

# special newsbrief 2009

## CHAIRMAN'S INTRODUCTION



**Welcome to Special Newsbrief 2009, which details the outcome of the recently completed 2008 Actuarial Valuation together with an update on a number of other matters of interest to British Steel Pension Scheme (BSPS) members.**

The importance of keeping Scheme members up to date on the financial health of our Scheme takes on an extra significance during these difficult economic times. I am therefore particularly pleased that following the outcome of the Scheme's triennial Actuarial Valuation as at 31 March 2008, I can report that the Scheme was fully funded with a very small surplus on an on-going basis to meet its liabilities at that date. Information about the Scheme's funding position and other relevant details from the Valuation are included on pages 2 to 5.

The Trustee board recognises that the general economic position has deteriorated significantly since 31 March 2008 and its effects are being felt by UK pension schemes generally. There have been major falls in global equity markets, together with falls in the value of other return-seeking assets, such as property. When finalising the results of the 2008 Actuarial Valuation, and after taking independent professional advice, it was decided not to adjust the Valuation results to take account of post-valuation events. This is consistent with past practice and the longer term view taken by the Trustee. However we will continue to monitor closely both the Scheme's funding position and the Company's covenant (its ability and willingness to pay pension contributions to the Scheme). An update on the Scheme's funding position as at 31 March 2009 will be included in the Scheme's regular Newsbrief later in the year and the expectation is that this will show that on an on-going basis, the funding position has fallen into deficit. The Trustee board will then consider what action to take, in light of their views on the future economic outlook and the Company's covenant.

Newsbrief 2008 featured an article on the potential merger of the Corus Engineering Steels Pension Scheme (CESPS), into the BSPS. I am pleased to report that following detailed consideration of the merger issues by the Trustees of both schemes, Corus, and their respective advisers, agreement was reached and the merger effected on 6 April 2009. Part of the agreement with Corus was that additional contributions will be paid into the BSPS over the next 7 years, in order to bring the

funding positions of the two schemes into line. The first year's contribution of £10m was received from the Company on the merger date. I can confirm that prior to the BSPS Trustee agreeing to the merger, it had received satisfactory actuarial advice that there would be no resulting material dilution of the Scheme's funding position.

Of course there are already existing ties between CESPS members and the BSPS. Many CES employees were Scheme members prior to November 1986 when the joint venture between the British Steel Corporation and GKN was incorporated and the United Engineering Steels Pension Scheme was formed (which subsequently became the CESPS). Also, many CESPS members will have been BSPS members in respect of their service from 1 April 2003, when CESPS was closed to future accrual and CES employees admitted into the BSPS for future service benefits. Additionally after the acquisition of Corus by Tata Steel Limited, the two schemes shared a security package providing safeguards against adverse circumstances affecting the Corus Group. I therefore extend a warm welcome, or return, to all CESPS members.

Following the Company announcement on 26 January regarding pensions strategy for new entrants, representatives from Corus attended the Trustee board's meeting on 10 February to brief trustees on the Company's intention to close the Scheme to new entrants and its objectives with regard to pension provision for future recruits. The National Trade Union Steel Co-ordinating Committee (NTUSCC) Chairman was also in attendance at the meeting and provided the Trades Unions' position on these matters highlighting in particular the need for a full and meaningful consultation on such an important issue in advance of any proposed changes to pension terms.

Discussions between the Company and Trade Unions are ongoing and the Trustee awaits developments from the consultation process.

Finally, on a personal note my best wishes go to Ian Kelly who, after 35 years of service to the Scheme, has recently retired from the role of Scheme Secretary. My thanks go to Ian for his long and valued commitment to the Scheme and its members.

Best wishes

A handwritten signature in black ink that reads "Allen J Johnston". The signature is written in a cursive, slightly slanted style.

**A J Johnston**  
Trustee Chairman

# SPOTLIGHT ON THE ACTUARIAL VALUATION



Paul Burbidge, Scheme Actuary

## BACKGROUND

**The Trustee board is required to carry out an actuarial valuation of the Scheme at least every three years. The purpose of the valuation is to check that the Scheme has sufficient and appropriate assets to pay the accrued benefits as they fall due, and to calculate the cost of future accrual of benefits. The Scheme Actuary, who is a qualified and independent professional, prepares the Valuation Report.**

The 2008 actuarial valuation is the first to be conducted under the Scheme Specific Funding regime introduced by the Pensions Act 2004. Under the new regime, the Trustee board now has responsibility for setting funding objectives and contribution requirements, in agreement with the Company and after taking advice from the Scheme Actuary. The Actuary is also required to certify that the agreed rate of contributions is no lower than he would have determined if the power to set contributions remained solely with him. The new legislation requires an increased focus on the strength of the Company's covenant.

The valuation considers the ongoing funding position in two stages. Firstly, the value of pension liabilities already accrued (past service) is compared to the assets of the Scheme. This determines whether or not the Scheme has a past service surplus or deficit. Secondly, the level of contributions required to fund future benefit accrual is calculated. Combined, the two measures would serve to establish the level of cash contributions required from the Company through to the next valuation, which is ultimately a key outcome of the valuation exercise.

To assess the Scheme's liabilities the Actuary must use various assumptions – set by the Trustee board after consultation with the Actuary and with the Company's agreement – including how long members will live (life expectancy) and how many members will retire, leave or die each year. Using these assumptions, projections of future benefit payments are produced.

Prudent assumptions are then made of the level of expected future investment returns based upon the Scheme's asset allocation (the lower the expected return, the higher the value of assets required now to generate the necessary cash flows to pay benefits in future).

The total benefit projections are then discounted back to a present value using the expected rate of return on investments to arrive at the total pension liabilities. Consideration is given to the sensitivity of this figure to changes in the underlying assumptions.

The Trustee board must take a long-term view of how the Scheme's assets and liabilities will change over time. Carrying out a valuation every 3 years allows assumptions to be updated in line with experience and other developments in the intervening period to be taken into account. The main outcomes from the Valuation Report are contained within the "Annual Summary Funding Statement" on pages 4 & 5.

## THE SCHEME'S ASSETS

Scheme assets as at 31 March 2005 were valued at £8,096m. This increased to £9,821m by the time

of the 2008 valuation. The breakdown of the Scheme assets held at the valuation date on 31 March 2008 was as follows:

Investment class	£m	%
Fixed Interest Securities	2,366.9	24.1
Index Linked Securities	4,005.3	40.8
United Kingdom Equities	910.2	9.3
Alternative Investments	149.0	1.5
Overseas Equities	1,215.6	12.3
Overseas Equity Managed Funds	231.2	2.4
Property	483.9	4.9
Derivatives	13.5	0.1
Cash	370.2	3.8
Net Current Assets	75.4	0.8
<b>Total Fund</b>	<b>9,821.2</b>	<b>100.0</b>

During the period between valuations a significant change in the Scheme's asset allocation was achieved by increasing holdings in gilts and bonds while reducing equity (shares) holdings, in order to:

- better match the Scheme's liabilities in recognition of its increasing maturity; and
- reduce funding risk and volatility.

The Fund had made very good progress with its strategy to reduce the Scheme's investment risk through switching from equities to bonds. Supported by the Company, the Trustee board accelerated its 5 year risk reduction strategy (originally planned through to March 2011) to take advantage of favourable market conditions in 2007. At March 2008, nearly 70% of the Fund consisted of bond holdings and cash.

## INVESTMENT STRATEGY

Given the Scheme's increasing maturity the level of the Scheme's investment risk is regularly kept under review by the Trustee board. Following completion of the 2008 valuation, the Actuary once again is carrying out a detailed study of the Scheme's assets and liabilities. This review will assist the Trustee board in considering its longer term investment strategy to ensure it remains appropriate to meet the key objective of security of members' benefits.

## LIFE EXPECTANCY

The 2008 valuation includes significant further allowances for improvements in life expectancy, based on recent Scheme experience and expectations of higher levels of future improvements.

The future financial position of the Scheme depends greatly on the mortality experience of the Scheme's current and future pensioners. To illustrate this point, the Scheme Actuary has estimated that if the life expectancy of each Scheme member was one year longer than is currently assumed, the additional liabilities would amount to around £300m and the Scheme's funding level would fall from 100% to 97% as a result.

# ANNUAL SUMMARY FUNDING STATEMENT

## EXPLAINING THE HEALTH OF THE BRITISH STEEL PENSION SCHEME AS AT 31 MARCH 2008

By law the trustees of all UK defined benefit pension schemes are required to summarise annually the funding position at the most recent valuation date. Results of the full valuation of the Scheme as at 31 March 2008 are included within this Summary Funding Statement.

### BREAKDOWN OF PAST SERVICE LIABILITIES

Contributing Members	<b>35%</b>
Deferred Pensioners	<b>10%</b>
Current Pensioners and Dependants	<b>55%</b>
<b>Total</b>	<b>100%</b>

## THE LATEST SCHEME FUNDING VALUATION

The past service funding level at the valuation on 31 March 2005 was 105%. The latest valuation of the Scheme showed that as at 31 March 2008 the funding position was in balance as follows:

*The Scheme's assets were valued at:* **£9,821 million**

*The value of the Scheme's past service liabilities was:* **£9,817 million**

*This means that there was an actuarial surplus of:* **£4 million**

*And the past service funding level was therefore:* **100%**

### MEMBER AND COMPANY CONTRIBUTIONS

The Member contribution rate continues to be set at 6% of Pensionable Earnings. Following discussions between the Trustee and Company, to support a Company contribution rate of 12% of Pensionable Earnings, the Scheme surplus of £4m will reduce by about £2m over the three year period until the 2011 valuation, leaving a surplus of £2m to be retained in the Scheme.

The Scheme Actuary has certified that the agreed contributions are no less than he would have required had the responsibility for preparing the Schedule remained with him, and were consistent with the Scheme's Statement of Funding Principles.

### CHANGE IN FUNDING POSITION SINCE THE PREVIOUS VALUATION

The main factors contributing to the reduction in the funding position based on the latest actuarial valuation are:

- further allowance was made for improving life expectancy; and
- the prospect of lower future investment returns was recognised under the change in financial assumptions

**Detail of the movements from the previous valuation are as follows:**

	<b>£m</b>
<b>2005 Excess of assets over liabilities</b>	<b>414</b>
Interest on excess	72
Investment returns higher than expected	1,371
Reduced contributions from Company in 2005/06	(165)
Actual mortality experience	(30)
Inflation higher than expected	(183)
Change in financial assumptions	(947)
Change in assumptions for life expectancy	(581)
Change in other demographic assumptions	147
Allowance for PPF levies	(10)
Miscellaneous experience	(84)
<b>2008 Excess of assets over liabilities</b>	<b>4</b>

## ON THE BASIS OF THE SCHEME WINDING UP

Another measure of the Scheme's funding position is the "discontinuance basis", in other words what would happen if the Scheme was wound up. This is a hypothetical estimate of the cost of buying annuities from insurance companies. It assumes that the Scheme is being wound-up and that Corus UK Ltd is insolvent and unable to pay any more contributions to the Scheme. The Actuary has estimated that the Scheme's assets at the valuation date on 31 March 2008 would have been sufficient to provide approximately 84% of the Scheme's total liabilities on this discontinuance basis. Most UK pension schemes are less than fully funded on a discontinuance basis and the Scheme's position is better than most.

At the previous valuation, as at 31 March 2005, this level was estimated to be 93%. The reduction is largely as a result of:

- the increase in the estimated cost of buying out the liabilities; and
- the level of contributions paid falling short of the cost of accruing liabilities assessed on the discontinuance basis

If Corus UK Ltd became insolvent, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members. However the Scheme had enough assets on 31 March 2008 to pay benefits greater than the compensation that might have been available from the PPF.

(Of course, there is no suggestion that the Scheme is being wound-up or Corus UK Ltd is insolvent. The assessment of the position in the event of these outcomes is simply stated here in order to comply with the legal requirements, and as another illustration to assist in understanding the financial security position).

## WHY DOES THE FUNDING PLAN NOT CALL FOR FULL SOLVENCY AT ALL TIMES?

The Trustee board has a funding plan (known as The Statement of Funding Principles), agreed with Corus UK Ltd, which aims to make sure there are sufficient assets in the Scheme to pay pensions now and in the future.

The Trustee and the Company consider that it is not realistic to aim to be fully funded on the discontinuance basis. That basis assumes that benefits will be secured by buying insurance policies and the large size of the Scheme would likely pose some challenges relative to the size of the total insurance market for pension annuities. Insurers are obliged to take a very cautious view of the future and seek to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, the Trustee board's funding plan assumes that benefits will be paid from assets of BSPS as they fall due and that Corus UK Ltd will continue in business and support the Scheme.

## POINTS TO NOTE

The assets to pay for members' pensions are held by the Trustee board in a common fund. Assets are not held in separate funds for each individual.

There has not been any payment to Corus UK Ltd out of Scheme funds since the last statement was issued, nor at any other time in the past.

## 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 triennial valuation is scheduled for 31 March 2011. Before that date, the Trustee board will undertake annual funding updates, with the first update being made at 31 March 2009. The results of that update are expected to show that the estimated funding position will have fallen since 2008 and details will be communicated to all Scheme members later this year.

## ADDITIONAL DOCUMENTS AVAILABLE ON REQUEST

If you have a question about the Scheme generally or on the information provided in this Special Newsbrief please get in touch with the Pensions Office (see back page for contact details). A list of more detailed documents which provide further information is below. If you want us to send you any of these documents please let us know.

**Actuarial Valuation Report** - the full report following the Actuary's review of the Scheme's position as at 31 March 2008

**Annual Report and Accounts** - which shows the Scheme's income and expenditure in the year up to 31 March 2008 (the 2009 Annual Report will be available in August 2009).

# SCHEME NEWS

## **MERGER OF CORUS ENGINEERING STEELS PENSION SCHEME INTO THE BRITISH STEEL PENSION SCHEME**

As part of the acquisition of Corus by Tata Steel Limited in 2007, the Company confirmed its commitment to facilitate the merger of CESPS into BSPS when comparable funding levels permitted and the Trustees of the two Schemes agreed.

The opportunity was taken during the 2008 Actuarial Valuation process to compare the funding positions of both schemes on consistent bases. Following detailed consideration of the merger issues by the Trustees of both schemes, Corus, and their respective advisers, agreement was reached on terms and the merger effected on 6 April 2009.

Following the merger, CESPS assets and liabilities have transferred in full to BSPS. Benefit entitlements to CESPS active employee members, deferred pensioners and pensioners remain unchanged but are now payable from BSPS.

The interests of the CESPS membership are well represented on the BSPS Trustee board, where two existing Trustee directors are members of the former CESPS.

CESPS had assets of approximately £680m, as at 31 March 2009 and total membership of 9,280 comprising 1,883 active employee members, 1,993 deferred pensioners and 5,404 pensioners.

Since 1998, 15 Company pension schemes comprising around 18,000 scheme members and assets of around £1 billion have now been successfully merged into BSPS.

## **ANNUAL PENSIONS INCREASE**

Under the Rules of the Scheme, since 1975, BSPS pensions have been increased each year on 1 April by reference to the annual increase in the Retail Prices Index (RPI) over the preceding January/January period. The relevant increase in RPI over the year to January 2009 was 0.1% and, accordingly, this increase was applied to BSPS pensions in April. The Scheme is funded on this basis.

## **PENSIONABLE EARNINGS & THE LEL DEDUCTION**

Pensionable Earnings and contributions to the BSPS are determined after applying an offset (known as an LEL deduction). The LEL deduction has been frozen at £3,328 per annum since 1998/99.

As part of the changes to the BSPS Pension Package agreed between Corus and the NTUSCC in 2006, it was agreed that, from 1 April 2009, the LEL deduction would be increased annually in line with the RPI over the preceding January/January period and, accordingly, the LEL deduction has been increased to £3,331 per annum from 1 April 2009.

## **COMBINED PENSION FORECASTS**

The annual Benefit Forecasts (BFs), which detail the value of an active member's Scheme benefits as at each 1 April, normally included details of an individual's State benefits provided by the Department for Work and Pensions (DWP). The DWP did not provide this service for the 2008 BFs because of changes to their computer system, but now those changes have been implemented a Combined BF - including both Scheme and State pension benefits - can again be provided to those active members who have agreed that the DWP can release this information to the Scheme.

## **NATIONAL FRAUD INITIATIVE (NFI)**

The Scheme has participated in the 2008/09 NFI exercise which matches the Scheme's records against deaths registered on the DWP database to check for unreported deaths of Scheme members. Likely matches have been identified and Scheme Officers have begun the task of confirming and recovering any overpayments.

The Trustee board is fully supportive of the Pensions Office's ongoing actions in seeking recovery where people have dishonestly accepted pension payments on behalf of pensioners who have died but whose death is not reported to the Scheme. The Trustee Board is determined that where there is clear evidence of fraud, recovery will be rigorously pursued through the criminal justice system.

## ADMINISTRATION SERVICE STANDARDS

The Trustee board has introduced a Service Standards framework across a broad range of administration tasks to help it monitor the service levels provided to Scheme members. Details are available on the Scheme website ([www.bspensions.com](http://www.bspensions.com)) or by contacting the Pensions Office (see back page for details).

The Trustee board expects the Pensions Office to provide an excellent service to Scheme members. It recognises that it may not be possible to meet everyone's needs and expectations, but the Pensions Office's service should always be prompt, helpful, courteous and efficient.

Difficulties will arise from time to time and it is expected that many of these issues will be resolved either in discussion with Scheme Officers, or by an explanatory letter or e-mail.

There may however be occasions where a Scheme member, or beneficiary believes that the Trustee's Service Standards have not been met or a particular difficulty has not been given proper attention (or has been mishandled) and the member wishes to complain.

The best way to complain is to tell the person you are dealing with that you wish to make a complaint. They will refer your case to the Scheme's Complaints Officer who will provide you with details of the Scheme's Service Standards Complaints Procedure. Formal complaints under the Procedure will be acknowledged within a week, and a full response usually provided within 3 weeks.

The Service Standards Complaints Procedure sits alongside the Scheme's existing Internal Dispute Procedure.



*Ian Kelly*

### SCHEME SECRETARY RETIRES

Ian Kelly retired on 31 March 2009. Since joining the Pensions Office in 1973 Ian has held several administration posts in the Glasgow office and assumed

responsibility for the role of Scheme Secretary in 1995. With an encyclopaedic knowledge of the Scheme's governing document (known as the Trust Deed & Rules), Ian has been a ready source of information in the management of the BSPS, and its predecessors, for a considerable number of years.

Ian had also found time in a career devoted to pensions to voluntarily undertake various roles in the wider pensions world. He acted as a tutor to students undertaking the Pensions Management Institute qualification and was a volunteer acting, through one of the predecessors to The Pensions Advisory Service, on behalf of members of other UK pension schemes who were not satisfied with the information given to them by their scheme administrators. Ian took immense personal satisfaction from assisting in mediating in disputes of this kind.

Like many of the Scheme members Ian has sought to serve throughout his years at the Pensions Office, the time has now come for him to enjoy the fruits of his labour and get his golf handicap back to where it should be. His wife Charlotte may have other ideas for Ian for his spare time, but luckily for him, she is also a keen golfer.

Ian is succeeded in the role of Scheme Secretary by Mike Donohue.

## THE SPECIAL NEWSBRIEF IS AVAILABLE, AS ALWAYS, ON AUDIO TAPE, BRAILLE, CD AND 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 on: **0845 274 0902** (non UK pensioners should call **+44 141 274 2244**) and let us know which version you require.

## CONTACTING THE PENSIONS OFFICE

When you contact the Pensions Office, please quote your Membership Number as this will help us to answer your enquiry as promptly and efficiently as possible. Also, please indicate whether your enquiry relates to your membership of the former Corus Engineering Steels Pension Scheme.

### IN WRITING

If you live in the UK, you can write to the Pensions Office using our Freepost facility, so there is no need for a stamp.

Your envelope should state the following:

**British Steel Pension Scheme  
Freepost RLXS-ZXKT-AUER  
Glasgow  
G2 7BW**

Members living outside the UK can write to the Pensions Office at:

**British Steel Pension Scheme  
6th Floor, Sentinel  
105 Waterloo Street  
Glasgow G2 7BW  
Scotland, United Kingdom**

### BY TELEPHONE

The Pensions Office aims to make it as easy as possible for you to contact it.

All UK calls from landlines to the Pensions Office will be charged at local rates:

If your surname begins **A - K**, please call  
**0845 274 0900**.

If your surname begins **L - Z**, please call  
**0845 274 0901**.

Dialling from outside the UK:

If your surname begins **A - K**, please call  
**+44 141 274 2222**.

If your surname begins **L - Z**, please call  
**+44 141 274 2266**.

Standard office hours are 8.45 am to 4.45 pm Monday to Friday. If you telephone outside these times or during statutory holidays, you will normally hear a recorded message giving details of when we can be contacted.

You also have the option of leaving a message, which we will reply to as soon as possible.

### BY FAX

You can fax your enquiry to us on **0141 248 5299**

### BY EMAIL

You can send an email to us at:  
**pension.enquiries@corusgroup.com**

### WEBSITE

Our website provides general information about the Scheme. The website address is: **www.bspensions.com**

### YOUR FEEDBACK

If you have any comments on this edition of the Special Newsbrief, or suggestions for future newsletters, please write to:

**Communications Manager  
British Steel Pension Scheme  
Freepost RLXS-ZXKT-AUER  
6th Floor, Sentinel  
105 Waterloo Street  
Glasgow G2 7BW**

## RECEIVE NEWSLETTERS ON-LINE

Good environmental management is important to the Pensions Office. To date, almost two thousand Scheme members have registered to receive Scheme newsletters on-line. By choosing not to receive paper copies of newsletters these members are helping to reduce the Scheme's

environmental impact and reduce Scheme costs into the bargain. If you wish to receive future Scheme newsletters electronically (rather than a paper copy) please advise the Pensions Office of your email address by one of the means above. Please quote your membership number too.