

SPECIAL NEWSBRIEF 2016

ISSUED TO MEMBERS, PENSIONERS & DEPENDANTS OF THE DEFINED BENEFIT SECTIONS OF THE BRITISH STEEL PENSION SCHEME (BSPS)



CHAIRMAN'S INTRODUCTION

Welcome to Special Newsbrief 2016, which gives details of the annual funding update as at 31 March 2015.

In the October 2015 Newsbrief I reported on the outcome of the recently completed formal three-yearly actuarial valuation as at 31 March 2014. At the time I noted that, as a result of unfavourable market conditions, the Scheme's funding position would have deteriorated since 31 March 2014. The Trustee and Company (Tata Steel UK Ltd) have now received the Scheme Actuary's annual funding update as at 31 March 2015, the results of which are summarised in this Special Newsbrief.

The actuarial valuation as at 31 March 2014 reported a funding level of 93%. Taking account of changes to the Scheme benefits framework in 2015, the funding level increased to 99% (equivalent to a deficit of £90 million). Over the period to 31 March 2015, despite the Scheme's assets increasing in value by over £1,300 million, the funding level fell back to 97% (equivalent to a deficit of £485 million), almost exclusively as a result of adverse movements in the interest rates used to value liabilities.

Given the scale of the fall in interest rates between 31 March 2014 and 31 March 2015, the fact that the funding level only decreased by around 2% is once again testament to the resilience of the Scheme's defensive asset allocation, whereby around 70% of assets are held in more secure bonds and other lower risk asset classes. External analysis indicates that over the same period many UK pension schemes will have seen their funding position fall by considerably more. Notwithstanding this recent deterioration, the Scheme continues to be relatively well funded when compared to many of its peers.

Were interest rates to revert closer to their long-term average, this would have a significant positive impact on the Scheme's funding level. Even a return to the rates at 31 March 2014, which were themselves at historically low levels because of the prevailing economic climate and the Bank of England's policy of buying gilts (known as 'quantitative easing'), should substantially eliminate the deficit on an ongoing basis when taken together with contributions payable under the current Recovery Plan.

It is important to remember that the Scheme will be paying benefits many decades into the future and that the three-yearly actuarial valuations and annual funding updates are snapshots to help the Trustee and the Company with decisions about long-term investment and funding. The Recovery Plan agreed after the actuarial valuation as at 31 March 2014 is summarised in this Newsbrief and was expected to be more than sufficient to eliminate the £90 million deficit. Having considered the annual funding update as at 31 March 2015, the Trustee is presently content to leave this Recovery Plan in place pending review after the next full actuarial valuation as at 31 March 2017.

There is a balance to be struck between investing in a way designed to minimise volatility in funding levels and investing in a way designed to achieve better long-term returns, albeit with more risk, including more short-term volatility in funding levels. The Trustee keeps this balance under constant review, having regard to investment market conditions and the Company's willingness and ability to fund deficits and to underwrite risks. Both the Trustee and the Company now wish to dampen funding volatility still further and the Trustee is therefore taking steps in that direction.

I am delighted to report that at the Investment & Pensions Europe (IPE) Awards 2015 on 19 November 2015, British Steel Pension Scheme was awarded the overall Gold Award for Best European Pension Fund (the highest accolade). Furthermore, we won the Best In-House Investment Team and Best UK Pension Fund. This is our best showing at this annual event so far and takes our total tally of IPE Awards to 10 since we first entered in 2008.

Finally, I am very pleased to accept the Company's invitation to continue to serve as your Trustee Chairman for a three-year term through to 31 March 2019. This extended appointment recognises the importance of continuity through the three-yearly actuarial valuation cycle.

Best wishes

Allan Johnston

Chairman of B.S. Pension Fund Trustee Limited

ANNUAL FUNDING UPDATE

Purpose of this update

Under legislation, the Trustee board is required to obtain a full actuarial valuation at least every three years. The Trustee wrote to you in October 2015 with the results of the actuarial valuation of the Scheme as at 31 March 2014. This was a formal review of the Scheme's ongoing financial position and the contribution arrangements agreed between the Trustee and sponsoring Company (Tata Steel UK Ltd). The Scheme Actuary also provides an annual funding update each year between actuarial valuations, to provide an approximate update on the funding position. These annual updates are less

comprehensive reviews of the funding position and do not involve detailed discussions between the Company and the Trustee. They do, however, provide information on Scheme developments since the last full actuarial valuation. The latest update as at 31 March 2015 was completed in February 2016.

Assessing the health of the British Steel Pension Scheme as at 31 March 2015

The valuation process is carried out by the Scheme Actuary who compares the value of the Scheme's liabilities with its assets. The main results of the Scheme's funding update as at 31 March 2015 are shown below:

Annual funding update as at 31 March 2015	Actuarial valuation as at 31 March 2014	
	Formal valuation report*	After benefit changes
The value of the assets: £13,991 million	£12,673 million	£12,673 million
The value placed on liabilities (technical provisions): £14,476 million	£13,639 million	£12,763 million
Resulting in a deficit of: £485 million	£966 million	£90 million
Equivalent to a funding level of: 97%	93%	99%

* The actuarial valuation of the Scheme as at 31 March 2014 does not reflect changes to benefits included in the Deed of Amendment dated 31 July 2015. Allowing for these changes in the Recovery Plan reduces the deficit at 31 March 2014 by £876 million, leaving a residual funding shortfall of **£90 million**.

The BSPS Recovery Plan

The following annual lump sums are being paid to the Scheme by the Employers (annually in arrears) on top of the contributions required to meet the cost of benefits being earned by members in pensionable service.

Year to 31 March	Deficit contribution
2015	£30 million
2016	£35 million
2017	£60 million
2018	£65 million

The Company is additionally paying £10 million a year from April 2014 to March 2016 as the final instalments due in respect of the merger into the Scheme of the former Corus Engineering Steels Pension Scheme (CESPS). If the assumptions documented in the actuarial valuation as at 31 March 2014 are borne out in practice, the deficit of £90 million will be recovered by 31 March 2017.

At the time of writing, the contributions of £40 million over the year to 31 March 2015 (i.e. £30 million plus £10 million in respect of the CESPS merger) and of £22.5 million over the year to 31 March 2016 had already been paid.

On the basis of the Scheme winding up

The Scheme Actuary is also required by law to report on the Scheme's financial position if it had been wound up on 31 March 2014, which could occur if Tata Steel UK Ltd was unable to support the Scheme. If the Scheme had been wound up, the Trustee would have sought to buy insurance policies to secure the payment in full of all the benefits earned by all its members up to 31 March 2014. There are no plans to wind up the Scheme; the assessment of the position on this basis is simply stated in order to comply with legal requirements.

As part of the actuarial valuation, the Scheme Actuary estimated that, had the Scheme been wound up on 31 March 2014, its assets of £12,673 million would have covered approximately 72% of the amount that would have been needed to buy the necessary insurance policies. This is lower than the ongoing funding level described above because insurers are obliged to take a very cautious view of the future and need to make a profit.

By contrast, the ongoing funding valuation assumes that the Company will continue in business and continue to support the Scheme, which can therefore continue to invest in shares and other return-seeking assets. Even though the Scheme had a shortfall on this discontinuance measure, it was better funded on this basis than most other UK pension schemes.

If the Scheme was wound up, Tata Steel UK Ltd would be required to pay contributions to the Scheme equal to the discontinuance shortfall. If Tata Steel UK Ltd was unable to do so, for example if it became insolvent, the Pension Protection Fund (PPF) might be required to take over the Scheme and pay limited compensation to members based on their age and benefits earned. The PPF acts as a safety net to provide members of defined benefit pension schemes with some level of compensation when an employer becomes insolvent and there is insufficient money to pay members' benefits. Further information on how the PPF works can be found at: www.pensionprotectionfund.org.uk

As the Scheme assets covered PPF compensation benefits as at 31 March 2014, but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry into the PPF had the Company become insolvent at 31 March 2014. Depending on circumstances, the Trustee would either:

- run the BSPS as a closed fund, or
- use the Scheme's assets to secure as much of the benefits as possible with an insurance company.

Under these circumstances, although members would receive at least PPF compensation, this would be less than their full Scheme benefit entitlement. The Actuary estimated that had the Company become insolvent at 31 March 2014, members would have received around 72% of their Scheme benefit entitlement. This ignores the possibility of recoveries from the Company or under guarantees provided by certain other Tata Steel companies under the security arrangements that have been put in place for the banks and BSPS. The 72% estimate is an average figure and the actual percentage would vary from member to member.

Points to note

No payment has been made to Tata Steel UK Ltd out of Scheme funds since the last actuarial valuation was issued as at 31 March 2014, or at any other time in the past, 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 triennial valuation is scheduled for 31 March 2017. Before that date, the Trustee board will undertake a further annual funding update as at 31 March 2016.

PENSION TERMS EXPLAINED

Actuary: The qualified, independent professional appointed by the Trustee to examine the BSPS's finances and assess its financial health.

Actuarial valuation: An in-depth look at the BSPS's finances, carried out at least every three years. Actuarial valuations are calculated on an 'ongoing basis'. This means the actuary assumes that the BSPS carries on as it is now and that all future benefits to the members are paid from the Scheme's invested assets. Further information on 'What is an actuarial valuation?' can be found in Newsbrief 2015.

Annual funding update: For the years in-between formal valuations, an interim review is carried out by the Actuary to provide an approximate update on the BSPS's financial position.

Assets: The actual amount of money invested and held by the BSPS.

Liabilities: The value placed on the amounts which the Scheme has an obligation to pay now or in the future.

Technical provisions: The amount required in an actuarial calculation to make provision for the Scheme's accrued or past service liabilities.

Funding level: The relationship between the value of the Scheme's assets, and the value placed on the Scheme's liabilities, usually expressed as a percentage. A scheme is said to be in deficit if the value placed on liabilities is greater than the assets (i.e. the funding level is less than 100%) and in surplus if the value placed on liabilities is less than the assets (i.e. the funding level is greater than 100%).

Recovery Plan: Where a pension scheme is in deficit, the Trustee of the scheme is required to agree a Recovery Plan with the employers setting out the terms and period over which the scheme will be restored to a fully funded position.

GENERAL

DATA FAIR PROCESSING NOTICE

Some personal data for Scheme members (such as date of birth and earnings) is required for the running of the Scheme, including paying out the correct benefits. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers').

Data controllers include the Trustee of the Scheme (B. S. Pension Fund Trustee Limited) and, in certain circumstances, professional advisers to the Scheme including the Scheme Actuary and Willis Towers Watson.

Further information about how the Trustee complies with its obligations under the Data Protection Act and information about how Willis Towers Watson ensures the security of personal data can be found on the Scheme's website: www.bspensions.com

CONTACTING THE PENSIONS OFFICE

Email	pension.enquiries@tatasteel.com
Fax	0141 248 5299
Website	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 Ground 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.

FURTHER INFORMATION AND RELEVANT SCHEME DOCUMENTATION IS AVAILABLE FROM THE SCHEME WEBSITE WWW.BSPENSIONS.COM. THE WEBSITE IS REGULARLY UPDATED WITH RELEVANT TOPICS OF LIKELY INTEREST TO SCHEME MEMBERS.



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.

ENDING OF CONTRACTING-OUT

The ability of defined benefit pension schemes to contract-out of the State Second Pension will end from 6 April 2016, following the introduction of the new State Pension. Once contracting-out ceases, National Insurance (NI) rebates will no longer apply so employee members of the Standard Section will pay higher NI contributions.

The new State Pension will be around £155 per week with adjustments for past periods of contracted-out employment and other factors. This is higher than the current Basic State Pension for a single person of £116 per week.

With effect from 6 April 2016, the Scheme will cease to be a contracted-out arrangement and, as a result, no employee members of the Scheme will be in contracted-out employment. There will be no change to the calculation of benefits as a result of the ending of contracting-out rebates.

Further details can be found in the members' handbook, which is available on the Scheme website.

Pensioners and deferred pensioners will not be affected by the end of contracting-out.

Newsbrief is available on 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

0330 440 0800

and let us know which version you require.

The Scheme website www.bspensions.com is compatible with **Browsealoud** which allows you to have website content read to you. **Browsealoud** software is free to download.

