

# NEWSBRIEF

NOVEMBER 2011



BRITISH STEEL PENSION SCHEME

ISSUED TO ALL MEMBERS,  
PENSIONERS AND  
DEPENDANTS OF  
THE BRITISH STEEL  
PENSION SCHEME

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## CHAIRMAN'S INTRODUCTION



Welcome to Newsbrief 2011 which includes the main financial and membership features from the Scheme's 2011 Annual Report and Accounts and coverage of this year's Pensions Consultative Meeting at Ashorne Hill, as well as some general matters which I hope will be of interest to Scheme members.

I am pleased to report that the Fund's assets grew during the year to £11,357 million as at 31 March 2011, an increase of £417 million on the previous year. Despite the defensive nature of our asset allocation (around 70% Maturity: 30% Growth portfolios), the Fund's long-term performance continues to compare very favourably with our external peers. State Street Global Services, an external analyst, provided an independent review of the Fund's performance against the WM50 universe of the largest UK pension schemes and concluded that the Fund was the top performing fund over the past 5 and 10 years. I consider that State Street's report provides reassuring independent confirmation of our consistently strong investment performance over the years. Further information on the Fund's performance can be found in the Consultative Meeting Report.

Given the very volatile global investment markets since 31 March, the relatively consistent nature of the Fund's value further demonstrates the resilience of the Fund through its sound asset allocation. The Fund value at 31 October 2011 was £11,507 million.

This year is very significant for our Scheme as the three-yearly actuarial Valuation as at 31 March 2011 is currently under way. Despite Scheme assets reaching a near record value, a funding deficit is expected on an on-going basis because of growing liabilities. Scheme longevity, in particular, continues to improve at a faster rate than expected.

The Trustee board has ultimate responsibility for the funding assumptions but is required to take advice from the Scheme Actuary and obtain the Company's agreement to the principal assumptions and any deficit recovery plan.

A joint Company / Trade Union working party was formed to examine the health and prospects of the Scheme in preparation for the 2011 Valuation. Meetings of the joint working party are taking place regularly and the Trustee board is being kept informed of developments. Any proposals from the joint working party will be taken into consideration in the Valuation outcome.

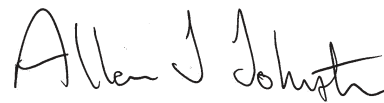
All pension schemes are required to implement and maintain effective internal controls. The control regimes in both the Glasgow Pensions Office and London Investment Office are reviewed regularly by the Scheme's auditor KPMG. KPMG congratulated both offices for the high quality of their work and confirmed that there were no issues from its annual statutory audit.

Page 6 provides details of your Trustee board structure and includes photographs and biographies of the current Trustee directors. The BSPS is administered by B.S. Pension Fund Trustee Limited, a corporate Trustee Company set up for this purpose. The assets of the Scheme are held in the name of the Trustee Company, completely separate from Tata Steel. The day to day administration of the Scheme is supervised by the Trustee board, comprising 14 Trustee directors split equally between Company and member nominations.

Although the success of the Scheme is very much a team effort, I would like to take this opportunity to recognise the contribution of Paul Strickland who retired in August after 12 years service as a Trustee director and Chairman of the Investment Committee. During Paul's term of office pension schemes such as ours have been subject to significant volatility and uncertainty, and the continued good investment performance of the Fund bears testament to Paul's commitment, enthusiasm and expertise. This newsletter includes a feature recognising Paul's contribution (see page 7).

I would also like to mention the untimely passing of Jon Abbott who served the Scheme passionately and diligently as Trustee director for fifteen years before his retirement in June last year. The Trustee board was greatly saddened by this news, and I would like to take this opportunity once again to recognise Jon's valuable contribution to our Scheme.

Best wishes to you and yours.

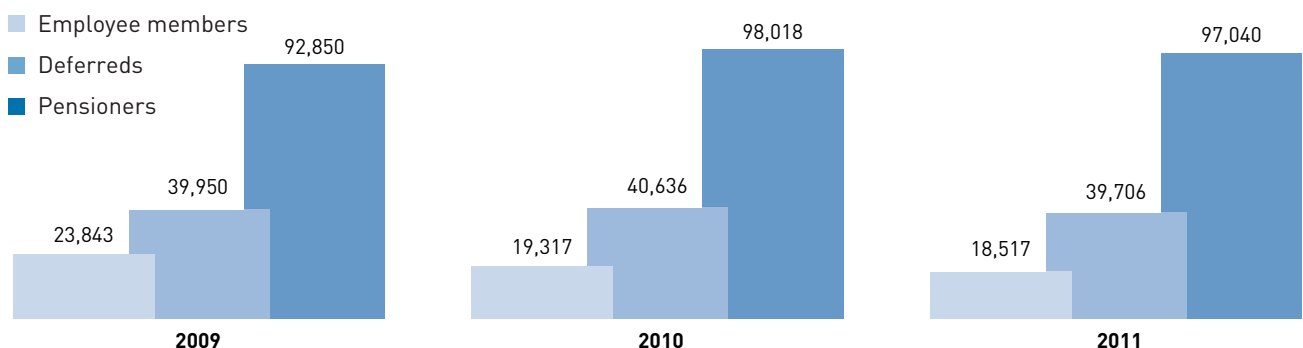


**Allan Johnston**  
Chairman of B.S. Pension Fund Trustee Limited

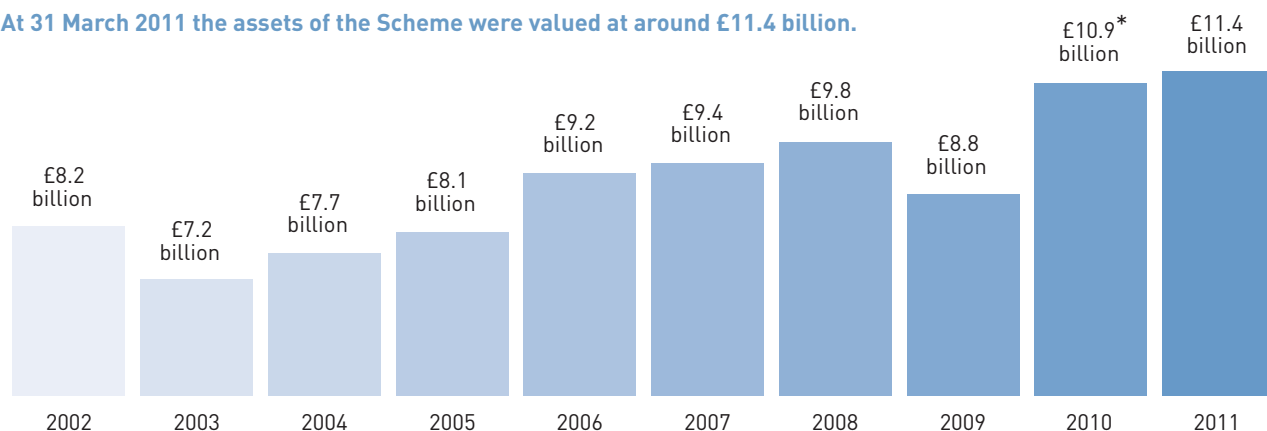
Please bear in mind when reading the Newsbrief that different provisions may apply to benefits originally accrued under pension schemes which have been subsequently merged into the British Steel Pension Scheme (BSPS). If you are unclear about how you may be affected please contact the Pensions Office. Information is provided for guidance only and is not legal advice. It is correct at the time of going to press.

## REPORT AND ACCOUNTS HIGHLIGHTS

The Scheme has almost 156,000 members



At 31 March 2011 the assets of the Scheme were valued at around £11.4 billion.



\* includes assets of £670m from the former CESPS transferred following its merger into the BPS on 6 April 2009.

### Asset Allocation at 31 March 2011

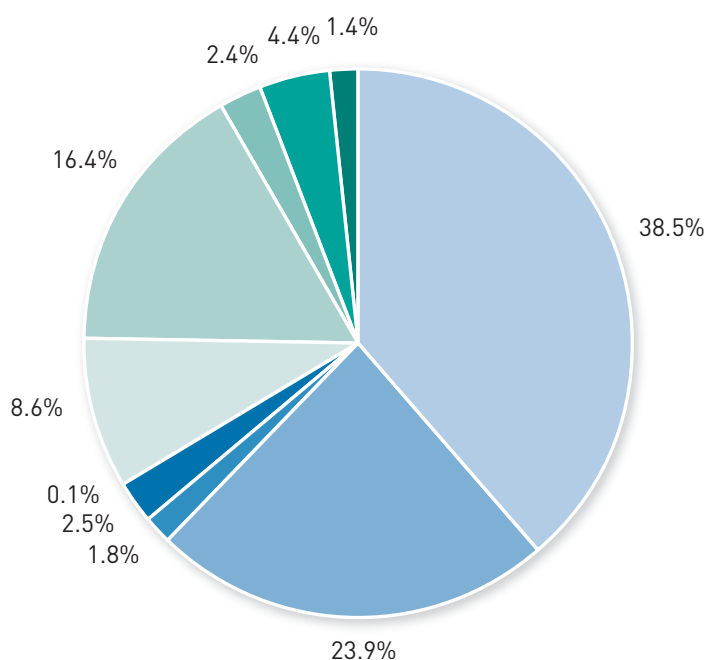
The Scheme's investment policy is set out in the Scheme's Statement of Investment Principles. The Scheme's assets are split between:

- the **Maturity Portfolio** which seeks to match a large part of the Scheme's pensioner liabilities with more secure bonds and also includes certain properties; and
- the **Growth Portfolio** which seeks to achieve higher longer term returns on the investments and focuses mainly on investment in company shares (both in the UK and overseas).

### ASSET CLASS

MATURITY PORTFOLIO	AMOUNT (£BILLION)	(%)
Index Linked Securities	4.372	38.5
Fixed Interest Securities	2.720	23.9
Maturity Properties	0.201	1.8
Cash	0.285	2.5
<b>Sub-total</b>	<b>7.578</b>	<b>66.7</b>

GROWTH PORTFOLIO	AMOUNT (£BILLION)	(%)
AVCs	0.002	0.1
United Kingdom Equities	0.983	8.6
Overseas Equities	1.859	16.4
Pooled Investment Vehicles	0.277	2.4
Growth Properties	0.495	4.4
Alternative Investments	0.163	1.4
<b>Sub-total</b>	<b>3.779</b>	<b>33.3</b>
<b>TOTAL</b>	<b>11.357</b>	<b>100</b>



## Income and Expenditure for the year ended 31 March 2011

	(€M)
Net Assets of the Scheme as at 1 April 2010	10,940
Total Income – see (1) below	168
Total outgoings – see (2) below	(589)
Net return on investments	838
<b>Net Assets of the Scheme as at 31 March 2011</b>	<b>11,357</b>

## Contributions and Benefits

### (1) Contributions and transfers in totalled £168m

Member normal	£35m
Member AVCs	£2m
Employer Ordinary	£71m
Employer Other	£60m

### (2) The Scheme paid out £589m in pensions, benefits, transfers out and other expenses.

Monthly pensions	£502m
Lump sum retirement benefits	£67m
Transfer out/refunds	£7m
Commutations	£1m
Lump sum death benefits	£5m
Administration expenses	£4m
Pension levies	£3m

The accounts shown here are only a summary of the financial statements included in the statutory report and accounts. The financial statements are independently audited by KPMG LLP which reassures members that financial matters are being properly controlled and recorded. KPMG have again stated that the accounts represent a true and fair position of the Scheme's income and expenditure, and the value of the assets, for the year ended 31 March 2011.

You can view a copy of the full Annual Report & Accounts on the Scheme website [www.bspensions.com](http://www.bspensions.com) or, if you require a printed copy of the Report then please call the Pensions Office.

## PENSION INCREASES

**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 2011 was 5.1% and appropriate increases were applied to BSPS pensions in April.**

The pension increases for the last 5 years are shown below.

2011	2010	2009	2008	2007
5.1%*	3.7%	0.1%	4.1%**	4.2%**

\* Increases in respect of service before 1 April 2006 for members of the former Acquisition Section are subject to a cap of 5% per annum.

\*\*Scheme benefits accrued in respect of service after 1 April 2006 are subject to a cap of 4% per annum.

Pensions in payment since 1975 are now 9 times their original value as a result of the Scheme's indexation provisions.

*Different provisions may apply to benefits originally accrued under pension schemes which have subsequently been merged into the BSPS. For example, Pensioners who have a pension payable from the former Corus Engineering Steels Pension Scheme (CESPS) generally receive increases based on the increase in RPI from December to December each year, therefore the increases granted will vary from those shown above.*

Pensioners are issued annually with a P60 statement, which shows how much pension has been paid and how much has been deducted in tax during the year, and a letter setting out the pension increase that will apply to their pension. These documents will next be issued in March 2012.

# SPECIAL EXERCISES DURING 2011

## Teesside Cast Products Limited

Following the sale of certain assets of Teesside Cast Products to Sahaviriya Steel Industries UK Limited on 24 March 2011, 713 employee members of the BPS transferred under TUPE to new employers. Scheme Officers provided details of benefits and options available for each member under the Scheme Rules and also presented local pensions roadshows.

## Lump sum death benefits

Lump sum death benefits may be payable to Dependants and/or personal representatives. The Trustee board will use its discretion with regard to the matter of who receives the payment. The Trustee board regularly considers cases where the dependency circumstances are not of a straightforward nature and in these circumstances, in particular, it would have been helpful to have an indication of the late member's wishes.

Members can indicate their wishes by completing a Scheme Nomination form, although it should be noted

that this document is not legally binding on the Trustee board. Members should also consider drawing up a will in the event that their preferred nomination does not come within the Scheme's definition of Dependants.

Deferred Pensioners were provided with nomination forms along with their 2011 annual benefit statements and over 2,000 completed forms were returned to the Pensions Office. During 2012, nomination forms will also be sent to eligible former employee Pensioners\* together with their copy of the Pensioners Update newsletter and to employee Members with their annual benefit statement.

Nomination forms can be completed or updated at any time. If you have not already made a nomination or would like to change your nomination, copies are available from the Scheme's website or on request from the Pensions Office (see back page for details).

*\*No lump sum death benefits are payable if a Pensioner has been in receipt of a Scheme pension for 5 years or more, or in respect of a beneficiary receiving a widow/widower's, Civil Partner's or dependant's pension.*

## LIVING OUTSIDE THE UK

Most Scheme pensioners live in the UK but the Glasgow administration office also pays 1,362 pensioners and dependants resident in 56 other countries (almost a quarter of the member states represented in the United Nations).

An example of this is the Garcia family who have a long link with Tata Steel and its predecessors dating back

to 1978 when Pepe joined British Steel's mailing and services department in the London Head Office at Grosvenor Place. His son Jose later joined the same department and worked alongside his father for 14 years until Pepe retired and moved back to the Galicia region in north west Spain in 1996. Jose continues to work at the London Millbank Office but regularly travels across to Coruna to visit his mum and dad and help around the family home. Jim Cumming, Director Pensions and Scheme Trustee recently spent a short holiday break with his wife in the area which happened to coincide with one such visit and met up with the Garcia family to chat over old times.

Not surprisingly Pepe's home country features very highly in the top ten most popular countries for the Scheme's overseas Pensioners to retire to:



from left to right: Jose, mum Pura, Jim and Pepe.

Australia	288
Spain	196
Canada	132
USA	103
Ireland	86
France	77
West Indies	76
Italy	65
South Africa	55
New Zealand	47
Rest of the world	237

# YOUR SCHEME & TRUSTEE DIRECTORS

The British Steel Pension Scheme (BSPS) is operated under trust law and the Trustee Company holds the Fund's assets separate from the Employer's for the security of members' benefits.

The day-to-day administration of the Scheme is supervised by a Trustee board, who serve as directors of the Trustee Company. Half of the 14 Trustee directors are Company Nominated Trustee Directors (CNTDs) and half are Member Nominated Directors (MNDs). Of the MNDs, one pensioner member is chosen on the recommendation of a selection panel consisting of Trustee directors following a self-nomination process. The balance of MNDs is selected by the Trade Unions and are generally appointed for a 3 year period; CNTDs appointments are formally reviewed by the Company every 3 years.

All Trustee directors have the same duties and responsibilities and must have regard to the interests of all members and beneficiaries; it is not the role of a Trustee director to represent the interests of a particular group of members over any other. The main duty of the Trustee director is to administer the Scheme ensuring that benefits are paid in accordance with the Scheme's Trust Deed & Rules and governing law and that the Trustee's powers and discretions are exercised properly.

The Trustee board is responsible for ensuring the Pension Fund is properly invested in line with the Scheme's investment principles and relevant law and has delegated the exercise of its investment powers to an Investment Committee. The Investment Committee is advised by the Fund's Chief Investment Officer and is assisted by three independent advisers.

The Trustee board has also established a Valuation/Covenant Sub-Committee to receive regular updates on Company operations and finances.

## The current Trustee Directors are:

CNTD: Company Nominated Trustee Directors

MND: Member Nominated Directors nominated by the Trade Unions

PMND: Member Nominated Director selected from Scheme Pensioner applications

### Allan Johnston (Chairman) (CNTD)



Allan has been a Trustee director for 17 years and was appointed as Trustee Chairman in February 2007. He is also Chairman of the Valuation/Covenant Sub-Committee and is a member of the Investment Committee. Allan worked for 33 years in the steel industry before his retirement in September 2003.

### Martin Driscoll (CNTD)



Martin was appointed to the Trustee board in February 2010. He has been employed in the steel industry for 21 years and is based in Scunthorpe Works.

### Jim Cumming (CNTD)



Jim is the Director, Group Pensions and is based in Glasgow. He has been a Trustee director for 19 years and is a member of the Investment Committee. Jim has been associated with the Scheme for 41 years in various capacities.

### Andy Dunbar (CNTD)



Andy was re-appointed to the Trustee board in August 2011 having previously served as a Trustee director between 2000 and 2007. He has been employed for 32 years in the steel industry and is based in Port Talbot Works.

### Geoff Deeley (PMND)



Geoff has been a Trustee director for 14 years. He is also a member of the Investment Committee. Geoff was employed in the steel industry for 39 years before his retirement from Rotherham Works in 1986.

### Terry Godfrey (MND)



Terry has been a Trustee director for 2 years. He was nominated by Unite (Amicus) and is a member of both the Investment and Valuation/Covenant Committees. Terry has worked in the steel industry for 36 years and is based in Port Talbot Works.

#### Colin Madden (MND)



Colin was appointed to the Trustee board in September 2010. He was nominated by the GMB Union. Colin has worked in the steel industry for 34 years and is based in the Tube Works, Hartlepool.

#### Peter Rees (MND)



Peter has been a Trustee director for 4 years. He was nominated by the Community Union. Peter has worked in the steel industry for 32 years and is based in Trostre Works.

#### Steve Maddock (CNTD)



Steve has been a Trustee director for 10 years. He was recently appointed as Chairman of the Investment Committee and is now a member of the Valuation/Covenant Sub-Committee. Steve has been employed in the steel industry for 23 years and is based in Port Talbot Works.

#### Neil Samuel (MND)



Neil was appointed to the Trustee board in May 2010 and was nominated by Unite (SIMA). He has worked in the steel industry for 35 years and is based in Port Talbot Works.

#### Sue Mather (MND)



Sue has been a Trustee director for 4 years and was nominated by the Community Union. Sue is a member of both the Investment and Valuation/Covenant Committees. Sue has worked in the steel industry for 22 years and is based in Rotherham Works.

#### Sean Scorer (MND)



Sean has been a Trustee director for 2 years. He was nominated by the Community Union. Sean has worked in the steel industry for 21 years and is based in Scunthorpe Works.

#### John Phillips (CNTD)



John was appointed to the Trustee board in August 2010. He has been employed in the steel industry for 21 years and is based at Port Talbot Works.

#### Sarah Smith (CNTD)



Sarah has been a Trustee director for 8 years. She has been employed in the steel industry for 33 years and is based in Scunthorpe Works.

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## INVESTMENT COMMITTEE CHAIRMAN RETIRES

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Paul Strickland retired from the Company as Director, Corporate Finance on 20 August 2011 after 37 years service. He served as a Trustee director and Investment Committee Chairman from 1999. During these challenging times for UK pension schemes, Paul helped guide the Fund to successful conclusions for major investment switches, which have preserved the value of the assets of the Scheme throughout the on-going economic uncertainty in recent years. During Paul's tenure as Chairman of the Investment Committee, the BSPS was the best performing fund in the

WM50 universe of large UK pension schemes over the past 5 and 10 years.

Paul's experience in corporate finance was also used to good effect in discussions involving the Trustee board, Company and lending banks in matters relating to corporate transactions and refinancing.

The Trustee board are extremely grateful for Paul's contribution and wish him well in enjoying the fruits of his labour as he plans to work on his tennis game, walk and train his gun dogs Ben and Lulu and sample some of the local wines during his regular visits to France.

*Steve Maddock, Director, Financial Shared Services, has been appointed to succeed Paul as Investment Committee Chairman.*

# CONSULTATIVE MEETING 2011

The seventeenth annual Consultative Meeting was held on 21 September 2011 at Ashorne Hill Management College and was attended by representatives from the Trustee board, Retirement Associations and Works Committees, Deferred Pensioners, Pensioners and Tata Steel (Europe).



**Allan Johnston**, *Trustee Chairman*

## PENSION SCHEME TRUSTEE DIRECTORS

**Jim Cumming**

**Geoff Deeley**

**Terry Godfrey**

**Steve Maddock**

**Sue Mather**

**Neil Samuel**

## OFFICERS

**Mike Donohue**

**Derek Mulholland**

**Martin Ross**

**Hugh Smart**

## WORKS COMMITTEE NOMINEES

**David Bowyer**, *Port Talbot*

**Mike Clark**, *Shotton*

**Paul Evans**, *Trostre*

**Dougie Fairbairn**, *Corby*

**Andrew Gutteridge**, *Llanwern*

**Stuart Sansome**, *Rotherham*

**Lew Schaffer**, *Scunthorpe*

## TATA STEEL (EUROPE)

**Colin Harvey**



From left to right:  
Stuart Sansome  
and Roger Turner

## OTHER EMPLOYEE MEMBERS

**Louise Bolter**, *Port Talbot*

**Andy Renouf**, *Scunthorpe*

## LOCAL PENSIONER ORGANISATIONS

**Horace Bolton**, *NFOP\* Rotherham*

**Tom Bowman**, *NFOP\* North East*

**Melvin Davies**, *NFOP\* Ebbw Vale*

**Pat Harlow**, *London Retirement Association*

**John Lawson**, *Cumbria Retired Colleagues Association*

**Robin Murdoch**, *NFOP\* Corby*

**Dennis Spicer**, *Port Talbot Retired Employees Association*

**Ian Veitch**, *NFOP\* Scotland*

## OTHER PENSIONERS

**Bob Avis**, *former Trustee Chairman*

**John Bryant**, *former Chief Executive Officer, Corus*

**Stewart Colley**, *former Fund Investment Manager*

**Harold Homer**, *former Executive Director, British Steel*

**John McDowall**, *former Executive Director, British Steel*

## OBSERVER

**Roger Turner**, *General Secretary, NFOP\**

The Chairman noted the sad loss during the year of John Batstone, a strong supporter of the Consultative Meeting. John had missed only one of the 16 previous meetings representing NFOP and its predecessors. John passed away in June while attending a pensioners' conference.

\*NFOP – National Federation of Occupational Pensioners.

A selection of additional photographs from the Consultative Meeting can be viewed on the BSPS Website ([www.bspensions.com](http://www.bspensions.com))

# CHAIRMAN'S PRESENTATION

## **The Chairman opened proceedings by welcoming delegates to Ashorne Hill Management College.**

### **Scheme Membership**

Membership figures had declined over the last Scheme year. Employee membership as at 31 March 2011 fell below 19,000 as over 700 employee Members ceased pensionable service in March following the Company's sale of the Teesside Cast Products business.

The average age of employee Members was 43 whilst the average age of Pensioners and Dependants was 75 years of age. One ready measure of the impact of longevity improvements on the Scheme was the number of Scheme Pensioners aged 100 or more: there are now 80 compared with 17 in this category in 2000. The Scheme's maturity was reflected in Pensioners accounting for 60% of the Scheme's liabilities, whereas employee Members and Deferred Pensioners accounted for 30% and 10% respectively.

### **The Fund**

The Fund value as at 31 March 2011 was £11,357 million which represented an increase of £417 million from the previous year. Fixed Interest and Index Linked securities continue to be the largest investment holdings in the Scheme and despite the defensive nature of the asset allocation (around 70% Maturity: 30% Growth Portfolios) the Fund's long term performance continues to compare very favourably with other UK pension schemes.

In common with most other similar schemes, the funding position of the BSPS will almost certainly have deteriorated since 31 March 2011 because of the increases in the liabilities driven by falling bond yields during this period. However the Fund's defensive asset allocation will have provided a measure of protection against the worst effects of this downturn.

### **Actuarial Valuation as at 31 March 2011**

The last formal valuation as at 31 March 2008 resulted in a past service funding level of 100% on an ongoing basis. The 2010 Funding Update showed that the funding level was 97% with a deficit of £361 million. The Scheme's Valuation as at 31 March 2011 is currently ongoing and a funding deficit is expected. The Trustee board has ultimate responsibility for the funding assumptions but is required to take advice from the Scheme Actuary and obtain the Company's agreement to the principal assumptions.

The Scheme's funding position will reflect mortality improvements since the last Valuation and the strength of the Company covenant.

If, as expected, a funding deficit is confirmed, the Trustee board and the Company will seek to agree a Recovery Plan detailing the basis and timescale for the Scheme to be returned as quickly as reasonably affordable to a fully funded position.

The Trustee is required to complete the Valuation within 15 months of the effective date, i.e. by 30 June 2012.

### **Pensions Indexation and Revaluation**

The Government announced in July 2010 that it intended to adopt the Consumer Prices Index (CPI) as the measure of price inflation, instead of the Retail Prices Index (RPI), for the purposes of regulating minimum requirements of occupational pensions. As CPI is on average expected to be lower than RPI, this could result in the value of future pension payments being reduced.

The effect of this announcement on schemes such as the BSPS depends on the precise terms of scheme rules. Reference to index and indexation in the BSPS Rules are generally defined by RPI; accordingly Scheme benefits which are increased by reference to RPI will continue to be so indexed.

*(See page 4 for details of the annual Scheme increases which generally applied in April 2011 and page 11 for further details about indexation.)*

### **Company Refinancing**

On 29 September 2010 Tata Steel completed the refinancing of its European operations. Throughout the refinancing negotiations, the Trustee's Valuation/Covenant sub-committee met with the Company to receive an information flow on Company matters. The Trustee board was kept fully informed of developments and with its team of advisers considered with the Company how refinancing would be accommodated within the existing pension security framework, agreed in 2007 when Corus was acquired by Tata Steel.

Following successful completion of the negotiations, appropriate revisions to the existing pensions security arrangements were agreed between the Trustee and the Company. The Chairman wrote to Scheme members in October 2010 with details of the revised security arrangements.

### **Scheme Governance**

Service Standards are a measure of the Pensions Office's performance across a range of key administration tasks and results are reported quarterly to the Trustee board. During the last Scheme year, internal targets, which are considerably more demanding than the statutory disclosure requirements, were largely attained. In the small number of cases

where internal targets were not achieved, the cause was fully investigated and appropriate improvements made to internal processes and practices. It is worth noting that in the instances where internal service standards were not achieved, any regulatory timescales were met.

Scheme Officers together with KPMG have designed a schedule of measurement and testing of Scheme membership data over a 3 year period, in line with guidance by the Pensions Regulator. The results to date confirm that overall the data is accurate and fit for purpose.

## PENSIONS ADMINISTRATION UPDATE



**MIKE DONOHUE,**  
SCHEME SECRETARY

**Mike provided an update on matters affecting the administration of the Scheme, particularly during the past 12 months.**

### **High/Low Pension Option [also known as Rule 11(8)]**

The high/low pension option aims to provide a steady level of income throughout retirement by paying an additional element of pension on early retirement from employee status until age 65, which is generally when the State pension becomes payable. When the member reaches age 65, the Scheme pension payable thereafter is reduced by an amount equal to the Scheme's Lower Earnings Limit.

The future operation of Rule 11 (8) is likely to be impacted by the Government's ongoing review of the relevant age for entitlement to State pension, the value of State pensions in the future, and the potential impact of the Annual Allowance tax charge (for some high earning, long serving retiring members, electing for Rule 11(8) alone could exhaust the Annual Allowance in the year of retirement).

Rule 11(8) remains a popular choice for many employee members reaching retirement, however the above uncertainties could have a significant adverse impact on future retirement income after age 65. Members considering the High/Low pension may therefore wish to seek independent financial advice before making this irrevocable option.

### **Pensionable Earnings/Rule 5(3)**

Significant increases in Pensionable Earnings near retirement or on leaving service put a strain on Scheme funding and have a disproportionate impact on past service liabilities when compared to Members' contributions over their working life.

To safeguard the security of benefits for Scheme members generally, Rule 5 (3) which is a long-standing provision, is applied in cases where the Company determines that earnings include emoluments (such as bonus or overtime) subject to abnormally wide fluctuation. In determining the Member's Scheme earnings, under Rule 5(3) the fluctuating emoluments must be averaged over 3 years to ensure benefits payable are more representative of earnings received

and contributions paid during the period of Scheme membership.

Rule 5(3) can be applied to unrepresentative earnings across all grades of employees, and is applied automatically in respect of all Senior Managers.

### **New Pension Tax Regime**

Since April 2006, there have been two main limitations on tax effective pension savings: the Annual Allowance (AA) is the maximum amount by which the value of pension savings can increase in any year without incurring a tax charge and the Lifetime Allowance (LTA) is the overall limit on the individual's tax privileged pension savings.

Under changes announced by the Government during the last year, the amount of tax relief that can be claimed is to be restricted as follows:

- From 6 April 2011, the AA reduced from £255,000 to £50,000. This broadly equates to an annual increase in your prospective Scheme pension after inflation of £3,125 a year. Full tax relief will be given on pension savings up to the AA. Tax on any excess will effectively be at the highest rate of marginal income tax, and will be assessed through self-assessment. Employee members are notified of the increase in the value of their pension savings in their annual benefits statements. Pensions in payment and Deferred Pensioners' benefits are exempt from the AA.
- From April 2012, the standard LTA reduces from £1.8 million to £1.5 million. This will broadly equate to a Scheme pension of £75,000 per annum at retirement. Scheme administrators will continue to calculate any tax due on benefits above the LTA on a member's retirement. Employee members are notified of the capital value of their pension against the LTA in their annual benefits statements. Pensions in payment do not need to be measured against the LTA unless the pensioner has further benefits coming into payment from another UK registered pension arrangement. Deferred Pensioners benefits will be measured against the LTA at the time they come into payment.

The changes in the main are likely to affect members with long service combined with high earnings and/or rapid earnings growth.

Further details on the new tax regime are available on the Scheme website [www.bspensions.com](http://www.bspensions.com).

## INVESTMENT UPDATE



**HUGH SMART,**  
CHIEF INVESTMENT OFFICER

**Hugh reported on the Scheme's investment performance during the year and provided an update on general investment matters.**

Performance over the last year continued to be strong. The annual return of 7.9% was well ahead of its benchmark target of 7.0%, adding almost £100 million in value. The Fund has now beaten its Scheme Specific benchmark in three of the past four years since its inception generating an average of 1% per annum of value added over this time period. One very reassuring feature of this outperformance was that it had come across several different asset classes.

The external analyst State Street Global Services, which provide benchmarking information to most large UK pension schemes to help them understand how their investment performance compared to others, had compiled a report on the Fund's performance in the year ending 31 March 2011.

Against the WM50 universe of the largest UK pension schemes, our Fund was the top performing over the last 5 and 10 years and the best performing in terms of risk adjusted returns over the last 5 years. Relative to their benchmarks, over the last 5 years the Fund was in the minority of those that had outperformed their own benchmark and had produced one of the

highest levels of benchmark outperformance whilst taking only an average amount of risk relative to its benchmark.

State Street noted that whilst externally managed funds had not added value relative to their benchmarks over the past 5 years, internally managed funds such as the BSPS had all outperformed their benchmark, with the Scheme performing strongly within this group. Internal management also offered significantly lower investment expenses with an average cost of 0.1% compared with the average of 0.34% for externally managed funds. Even within its internally managed peers, the Fund's investment expenses were significantly below average at approximately 0.05%.

The major banks' reluctance to lend had opened-up opportunities for pension funds to seek to fill the gap in commercial property transactions with high quality tenants. The Fund's Maturity Property portfolio had increased over time to £373 million as it had acquired more properties, including the new BBC studio complex in Cardiff Bay, home of Doctor Who.

The Fund value at 9 September 2011 was £11,343 million with asset allocation currently 70% Maturity Portfolio and 30% Growth Portfolio. Given the very volatile global investment markets following the year end position the relative consistency of the Fund's value proved testimony to the resilience of the Fund's asset allocation.

## PENSIONS ISSUES AND DEVELOPMENTS



**DEREK MULHOLLAND,**  
MANAGER, PENSIONS

**Derek provided details of the current issues affecting pension schemes generally and the potential impact that some of those changes could have on the Scheme.**

### Indexation of Pensions

As mentioned previously, the Government has announced its intention to change from RPI to CPI as the measure of price inflation for the purposes of regulating minimum requirements of occupational pensions. Both CPI and RPI are measures of price inflation; however they differ in the goods and services monitored and the way they are calculated. CPI increases have historically been lower than RPI, although this will not necessarily be the case for any given period in future.

References to indexation in the BSPS Rules are generally defined by reference to RPI and therefore those Scheme benefits which are set by reference to RPI will continue to be so.

There are however some limited circumstances where the change to CPI might impact on the BSPS. Guaranteed Minimum Pension (GMP) accrued in respect of service between 6 April 1988 to 5 April 1997 which arise from the Scheme contracting-out of the State's second pension system are increased in accordance with a statutory increase order. With effect from 1 April 2011, this statutory increase order will be set by reference to CPI.

Some statutory indexation provisions also exist in respect of the rules of former pension schemes which were merged with the BSPS as part of the Company's Long Term Pension Review, and the basis of future indexation for these benefits will also generally change to CPI. Pensioners affected by this change were notified in their annual pensions increase letter

issued in March 2011. Deferred Pensioners who have benefits accrued in a Long Term Pension Review Scheme will be advised of any change in their deferred benefits statements.

Although members of pension schemes are generally against the switch from RPI to CPI, some employers and trustees of other schemes have welcomed the use of CPI indexation as a means to offset partially the impact of increasing scheme liabilities from improving pensioner longevity, amongst other things.

### State Pension Age

The State Pension age is the earliest age you can get your State Pension. Currently, the State Pension age for men is 65. On 6 April 2010, the State Pension age for women started to increase gradually from 60 to 65, to match men's provisions.

The government has published new proposals for increasing the State Pension age to 66.

Women's State Pension age will increase more quickly to 65 between April 2016 and November 2018. From December 2018 the State Pension age for both men and women will start to increase to reach 66 in April 2020 (See Stop Press below).

The Government has also confirmed that the timetable for future changes to the State Pension age from 66 may be brought forward, and it was looking at mechanisms to keep the State Pension age in line with rising life expectancy.

Changes to the State Pension age do not affect the date when you can take your benefits from the Scheme, only when you can claim your State pension.

## STOP PRESS . . .

In response to concerns regarding around 500,000 women born in 1953 and 1954, who previously faced a speeded up increase in their State Pension age to 65 by November 2018, followed by a further one-year increase to 66 by April 2020 (i.e. a combined increase of 2 years), the Government proposed on 13 October 2011 that the date the State Pension age reaches age 66 will be pushed back by 6 months to October 2020. This will mean that no woman will have an increase in her State Pension age, against the current timetable, of more than 18 months.



*From left to right: Harold Homer, Andy Renouf and Louise Bolter*

### Increasing Life Expectancy

Longevity improvements are a major challenge for all pension schemes. Around £2 billion has been added to the BSPS's liabilities over the last 20 years as a result of improvement to life expectancy. Although the 2011 Valuation assumptions have still to be formally agreed the rates of mortality have fallen by more than expected since the 2008 Valuation, which will further increase liabilities. No one knows with certainty whether increasing life expectancy will continue at the same rate or if it will eventually start to fall however pension schemes have to take a cautious approach to funding their liabilities until conclusive trends emerge.

Scheme officers and advisers are currently undertaking research to establish what options might be available to manage some of the Scheme's longevity risk.

In response to increasing longevity a number of major pension schemes have introduced longevity adjustment factors. These are provisions written into scheme rules that if longevity increases beyond current assumptions, benefits accrued for future service are automatically adjusted at the point of retirement to take account of the fact they will be paid longer than originally expected. Longevity adjustment factors are seen as providing a means of more equitably sharing risk, with longevity risk to retirement resting with the employee and longevity risk post retirement with the employer.

## TATA STEEL RESULTS AND TRADING UPDATE



**COLIN HARVEY,**  
TATA STEEL EUROPE

Established in 1907, Tata Steel Group is among the top ten global steel companies with an annual crude steel capacity of over 27 million tonnes per annum. It is now one of the world's most geographically diversified steel producers, with operations in 26 countries and a commercial presence in over 50 countries. The Tata brand was the first Indian brand to be in the top 50 club in the 2011 annual report on the world's most valuable brands.

Colin provided a review of Tata Steel's financial results for the year 2010/11 (FY11) and an update on performance to date in 2011/12 (FY12).

FY11 featured record deliveries and profits from Tata Steel's Indian operations due to favourable market conditions and a significant turnaround in financial and operating performance in Tata Steel Europe (TSE). The significantly higher profitability level in Indian operations compared to Europe continued to reflect its exposure to a growing domestic market in India and its integration into raw material self sufficiency. The turnaround in Europe reflected a strong recovery to steel selling prices and deliveries together with the benefit from business improvement initiatives undertaken by the Group in response to the economic crisis. These improvements were to some extent offset by further substantial rises in raw material costs. The TSE FY11 result also benefited from the sale of Teesside Cast Products (TCP)



From left to right:  
David Bowyer, Terry Godfrey and Andrew Gutteridge



From left to right: Bob Avis, John McDowall and John Lawson

in March 2011 to Sahaviriya Steel Industries Public Company Limited (SSI), Thailand's largest steel producer.

The Indian operations continued to perform strongly in Q1 FY12. TSE had an encouraging performance during the same period, despite a weakening to the European steel market and further raw material cost increases. The TSE Q1 FY12 result also benefited from a final settlement of £94m from the TCP consortium of former off-takers.

Looking forward, uncertainty has increased substantially with the global economy expected to see a marked slowdown for the rest of FY12, due particularly to sovereign debt issues in Europe. Forward indicators of industrial activity for most countries are falling, indicating subdued growth for the rest of the year. A slight recovery is expected during the first half of 2012, but this recovery is likely to be very slow. Against this background, European steel consumption is expected to weaken further in FY12, in particular in the construction sector, leading to downward pressure on steel selling prices and margins.

Despite the difficult market conditions in Europe, parent support from Tata Steel remains very strong, in particular through its support for a significant capital investment programme of circa £420m per annum for its UK and mainland European operations, which includes the £185m rebuilding of the No 4 blast furnace at Port Talbot, various working capital arrangements, and its strategic aim to develop further raw material self sufficiency, which will ultimately benefit the competitive position of TSE.

## POINTS FROM THE QUESTION AND ANSWER SESSIONS

### How does the Company Covenant affect the Scheme?

The Company Covenant is the employer's legal obligation and ability to fund the Scheme now and in the future. The Trustee board must take into consideration the strength of the Covenant when agreeing with the Company the principal valuation assumptions, length of any Recovery Plan to meet any funding deficit, and the degree of risk the Scheme can afford to take in future investment strategy.

The Trustee meets with the Company on a regular basis to receive an information flow on Company matters including trading, operational and financial developments and retains a leading firm of independent experts to provide advice on the strength of the Company covenant.

In the event of the sponsor becoming insolvent, a pension scheme would ordinarily be an unsecured creditor, however security arrangements agreed with the Company in 2007 and updated in 2010 at the time of the Company refinancing provide the Scheme with recourse over certain assets of the Group through to 2017, providing a strengthened covenant over this period.

The Trustee board must necessarily take a long term view of the Company covenant reflecting the duration of Scheme pension commitments.

### How are the major risks to the Scheme managed?

In line with the Pensions Regulator's Code of Practice, the Trustee board operates a formal Risk Management Policy to ensure that the Scheme has adequate internal controls to allow it to be administered and managed effectively.

Scheme Officers maintain a Risk Register which sets out the key risks affecting the Scheme and how they are mitigated. The risks and internal controls for both the Glasgow Pensions Office and London Investment Office are regularly reviewed by the Trustee board and the Scheme auditors, KPMG, and updated as necessary.

Ultimately, the most significant residual risks facing the Scheme are outside of the Trustee's direct control (e.g. increasing life expectancy), and these risks are closely monitored so that the Trustee is well placed to act promptly if required.

### Do large scale redundancy exercises put a strain on the Scheme's funding position?

Although individual early retirements do represent a strain on the Fund, these strains may be mitigated in large scale redundancy exercises spread across all age groups.

### Should the Trustee board be involved in the Joint Working Party discussions regarding the health and prospects of the Scheme?

The future service benefits package is a matter for agreement between the Company and Trade Unions. The Trustee board's role will be to implement effectively any changes following appropriate consultation between the Company and affected members.

The Trustee board is being kept informed of developments.

### Has the Scheme's 70:30 Maturity/Growth asset allocation split contributed to the investment out-performance?

Over the last 20 years, bonds and equities have generally produced broadly similar returns. The driver for out-performance has therefore been the well executed timing by the Fund of switching between these two asset classes.

### Does the Fund own the freehold on its commercial properties?

The vast majority of the Fund's commercial property is freehold or "virtual" freehold (typically originally 999 year leases).

### Who makes the decision to apply Rule 5 (3) to Earnings and are the reasons for variations relevant?

Details on the application of Rule 5(3) can be found on page 10.

The decision to apply Rule 5(3) is made by the Company.

All cases are reviewed using the same criteria irrespective of the reasons for variations to best achieve fairness and consistency.

### Are there any plans to extend the payment of spouses'/civil partners' pension to cover non-married partners?

Entitlement to spouses'/civil partners' benefits in the Scheme Rules is based upon a legal relationship. This provides certainty to members regarding who will qualify for a Scheme pension in the event of their death. Whilst some pension schemes do pay benefits more widely based on, for example, financial dependency, any extension of this kind brings with it uncertainty over potential eligibility, and could go far beyond non-married partners.

The power to extend the dependency provisions in the Scheme Rules rests with the Company and not the Trustee. A benefit improvement of this kind could add approximately £0.25 billion to the Scheme's liabilities with a further 1% added to the future service contribution rate. Given the Scheme's current funding position the Company would not be minded to make such a change.

### How do variations in income, health and genetics influence the Scheme's longevity assumptions?

The Scheme's longevity experience is generally higher than national averages. This reflects the relatively high value of average pensions payable under the Scheme, as there is a well established link between the level of income and increased longevity.

The Scheme has a sufficiently large membership to base assumptions on its own mortality experience.

## FUNDING UPDATE

By law the Trustees of all UK defined benefit schemes are required to summarise annually the funding position at the most recent Valuation date. Results of the full Valuation of the Scheme at 31 March 2011 are not finalised yet.

## SCHEME WEBSITE REVAMP

The Scheme is fully committed to providing members with clear communication and recognises the increasing number of people turning to the web as a source of information. In response to feedback from the 2010 Member Survey, and to ensure that the website provides you with timely, well-organised information, the site was revamped during 2011.

The first phase of the revamp gives the site a fresh look making it easier to find current and informative content. We invite you to visit the new site regularly and provide us with feedback and any comments regarding its effectiveness or additional information that you would like to see included. You can find the website at [www.bspensions.com](http://www.bspensions.com).

## FURTHER INFORMATION FOR MEMBERS

A list of publications which provide more detailed information on the Scheme is shown below. All of these documents are available on request from the Pensions Office:

### Definitive Trust Deed and Rules

the legal document which governs the Scheme and sets out how the benefits are calculated and paid

### Members' Handbook

explains the main features of the Scheme

### Annual Report and Accounts\*

shows the Scheme's income and expenditure in the year up to 31 March 2011

### Statement of Investment Principles

a written statement which sets out the broad principles governing the investment policy of the Scheme

### Statement of Funding Principles

sets out the Trustee board's policy for meeting the statutory funding objective

### Actuarial Valuation Report

the full report following the Actuary's investigation into the Scheme's funding position as at 31 March 2008

### Schedule of Contributions

shows the due dates for contributions from the employee and the employer and also the rate of contribution

\*A copy can be viewed on the Scheme's website at [www.bspensions.com](http://www.bspensions.com)

## RECEIVE NEWSLETTERS ON LINE

By choosing not to receive paper copies of newsletters members help to reduce the Scheme's environmental impact and reduce Scheme costs too. To date, almost 3,000 Scheme members have registered to receive Scheme newsletters on-line.

If you would like to receive future Scheme newsletters electronically (rather than a paper copy) please advise the Pensions Office of your email address and National Insurance number.

## CONTACTING THE PENSIONS OFFICE

**When contacting the Pensions Office, please quote your National Insurance number and indicate whether your enquiry relates to your membership of the former Corus Engineering Steel Pension Scheme (CESPS).**

**Email** Pension.enquiries@tatasteel.com

**Fax** 0141 248 5299

**Website** [www.bspensions.com](http://www.bspensions.com)

**Telephone** If your surname begins A – K, 0330 440 0800  
If your surname begins L – Z, 0330 440 0801

**Writing from the UK** (no need for a stamp)

British Steel Pension Scheme  
FREEPOST RLXS-ZXKT-AUER  
Glasgow, G2 7BW

**Writing from outside the UK**

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

*Standard office hours are 8.45 am to 4.45 pm, Monday to Friday. If you telephone outside these hours, or during statutory holidays, you will be able to leave a message and we will reply to you as soon as possible.*

### Your Feedback

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

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FREEPOST RLXS-ZXKT-AUER  
Glasgow, G2 7BW

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