THE
BRITISH STEEL
PENSION SCHEME

News Brief

For members of the British Steel Pension Scheme (BSPS)

IN THIS EDITION

Message from your Trustee Chairman	2
Summary of the 2023 Annual Report & Financial Statements	4
Update on the restoration award	6
Summary Funding Statement	8
Increases for pensioners	11
Contact details	12

December 2023

Message from your Trustee Chairman

> "In the June 2023 newsletter I reported that the Trustee had insured Scheme benefits in full with Legal & General which means the Scheme now has a secure cash inflow equal to members' benefit entitlements."

Welcome to the Winter 2023 edition of News Brief which includes several articles which I hope will be of interest to you.

In the June 2023 newsletter I reported that the Trustee had insured Scheme benefits in full with Legal & General which means the Scheme now has a secure cash inflow equal to members' benefit entitlements. When the Scheme was set up in 2018 the Trustee agreed with the Scheme's sponsor, Tata Steel UK Limited, that if the Scheme achieved a funding level of 103% of the cost of insuring members' benefits, the 3% surplus could be used to provide additional monies to members. This condition has now been achieved. Pages 6-7 of this newsletter explain the basis on which these restoration awards are to be paid at the end of January 2024.

At our online member event in June, several members enquired as to whether there was scope for further restoration payments beyond those agreed at the time the Scheme was set up.

Scheme rules provide for three sources of restoration: the first was in respect of any unexpected surplus following the 2021 Actuarial valuation. This condition was met and nearly £58 million has been shared amongst pensioners with pre-1997 service. The second source was when the Scheme reached 103% funding (see above) and this condition will result in additional benefits worth around £200 million being shared amongst all eligible members. The third condition was in respect of any proceeds arising from the Trustee's shareholding in Tata Steel UK. As I have mentioned previously, the Trustee considers it highly unlikely that there will be any meaningful proceeds from this source.

Although not originally specified in the Rules, the Trustee has always taken the view that any surplus funds in addition to the amounts already mentioned should be used for the benefit of Scheme members. At the present time the Scheme holds cash and other liquid investments to meet the on-going running costs of the Scheme. It also has certain illiquid assets which it is hoped will generate further funds in due course.

The extent of any further surplus can't be known until the Trustee has a clearer idea on how much is required to run the Scheme. This will not be known with certainty until 2025 or thereabouts when all the data cleansing work has been completed (see below). I am pleased however to report that the Trustee expectation is there will be funds available to make a further restoration payment, probably in the early part of 2026. I will keep you updated on this as further information becomes available.

"The key priority for any pension scheme is to pay benefits to members accurately and on time."

The key priority for any pension scheme is to pay benefits to members accurately and on time. Underpinning this objective is the Trustee's on-going work to "cleanse" data to make sure it reflects members' entitlements under the Scheme's rules and any relevant legislation. A key component of this data cleansing work relates to equalising Guaranteed Minimum Pension (GMP) entitlements for members with pre-1997 service to reflect legal clarifications.

This requirement affects most large UK defined benefit pension schemes and is a significant and complicated undertaking. Scheme Officers and Advisers have been working on this project for some years. Although the Scheme is well placed relative to many of its peers, it is likely to be 2025 before the work is completed and any additional payments made to eligible members. The vast majority of such payments are expected to only form a small proportion of eligible members' current pension amounts.

The Trustee has now received the Scheme Actuary's annual funding update as at 31 March 2023, the results of which are summarised in this News Brief on pages 8 to 10. Since the last full valuation as at 31 March 2021, securing 103% of all members' entitlements with Legal & General has meant a significant improvement in the security of members' benefits.

Best wishes for Christmas and the New Year.

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

Summary of 2023 Annual Report & Financial Statements

The Scheme provides benefits for former members of the Old British Steel Pension Scheme who elected to transfer into the Scheme on 28 March 2018 under the *Time to Choose* exercise.

Here's a summary of the Scheme's Annual Report for 2022/23.

	For the year to 31 March 2023 £'000
Income	
Reduction in value of investments	(2,088,901)
Total	**(2,088,901)**
Expenditure	
Benefits paid	448,627
Transfers-out	17,866
Administration expenses	10,789
Levies	465
Total	**477,747**
Net increase (decrease)	**(2,566,648)**

Value of the Fund (£'000)

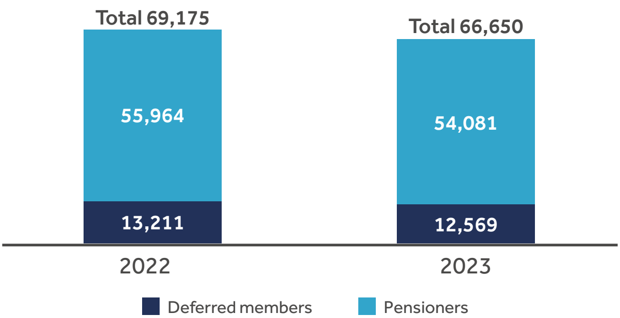
2022	+	Money coming in	–	Money going out	=	2023
9,868,051		(2,088,901)		477,747		7,301,403

Investment strategy

The value of both Scheme assets and liabilities has reduced since the 2021 valuation, particularly over the twelve months to 31 March 2023. While it would be expected that the Scheme would gradually reduce in size as benefits are paid out to members, the significant reduction over 2022/23 is primarily due to the increase in interest rates. This reduces the present value of both projected benefit payments and also income generated from Scheme assets.

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 June 2023. You can view a copy of the SIP on the Scheme website, **www.bspspensions.com**.

Membership



READ

The Scheme's 2023 Annual Report has been published. If you want to see the full version, please visit the Scheme website, **www.bspspensions.com**

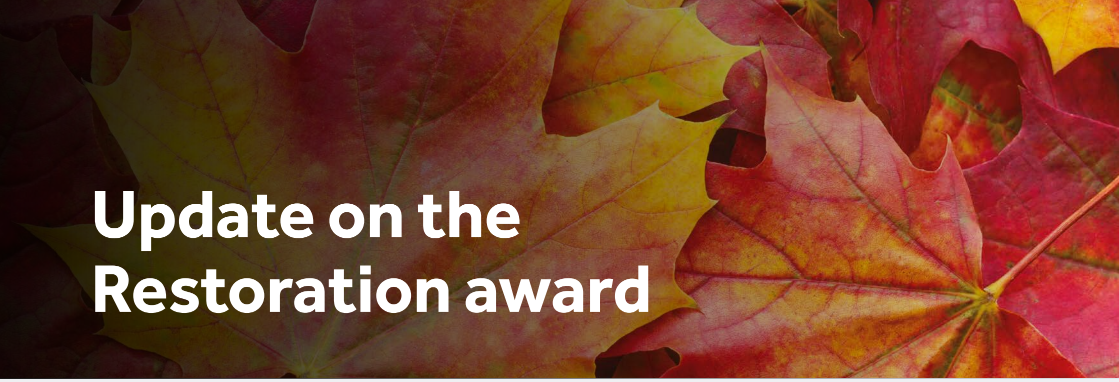
Membership age breakdown at 31 March 2023

Age	Under 50	50 – 54	55 – 59	60 – 64	65 – 69	70 & over
Pensioners	124	265	1,317	4,581	8,147	39,647
Deferred members	4,839	2,817	2,726	1,969	174	44

Number of members over age 100
152

Age of oldest Scheme member
106

Age of youngest Scheme member
26



Update on the Restoration award

In the last edition of News Brief, we set out details of this restoration award – agreed when the British Steel Pension Scheme (the "Scheme") was set up in 2018.

As a reminder, this restoration award is linked to the funding level of the Scheme. As we reached 103% of the cost of insuring all members' benefit entitlements, the Trustee can distribute the 3% surplus (around £200 million based on market conditions when Scheme benefits became fully insured in May 2023) to eligible members.

We can now confirm details of how the surplus is being shared out and when.

Most members will receive the award. If you are eligible, you will find details of your restoration award in the covering letter sent with this newsletter.

How is the award being shared?

The Trustee has allocated the award in proportion to the actuarial value of your future benefits under the Scheme compared to those that would have been paid under the Old British Steel Pension Scheme (pre-2018) rules.

This means that eligible members will not all see the same level of increase to their pension.

Broadly speaking, the additional pension in percentage (%) terms will be:

- For two members the same age: bigger for a member with a larger proportion of pension built up before April 1997 (because there was a bigger reduction in pension increases on pre-1997 pension in moving from the Old British Steel Pension Scheme to the Scheme).
- For two pensioners with the same annual pension: bigger for the younger member (because their pension should be payable for longer and therefore, they 'lost' more future increases when moving from the Old British Steel Pension Scheme to the Scheme).

Who will not receive a restoration award now?

If the pension you are receiving or will receive relates only to Guaranteed Minimum Pension (GMP) or you are only entitled to a lump sum benefit, you are not eligible to receive a restoration award. This is because GMP and lump sum only benefits were unaffected by the change from the Old British Steel Pension Scheme to the Scheme, so no benefits have been lost.

What is the difference between this award and the restoration paid in Autumn 2022?

Under the terms that were agreed with the Company when the Scheme was established, the Autumn 2022 restoration payment only applied to pensioner members with service in the Scheme before 1997 and who met certain criteria. Payments were generally made as lump sums, in accordance with the terms of the agreement with the Company. Around 48,000 pensioners received a payment in Autumn 2022.

The agreement for the current restoration award means that the Trustee can distribute benefits to all members (not just those with pre-1997 service in the Scheme). Over 60,000 members will receive this restoration award.

How and when is the award being paid?

The award will be paid as additional pension. For current pensioners, this is payable from 1 February 2024. For deferred members, it will be paid alongside the rest of your pension when you retire.

Why is this award being paid as pension?

The restoration benefit is being provided as pension because it is intended to compensate members for some of the pension income given up when transferring to the Scheme (due to the change in pension increases).

For the purposes of the restoration awards in Autumn 2022, the Rules required the Trustee to make payments as a lump sum, wherever possible. This is not the case for this restoration award.

Making the award as additional pension avoids much of the cost, administrative complexity and the sometimes significant tax implications of making a lump-sum payment. It would also have meant some members would not be treated the same, as not all members would have been able to receive a lump sum. Determining such eligibility would have added further complexity.

Will there be further restoration awards in the future?

Any excess assets in the Scheme should be applied for the benefit of Scheme members in due course. Whether there will be excess assets cannot be determined with certainty at this time. However, the Trustee's expectation is that a further modest restoration payment, in excess of those specified at the time the Scheme was established, may be possible.

The Trustee will provide further information when it becomes available.

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 most recent actuarial valuation of the Scheme's financial position was carried out as at 31 March 2021.

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 since the previous valuation.

If you want to know more, the Actuary's full 2021 valuation report is on the Scheme website, **www.bspspensions.com**

How has the funding position changed since the last full valuation?

See how the numbers compare in the table below.

	31 March 2023	31 March 2022	31 March 2021
Assets	**£7,301m**	£9,868m	£10,333m
Liabilities	**£7,088m**	£9,067m	£9,841m
Surplus	**£213m**	£801m	£492m
Funding level	**103.0%**	108.8%	105.0%

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.

THE SCHEME

Since March 2021 there have been very significant changes to the Scheme's investment strategy. The Trustee secured 103% of all members' entitlements through a series of buy-in policies with Legal & General which precisely match the amount the Scheme has to pay out in benefits.

In producing this report, the Actuary has taken into account the fact that the Scheme's investment strategy (apart from those assets required to meet the Scheme's projected future running costs) is now entirely allocated to these insurance policies. This is reflected in the assumptions used by the Actuary to calculate this funding update.

What has happened since the 2021 full valuation?

The technical provisions funding level is estimated to have decreased to 103% at 31 March 2023, from 105% at the time of the Scheme's 2021 valuation. This apparent reduction in funding level does not indicate that the Scheme's funding position has worsened, but rather that it is now being assessed using different assumptions which reflect the changed investments the Scheme now holds.

In 2021, the discount rate used reflected the returns expected on the Scheme's then-current investment strategy. Whilst the 2021 valuation showed the Scheme to be more than 100% funded on that basis, the Scheme was still running some funding risks.

The risk of the Scheme's funding level worsening has been addressed by the securing of insurance policies which precisely match the Scheme's pension promises to members. So although the funding level shown is now lower, this is a **certain** 103% rather than an **expected** 105% (which could have then gone down).

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). If a pension scheme does not have sufficient assets to meet the value placed on its liabilities, the valuation will determine what additional contributions are required from the employer.

Formal valuations are required by law at least every three years, with interim annual reports from the Scheme Actuary in those years where a full valuation is not carried out. The Actuary's interim 2023 report is the first to reflect the fact that the Scheme has insured all its liabilities and confirms that, on a very prudent basis, the Scheme is now fully funded.

> "The risk of the Scheme's funding level worsening has been addressed by the securing of insurance policies which precisely match the Scheme's pension promises to members."

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

As the Scheme is now fully insured, the risk of the Scheme entering the Pension Protection Fund (PPF) is now removed. Technically, pension schemes require a solvent sponsor and if it becomes unable to sponsor the scheme, the scheme is required to enter a PPF assessment period. Given that all Scheme liabilities are insured (i.e., the Scheme has guaranteed cash inflows sufficient to meet pension commitments in full), on the theoretical insolvency of Tata Steel UK Limited the Trustee would expect to work with the regulatory bodies to ensure that there is no disruption to the payment of benefits.

Having completed the insurance transactions with L&G, members' benefits are now also afforded the protections available under the insurance regime. With the additional safeguards these provide, members can be reassured that the Scheme now has the highest possible levels of protections in place to ensure benefits are paid in full.

How do we measure the funding position?

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).

There are a range of different measures that can be used to value a pension scheme's liabilities. For the purpose of an actuarial valuation, the Actuary is required to measure liabilities based on prudent assumptions about the future, treating the Scheme as an ongoing entity – these are known as "Technical Provisions".

The Actuary will also estimate how much it would cost to secure liabilities with an insurer if the Scheme were to be discontinued, this is known as a "Buy-Out/ Solvency" basis and is generally regarded as the most prudent measure available.

For most schemes, reaching full funding on the Buy-Out measure may be seen as an aspirational target. As the Scheme has now achieved this target, the Trustee has decided that the Technical Provisions liability measure should now be the same as that used for the Buy-Out/ Solvency assessment.

Type of valuation	Scheme funding position as at:	
	31 March 2021	**31 March 2023**
Buy-out/Solvency 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 prudent assumptions and also includes a margin for insurers' costs/profits and so is likely to result in the lowest funding measure.	94.5%	103%
Technical provisions/on-going This is the method used by the Scheme Actuary for the triennial valuation and annual funding updates. This uses the Trustee's 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.	105%	

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 2024.

Increases for pensioners

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

Scheme 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 increase in CPI for the year to September 2023 was 6.7%. Accordingly, the capped level of increases, to the right, will be applied to Scheme pensions in payment in April 2024.

Pension	2024 increases
GMP built up between 1978 and 1988	None
GMP built up between 1988 and 1997	Capped at 3.0%
Excess pension over GMP built up to 1997	None
Pension built up between 1997 and 2005	Capped at 5.0%
Pension built up after 2005	Capped at 2.5%

GMP refers to Guaranteed Minimum Pension

Years relate to 5 April

Pensions are payable monthly in advance and are usually paid on the last working day of each month. The payment dates for the next six months are as follows:

Friday 22 December 2023	Thursday 28 March 2024
Wednesday 31 January 2024	Tuesday 30 April 2024
Thursday 29 February 2024	Friday 31 May 2024

Pensioners will receive a letter at the end of March 2024 detailing how the increase has been applied to their pension and listing all the payment dates for 2024/25.

Contact details

If you have any questions 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.

Please remember we need your written and signed authority to discuss or release your personal information to a third party.

pension.enquiries@bspspensions.com

www.bspspensions.com

UK **0330 440 0844**
Non-UK **+44 141 274 2244**

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

All our calls are generally recorded for training and monitoring purposes.

The Pensions Office's address details are below.

Writing from the UK (no need for a stamp)
British Steel Pension Scheme
FREEPOST RUCT-GLGS-HLRU
Glasgow
G2 5RU

Writing from outside the UK
British Steel Pension Scheme
1/2 Dalmore House
310 St. Vincent Street
Glasgow G2 5RU
Scotland
United Kingdom

Your feedback

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

Lee Chadwick
Section Head Secretariat
British Steel Pension Scheme
FREEPOST RUCT-GLGS-HLRU
Glasgow
G2 5RU

News Brief is available in either Braille or large print formats. If you have used this service before, we will automatically send you a copy in your preferred format after you receive the printed version. To register for this service for the first time, please telephone us and let us know which version you require.

An audio version of the newsletter will be added to the Scheme website **www.bspspensions.com**. The Scheme website is compatible with Browsealoud, which allows you to have website content read to you. Browsealoud software is free to download.

browsealoud®

MIX
Paper from responsible sources
FSC® C107726
FSC www.fsc.org

This newsletter is printed on Forest Stewardship Council® (FSC)® certified paper. FSC is an independent, not for profit organisation established to promote the responsible management of the world's forests.