return on its investments. In the year to March 2006 this amounted to £206 million.

£1 million was paid to the Scheme to reinstate the benefits of former members who had taken transfers to personal pension plans as a result of bad advice. Reinstatements are only accepted if the full actuarially assessed cost of reinstating the benefits is met.

Total income for the year, therefore, amounted to £207 million.

Expenditure

Expenditure on benefits amounted to £626 million – at the year-end pensions were being paid to 65,789 members and dependants. £123 million was paid to the Guarantor, made up of £112 million from the Guarantor's Fund and £11 million from the Investment Reserve. The running costs of the Scheme for the year were £23 million.

At £19 million, investment management expenses represent the bulk of the Scheme's running costs.

The total expenditure was, therefore, £772 million and this exceeded income by £565 million. The shortfall was met by the sale of assets. The need to sell assets is to be expected in a Scheme as mature as BCSSS, and is fully anticipated by the Actuary when conducting the Scheme valuations.

Change in the value of the Fund

Over the year the market value of the Scheme's assets increased by £2,360 million reflecting the upturn in world stock markets. As a result the value of the Fund increased by £1,795 million (£2,360 million less the £565 million shortfall of income compared to expenditure) bringing the value of the Scheme's assets at 31 March 2006 to £11.897 billion.

Membership details

	As at 31 March 2006	As at 31 March 2005
Contributors	0	0
Deferred pensioners	10,912	11,710
Pensions in payment		
Former contributors	46,381	47,131
Widows/widowers	19,136	19,436
Children	272	283

Financial statement for year ended 31 March 2006

The Consolidated Fund Account

	2006 £ million	2005 £ million
Income		
Income from investments	**206**	224
Transfers (reinstatements)	**1**	4
Employer's contributions	**–**	–
Total Income	**207**	228
Expenditure		
Pensions and lump sums	**(626)**	(624)
Running costs:		
Investment management	**(19)**	(21)
Other administration costs	**(4)**	(4)
Payments to Guarantor	**(123)**	(164)
Total Expenditure	**(772)**	(813)
Change in market value	**2,360**	1,040
Net Increase/Decrease in Fund during year	**1,795**	455
Net assets at 31 March 2005/2004	**10,102**	9,647
Net assets at 31 March 2006/2005	**11,897**	10,102

Value of sub-funds

The Fund is invested as a whole but, for accounting purposes, it is divided into four sub-funds reflecting the operation of the Guarantee arrangements set out in the Scheme Rules.

Market value of sub-funds at 31 March 2006	£ million
Guaranteed Fund	8,911
Bonus Augmentation Fund	1,312
Investment Reserve	1,170
Guarantor's Fund	504
Total assets	11,897

Total Fund movement over the last 5 years (measured at Scheme year end)
2002 - £11,128m
2003 - £8,328m
2004 - £9,647m
2005 - £10,102m
2006 - £11,897m

Investment strategy

The normal pattern of our investment work is a three yearly cycle of reviews following on from the three yearly actuarial valuations. The latest actuarial valuation is at 31 March 2006 and results are expected to be disclosed in early 2007. The next investment review has already started.

The changes in investment strategy over the last three years have introduced the concept of an absolute return portfolio. This is a portfolio of investments which are benchmarked against cash or inflation rather than a marketable security benchmark like the FTSE All share index. The core of this portfolio was our private equity investments but we have now established a target allocation rising from the private equity 5% to 15% at the Scheme year-end and 20% by mid 2006. The increased allocations use different strategies bringing welcome diversification to the Fund.

The allocations to fixed interest and index linked gilts were each increased by 0.5% to 8%. In addition, the Trustees decided to build a cash buffer of 4% of assets which is being built up over three years; this had an allocation of 1.2% at the year-end.

These changes when fully implemented will result in the equity allocation benchmarked to market indices reducing from 70% to 50%, with a 58% allocation at the Scheme year-end. Within the index benchmarked equity allocation, the UK proportion will reduce from 45% to 30% by 2008. The chart below shows the current strategic asset allocation in more detail.

The new strategy is designed to produce a similar level of expected investment return but less volatility than the previous strategy and thus improving the likelihood of meeting the investment objectives in any period. In particular, the Scheme's assets should be less sensitive to equity markets with more of the return generated by manager skill.

Strategic asset allocation as at 31 March 2006

Equities	
• UK equities	25.3%
• United States	14.3%
• Continental Europe	8.8%
• Japan	4.2%
• Pacific (ex-Japan)	2.4%
• Emerging markets	2.8%
Property	10.0%
Fixed interest and cash	9.2%
Index-linked	8.0%
Absolute Return	15.0%
Total	**100.0%**

Investment managers

We are now three years into the new manager structure that was designed to manage the risks in such a way that we expect higher investment returns than was likely under the previous structure, after meeting the costs of the managers. The objective with the new structure was diversification, and a diverse portfolio of this nature will be more insulated from poor performance of one stock market or asset type than a more focused portfolio. This approach allows us to reduce risks whilst maintaining investment return expectations. It is still very early to draw too many conclusions about the managers' skills, but we can start to reflect on the often difficult, initial stages of the mandates. We have continued the diversification with the increased emphasis on absolute return strategies.

The table below shows the investment manager structure as at March 2006.

Passive 0% tracking error	**Core** 1-2% tracking error	**Satellite** 5-10% tracking error	**Absolute return**
BGI Equities: 18.7% Bonds: 8.0%	**GSAMI Quant** Global equities: 13%	**Schroders** UK small cap: 4%	**Various managers** 15%
Insight Cash: 1.1%	**BGI Active** Global equities: 7.4%	**AllianceBernstein** Global equities: 6%	
	GSAMI Bonds Bonds: 8.0%	**Nordea** Global equities: 6%	
	LaSalle Property: 10%	**First State** Emerging equities: 2.8%	

The 'tracking error' mentioned at the top of the table is a measure of the variability of the return around the managers' benchmarks, and gives us a sense of the risk of the different sections of the portfolio.

Passive: The passive investments (in the blue section) are the lowest relative risk part of the Fund. They are managed by Barclays Global Investors (BGI), one of the largest asset managers world-wide. The BGI investments have been designed to replicate the returns of investing in various global stock markets, like the FTSE share index. There should only be very small variations between the actual returns and the index returns – in other words, virtually no tracking error.

Some time ago, we closed a mandate we used to have with Goldman Sachs Asset Management International (GSAMI) for fundamental equity investment. These assets have now been allocated to the Absolute Return portfolio.

Insight has managed cash for the Scheme for some time. They collect up any cash held by the other managers and put it to work in the short-term money markets. The existence of the cash buffer means that Insight now manages a larger portfolio for us.

Core: The low-risk core mandates (in the green section) are managed by GSAMI, BGI and LaSalle Investment Management (LaSalle). During the year we have increased the allocation to GSAMI bonds. We have asked GSAMI to aim for a higher return target.

Satellite: The satellite managers (in the yellow column) hold nearly 20% of the Scheme's assets. These mandates have the highest risk and performance targets, in the Fund. The managers of these mandates are: Schroders, Nordea, First State and AllianceBernstein. The strategic review did not recommend any changes to this group of investment managers and they have all performed broadly in line with expectations.

Absolute Return: The final layer comprises absolute return assets (in the orange column). These are assets whose performance is measured relative to cash or inflation rather than a stock market. They include private equity investments managed by a number of managers and equity assets. The portfolio is slightly more diversified than last year – a diverse portfolio of this nature will be more insulated from poor performance than a more focussed portfolio. This approach allows us to reduce risks whilst maintaining return expectations.

Investment performance

The trustees set an out-performance target for each manager to beat the benchmark return derived from the indices for the market in which the manager invests. These specific out-performance targets are linked to risk controls which are intended to cap the level of risk managers take in seeking to achieve their targets. The out-performance targets set for each manager reflect the nature of their mandates.

The average annual investment returns for the Fund as a whole to 31 March 2006 over one, three and five years all exceeded their benchmark targets, as can be seen in the table below.

	Scheme	Benchmark
1 year	26.3%	25.5%
3 years	21.8%	21.1%
5 years	8.3%	7.0%

The Committee is satisfied that the investment strategy is intended to generate surplus in the long term, but short-term returns will be variable.

Pension paydays for 2007

Pensions will be paid on the following days in 2007:

31 January	30 April	31 July	31 October
28 February	31 May	31 August	30 November
30 March	29 June	28 September	21 December

Civil Partners

The Civil Partnership Act 2004 came into force on 5 December 2005. The Act enables same-sex couples in the UK to enter into a legally recognised relationship on the same basis as marriage, ensuring registered civil partners have rights and responsibilities similar to spouses in various areas, including rights to pension scheme benefits for service from 5 December 2005.

The Committee of Management agreed that benefits for surviving civil partners should be based on the same basis as for BCSSS widows and widowers i.e. based on service for which family benefit contributions have been paid, and the necessary Rule amendment was made by the Guarantor.

State benefits update

Information about State benefits is included where we think this may be of interest to members. If you would like further information please contact the relevant Government office. BCSSS staff are not able to provide any advice or further information about State benefits.

Winter fuel payments

The winter fuel payment is a tax-free annual payment to help people aged 60 years or over with their winter heating bills.

Individuals aged between 60 and 79 years are entitled to receive a winter fuel payment of either £100 or £200, depending on their circumstances.

If you are aged over 80 years, you are entitled to the same winter fuel payment, either with an additional £50 or £100, depending on your circumstances.

Automatic payments for winter fuel payments were issued on a staggered basis from November 2006.

If you would like any further information about these payments you can call the helpline number: 0845 9151515 (0845 6015613 for textphone users).

State Pension Increase

The amount of State Basic pension you receive will depend on your own (or your late spouse or civil partner's) National Insurance contributions and your own individual circumstances. The amount of pension you receive is increased each April by the rise in the Retail Prices Index (RPI) to the previous September.

The increase in the RPI for September 2006 has been published as 3.6%. This will mean that the single person's State Basic pension will increase to £87.30 per week from April 2007. The increase will be the largest since 2001. The increased rate for couples is expected to be £139.60 per week.

In addition, the guaranteed minimum income provided through the Guaranteed Credit will increase to £119.05 per week for single pensioners and £181.70 per week for couples from April 2007.

Get in touch – we're here to help

What is your question about?

Payment of your pension or entitlement to benefits

Trustee policy on an issue or the level of service provided by the Scheme

A matter for the attention of the Scheme Chairman or an individual trustee

The deduction of tax from your pension

Please note that any enquiries about tax codes should be directed to HMRC and not to the Scheme's administration office

Telephone

Surname A-J

0845 609 0012

(UK local no.)

(+44) 114 203 4613

(Abroad standard charge no.)

Surname K-Z

0845 609 0013

(UK local no.)

(+44) 114 203 4629

(Abroad standard charge no.)

OR

Write

The Administration Office
BCSSS
4th Floor
The Fountain Precinct
Balm Green, Sheffield S1 2JA

OR

E-mail

bcsss.enquiries@aonconsulting.co.uk

Remember to quote your National Insurance/Scheme Number

Write

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

OR

Telephone

0114 285 4602

OR

E-mail

bcsss.enquiries@coal-pension.org.uk

Write

HM Revenue and Customs Enquiry Centre
Merseyside Tax District
Regian House
James Street
Liverpool L75 1AA

OR

Telephone

0845 302 1459

Remember to quote your National Insurance Number and Reference 428/NCBP

BCSSS Pensions News is also available on audio cassette, please contact the Scheme Secretary if you wish to receive a copy on tape.

For more information about the Scheme visit the Scheme website at: **www.bcsss-pension.org.uk**

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.