

# News Brief

FOR MEMBERS OF THE BRITISH STEEL PENSION SCHEME (BSPS)



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# Message from your Trustee Chairman



**I hope that you and your family are all well and keeping safe during these uncertain times. I would like to welcome you to this News Brief, which includes a number of articles I hope will be of interest to you.**

Although I have made this point previously, I think it is worth saying again. Since the Covid-19 outbreak, markets have been volatile and are likely to remain uncertain for the foreseeable future. The BSPS is a defined benefit pension scheme, which means your benefit entitlement is not directly affected by market movements. Our assets continue to perform well, and our investment strategy gives us a high level of confidence that we will have the cash needed to pay benefits as they fall due.

The Trustee has now received the Scheme Actuary's annual funding update as at 31 March 2020, the results of which are summarised in this *News Brief*. Since the update as at 31 March 2019, the Scheme's funding position has improved slightly.

As a result of Covid-19, it was not possible to hold our Annual Consultative Meeting this year. Included in this *News Brief* is a Questions & Answers section that looks at some of the topical issues which would normally have been covered at that meeting.

In this edition, we're pleased to offer members the opportunity to put themselves forward to serve as a Member Nominated Trustee director. We have six Trustee directors on the Trustee board, two of whom are member nominated. If you're interested in putting yourself forward, you'll find information on page 6.

Our top priority remains paying pensions on time. During the Covid-19 restrictions we have continued to operate as normal a service as possible so that members do not experience

any disruption. Whilst overall working hours are unchanged, there is now a mixture of office and home-based activity. The Glasgow Office remains open daily with reduced staffing levels to carry out essential functions such as receiving members' mail. At the present time there is no practical access to the Investment Office in Central London, but we have facilities in Watford that staff have been able to access as required. This has helped to ensure as normal a service as possible in the circumstances. Please check the Scheme website for the latest service updates.

Denise Robertson Lolic retired from our administration team this year after 42 years working for the Trustee. We thank Denise for her long service and send her our best wishes for a long and happy retirement.

Best wishes

A handwritten signature in dark ink, which appears to read "Keith Greenfield". The signature is written in a cursive, slightly slanted style.

Keith Greenfield  
Chairman of B.S. Pension Fund Trustee Limited

## Mr Geoff Deeley

The Trustee was saddened to learn of the recent death of Mr Geoff Deeley. Geoff was the first Pensioner Nominated Trustee director of the Old British Steel Pension Scheme, serving from 1997 through to 2012.

Geoff was a real enthusiast as a Trustee director and undertook the role extremely seriously, displaying vigour and determination. He was always passionate about the Scheme and all its members and was very proud of its success.

We pass on our condolences to Geoff's family.

# Summary of 2020 Annual Report & Accounts

The Scheme provides benefits for former members of the Old British Steel Pension Scheme who elected to transfer into the Scheme from 28 March 2018 under the *Time to Choose* exercise. Here's a summary of the Scheme's Annual Report for 2019/20.

	For the year to 31 March 2020
	£'000
<b>Income</b>	
Return on investments	564,152
<b>Total</b>	<b>564,152</b>
<b>Expenditure</b>	
Benefits paid	486,238
Transfers-out	14,130
Administration expenses	8,917
Levies	3,786
<b>Total</b>	<b>513,071</b>
<b>Net increase (decrease)</b>	<b>51,081</b>

The Scheme's income exceeded its expenditure, even though £0.5 billion of benefits were paid to members during the year.

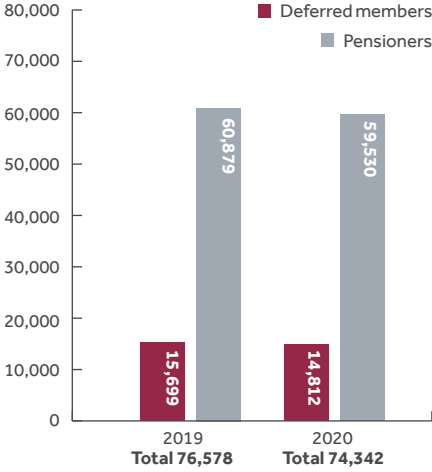
## Value of the Fund (£'000)

<b>2019</b> <b>£10,581,147</b>	+	<b>Money coming in</b> <b>£564,152</b>	-	<b>Money going out</b> <b>£513,071</b>	=	<b>2020</b> <b>£10,632,228</b>
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The Scheme's investment strategy is set by the Trustee after taking appropriate advice. This strategy is set out in a Statement of Investment Principles (SIP), which was last updated in September 2020. You can now view a copy of the SIP on the Scheme website, [www.bspspensions.com](http://www.bspspensions.com).

The Scheme's 2020 Annual Report has been published. If you want to see the full version, please visit the Scheme website, [www.bspspensions.com](http://www.bspspensions.com).

# Membership at 31 March 2020



Number of members over age 100 - **98**

Age of oldest Scheme member - **108**

Age of youngest Scheme member - **23**

	Under age 50	Between 50 & 54	Between 55 & 59	Between 60 & 64	Between 65 & 69	Age 70 & over
Pensioners	152	473	2,495	6,036	9,149	41,225
Deferred members	6,555	3,188	2,875	1,946	212	36



# Increases for pensioner members

Under the Rules of the Scheme, some or all of a BSPS pension in payment may increase each year on 1 April\*.

BSPS pensions in payment are increased by reference to the annual increase in the Consumer Prices Index (CPI) over the preceding September to September period, subject to a maximum capped level in each year. The relevant increase in CPI for the year to September 2020 was 0.5% and, accordingly, this increase will generally be applied to BSPS pensions in payment in April 2021.

Increases to pensions in payment are applied with reference to the elements in the table below:

Pension	2021 increases
Guaranteed Minimum Pension built up between 1978 and 1988	None
Guaranteed Minimum Pension built up between 1988 and 1997	0.5%
Excess pension over Guaranteed Minimum Pension built up to 1997	None
Pension built up between 1997 and 2005	0.5%
Pension built up after 2005	0.5%

Years relate to 5 April.

Pensioners will receive a letter at the end of March 2021 detailing how the increase has been applied to their pension.

\*Continues to be 6 April for pensioners paid from the payroll of the former Corus Engineering Steels Pension Scheme.

# Member Nominated Trustee director: nomination and selection

The Trustee board is looking to select a Member Nominated Trustee director (MND) from the population of deferred pensioners and former-employee pensioners.

The Scheme is run by six Trustee directors. Trustee directors are appointed for a three-year term on a rolling basis. Two Trustee directors have been nominated by Tata Steel UK, as the sponsor of the Scheme, and two are Independent Trustee directors. Two Member Nominated Trustee directors have been selected from the population of the Scheme's deferred pensioners and former-employee pensioners. The term of appointment of one of these MNDs expires on 31 March 2021.

If you would like to be considered for this MND role, you should, in the first instance, register your interest by requesting a nomination pack from the Pensions Office. To be eligible, you must be a deferred pensioner or former-employee pensioner and must not be an undischarged bankrupt or disqualified from acting as a trustee.

Relevant prior knowledge or experience, though advantageous, is not essential, as all Trustee directors receive training and support to achieve the required knowledge and understanding of their responsibilities. However, the role is challenging and not one that should be entered into lightly.

You can find further information on the role of a Trustee director on the Scheme website. If you would like to receive a nomination pack, please contact:

Lee Chadwick  
British Steel Pension Scheme  
Ground Floor, Sentinel  
105 Waterloo Street  
Glasgow G2 7BW

Email: [lee.chadwick@bspensions.com](mailto:lee.chadwick@bspensions.com)

## **Nominations must be received by 4 January 2021.**

Your application should be acknowledged within one week of receipt.

Selection will be carried out by an MND Panel, which includes the Trustee Chairman. Scheme Officers will shortlist applications for the MND Panel to consider in more detail, and interviews will take place during February 2021.

Mr Shaun Corten, the current MND whose term of appointment is due to end on 31 March 2021, has indicated that he will stand for re-selection.

The MND will be appointed from 1 April 2021. MNDs are appointed for a period of three years.

**January 2021: Nomination period and shortlisting of applicants**

**February 2021: Selection process, including candidate interviews**

**March 2021: Induction**

**April 2021: Appointment commences**

Details of the Scheme's current Trustee directors can be found on the Scheme website, [www.bspensions.com](http://www.bspensions.com).

# Summary Funding Statement

The Trustee is required to carry out a full actuarial valuation at least every three years, with an annual funding update in those years in-between.

The first actuarial valuation of the Scheme's financial position was carried out as at 31 March 2018 and an annual funding update was completed as at 31 March 2019.

The purpose of this statement is to provide you with a summary of the Scheme Actuary's report on developments affecting the Scheme's funding position.

*The Scheme's surplus improved slightly over the year to 31 March 2020. This provides a buffer against the risks facing the Scheme.*

If you want to know more, the Actuary's full 2018 valuation report is on the Scheme website.

## How has the funding position changed?

	31 March 2020	31 March 2019	31 March 2018
Assets	£10,632m	£10,581m	£11,221m
Liabilities	£9,872m	£9,862m	£10,553m
Surplus	£760m	£719m	£668m
Funding level	107.7%	107.3%	106.3%

Note: for these purposes, the Actuary's assessment of the Scheme's funding position is calculated on what is known as the 'technical provisions' basis rather than a 'best estimate' basis, the difference being an extra layer of prudence in assumptions in the former.

### What happened over the year to 31 March 2020?

There were a number of factors contributing to this improvement in the funding position, mainly Scheme assets marginally outperformed liabilities.

As the Scheme becomes increasingly mature, the funding level should increase.

### Key risks facing the funding position

The Scheme is exposed to inflation risk and changes in longevity expectations. The Government's current inflation reform proposals could have significant implications for pension schemes generally (see page 10). Additionally, the number of member deaths over the last two years has been notably lower than in the Old Scheme prior to Time to Choose. Both these factors could have an adverse impact on the valuation outcome.

# Summary Funding Statement continued

## What is an actuarial valuation?

The actuarial valuation provides a snapshot of the Scheme's funding position at a set date. It compares the value of the Scheme's assets (the money it has invested to pay benefits) with its liabilities (the value placed on the future benefit entitlements of Scheme members).

Formal valuations are required by law to see whether contributions are required from the employer. The Actuary's report shows that the Scheme's funding position remains healthy. Had this been a formal valuation, no contributions would have been required from the Scheme sponsor (Tata Steel UK Limited).

## How do we measure the funding position?

In a defined benefit scheme like the BSPS, each member is promised a pension and money is set aside to pay those pensions as and when they fall due. The Scheme's funding position is the difference between the estimated amount that the Scheme needs to have to pay pensions (the Scheme's liabilities) and the actual money the Scheme holds to pay those pensions as and when they fall due (the assets).

The values placed on assets and liabilities can change from time to time, meaning that the funding position may go up or down. A surplus doesn't necessarily mean the Scheme has more money than it needs. For example, the surplus can change as the actual returns from assets might be different from the assumptions made in the valuation, and members may live longer than the assumptions made in the valuation.



There are different ways to calculate the funding position of a pension scheme. Each method seeks to value pensions already in payment (including benefits to survivors of deceased members) plus the pensions of former employees who have not yet retired. The appropriate actuarial valuation method depends on the reason for the valuation. The results may vary significantly between methods. The table on page 9 shows the two main types of valuation and the Scheme's funding position on each basis. Although these methods produce significantly different valuation results, both are correct when used in the appropriate circumstances.



Type of valuation		Scheme funding position as at 31 March 2018
Buy-out	This is the most prudent valuation and is an estimate of the cost of insuring all Scheme liabilities in full. This uses an estimate of the insurer's more prudent assumptions and also includes a margin for insurers' costs/profits and so is likely to result in the lowest funding measure.	90.1%
Technical provisions / Ongoing	This is the method used by the Scheme Actuary for the triennial valuation and annual funding updates. This also uses prudent assumptions and is intended to represent a cautious estimate of the amount required now to continue to pay benefits in the future. It is therefore likely to show a higher funding position than the buy-out estimate.	106.3%

### What would happen if Tata Steel UK Limited were to become insolvent?

In the unlikely event Tata Steel UK Limited were to become insolvent, the Scheme is protected by the Pension Protection Fund (PPF). PPF compensation would not be the same as Scheme benefits. If the Scheme had enough assets, it would buy out benefits with an insurance company greater than PPF compensation.

Further information about the PPF is available at [www.ppf.co.uk](http://www.ppf.co.uk) or by calling its helpline on 0345 600 2541 (+44(0)20 8633 4902 for overseas members).

### Other information

The law requires that we provide you with certain information.

We can confirm that there have not been any payments to Tata Steel UK Limited out of the Scheme other than to reimburse the Company for necessary costs and expenses it has incurred on behalf of the Trustee in the administration of the Scheme.

### When is the next valuation?

The Trustee board will continue to monitor the financial position of the Scheme on a regular basis and the next three-yearly valuation is scheduled for 31 March 2021.



# Question Time

## **Q: How might the current challenges facing Tata Steel UK Limited impact the Scheme?**

A: The BSPS is sponsored by Tata Steel UK Limited. The Scheme is intended to meet its liabilities on a standalone basis (i.e. it does not rely on direct financial support from Tata Steel UK Limited) and the Trustee has a high degree of confidence that the Scheme has sufficient and appropriate assets to pay liabilities in full as and when they fall due.

For regulatory reasons, however, the Scheme still requires a solvent sponsor. The Trustee has engaged expert external advisers to assess the strength of its sponsor's covenant (i.e. its financial position, prospects and willingness to continue to support the Scheme). The Trustee is aware of the difficult trading conditions its sponsor is experiencing and is being kept informed of developments.

## **Q. What actions are being taken to make the Scheme more secure?**

A. The Trustee has been looking at possible options to secure benefits with one or more insurance companies. This work is ongoing, although at the present time no price has been received which would allow a transaction to take place.

## **Q. How have the Scheme's assets performed in the current difficult market conditions?**

A. The Trustee has already implemented material reductions in its exposure to market risk to protect the Scheme's strong funding position and as a result has remained resilient, despite the market volatility. That said, the actual return of 5.4% over the year to 31 March 2020 was somewhat behind the target return of 8.9%. This was driven by a significant reduction in Government bond yields during March 2020, as a result of Covid-19 concerns.

Over the six months to the end of September 2020, Scheme performance has been comfortably ahead of the target, reversing to some extent the previous year's experience.

## **Q. How might the proposed changes to the way inflation is measured impact the Scheme and its members?**

A. The Government has recently consulted on changes to the Retail Prices Index (RPI) to (broadly) align the calculation with the Consumer Prices Index (CPI). CPI is generally lower than RPI.

Your Scheme benefits are already calculated using CPI and therefore should not be adversely impacted by any future change.

However, as most inflation-linked assets held by pension schemes use RPI to calculate return, any reduction in RPI could have an adverse impact on the Scheme's funding position, which would be outside the Trustee's control. This is a potentially unwelcome development; however, the Scheme has a significant funding buffer to protect it from shocks such as this. The Scheme has also responded to the Government consultation on the proposed changes to RPI, pointing out the impact such changes would have on our scheme and requesting mitigation if possible.

## **Q. What is the likelihood of some restoration/ additional monies being payable to members in the near future?**

A. There are three circumstances where additional monies might become payable to members. The first is from proceeds from the Scheme's shareholding in Tata Steel UK Limited. Given the small shareholding the Scheme now holds (as the Company has exchanged some debt for new shares, reducing the Scheme's percentage shareholding) and the trading challenges the Company currently faces, there looks to be no likelihood of proceeds being received by the Scheme from its shareholding.

Secondly, there could be a payment for some Scheme members following the 2021 actuarial valuation. The Trustee tracks how the Scheme is doing at the end of each quarter. As at 30 September 2020, conditions were such that

had the 2021 restoration test referred to above been carried out at that date, there would not have been any excess available to finance additional payments. However, this could change when the final calculations are carried out as at 31 March 2021.

Finally, over time (as benefits are paid out and the Scheme matures), the BSPS funding level is expected to improve and ultimately reach at least 103% on the 'buyout' basis. If and when that happens, any additional monies above 100% will be used to increase benefits in accordance with the provisions agreed when the new BSPS was established.

**Q. How might the assessment of whether additional monies are available following the 2021 valuation be affected by changes to the actuarial assumptions?**

A. To ensure a fair comparison, changes to assumptions between 2018 and 2021 (other than to reflect changes in financial market yields) are **not** included in the calculation to determine whether extra monies will be payable. Whilst changes to inflation and mortality assumptions could adversely impact the Scheme's funding position following the 2021 valuation, they will have no impact on the restoration calculation.



# Contact details

If you have any other questions or concerns about your pension, you can get in touch with the Pensions Office in all the usual ways. When contacting the Pensions Office, please quote your National Insurance number and indicate whether your enquiry relates to membership of the former Corus Engineering Steel Pension Scheme.

**Email**

pension.enquiries@bspensions.com

**Website**

www.bspensions.com

**Telephone**

UK 0330 440 0844

Non-UK +44 141 274 2244

Our normal hours are 8.45am to 4.45pm Monday to Friday

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## Your feedback

If you have any comments on this edition of the *News Brief*, or suggestions for future issues, please write to:

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An audio version of the newsletter will be added to the Scheme website, [www.bspensions.com](http://www.bspensions.com).

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