

PENSIONERS'

BRITISH STEEL

PENSION SCHEME

Update 2002

Pensioners' Update is also available, on request, in Braille, large print and audio tape.

Tel: 0845 274 0900

In my first year as Trustee Chairman it has become clear that the challenges facing occupational pension schemes are still with us. I will keep you informed of national developments.

The Scheme's formal three-yearly valuation is now due and the Pensions Office in Glasgow and the Investment Office at Radstock House have been providing the Scheme Actuary with all the necessary information for him to carry out the detailed calculations. The outcome of this detailed review of the Scheme's financial position as at 31 March 2002 will be notified to members later in the year.

Pension scheme funding has often been headline news recently. Much has been said about the number of pension schemes where assets may not be enough to meet liabilities. Several well-known employers have closed their final salary schemes to new entrants as a result of concerns about funding and replaced them with different arrangements, mainly money purchase schemes. Various reasons have been given for the underfunding in some schemes, for example holding too high a proportion of the assets in equities – many of which have performed poorly in recent times – and the Government's decision to stop pension funds reclaiming tax relief on UK dividends.

The maturity of a scheme's liabilities affects how its assets are invested – in other words, the older the people in a scheme, the safer the investments need to be. In our case, the assets must provide income for many pensioners who rely on their regular Scheme pension payments, and must also provide for the annual pension increases. This is why the Trustees set up the Maturity Portfolio, which invests nearly £4 billion in low-risk assets designed to cover pensioner and deferred pensioner liabilities. This avoids the need to sell equities to pay pensions when stock market prices are low. It also provides a strong basis for our Scheme's security and is one of the reasons why it remains soundly funded and able to meet its liabilities.

Protecting the pension promise



In this Update we highlight the effects of increasing life expectancy on pension scheme funding generally and the Government's proposals to replace the Minimum Income Guarantee with the State Pension Credit in October 2003. Like many State benefits, it can be difficult to understand who may qualify for help. Getting the right advice is essential. For that reason we list on page 4 details of voluntary organisations which specialise in providing assistance to pensioners so that they can understand and apply for such benefits.

Berry, Birch, & Noble again offer our pensioners special terms on main insurance products. You will find your copy of their explanatory leaflet with this newsletter.

Regards

A handwritten signature in black ink, appearing to read 'Bob Avis'.

Bob Avis
Trustee Chairman



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The pensioner population

An important factor in the cost of funding a pension is the rise in average life expectancy. The number of older people in the population has increased over recent decades and this trend appears set to continue.

| | 1961 | 1981 | 1991 | 2001 | 2021 (estimated) |
|-------------------------|-------|-------|-------|-------|---------------------|
| 65 and over | 6.3m | 8.5m | 9.2m | 9.3m | 12.4m |
| Total population | 52.8m | 56.4m | 57.8m | 59.9m | 63.6m |

One of the most striking increases in any of the age groups, both in size and in relation to the population, is that of people aged over age 75. The proportion of the population in this group is expected to rise from 4% in 1961 to 9% in 2021. The increase in the number of centenarians (those aged 100 years and over) has been described as an 'explosion' and looks set to dramatically increase the telegram-sending workload of future monarchs! Although the number in the UK is still relatively small – about 9,000 – it is increasing by about 7% a year. In our Scheme there are now 25 pensioners aged 100 or over. In 2002, we expect to welcome a total of 16 pensioners into the ranks of Scheme centenarians.

Rising life expectancy is one of the main factors behind the increased cost of providing pension benefits. Put simply, the longer members live, the more funds need to be set aside to pay pension benefits for longer. In a 'mature' scheme like ours, where there are far more pensioners than active

members, it has long been recognised that adequate provision needs to be made to fund the increasing longevity of our members.

For the 1999 valuation our Scheme Actuary assumed that the average life expectancy of members aged 60 was 20.6 years for men and 24.8 years for women.

The Scheme Actuary carries out a detailed analysis of our pensioners' life expectancy as part of his funding review. Based on that analysis he makes regular adjustments when valuing the Scheme's liabilities. The Scheme Actuary will be making the next analysis of improvements to life expectancy as part of the 2002 actuarial valuation, which is now under way.

**(National statistics sources:
Office for National Statistics and the
Government Actuary's Department)**

Making it clear

To make the Update easier to read, we have taken account of guidelines given by the RNIB and the Plain Language Commission.

Visual requirements



We can also provide the Pensioner's Update in Braille, large print, and on audio tape. If you used this service in 2001, or have since registered an interest in

doing so, we will automatically send you a copy in your preferred format about 2 weeks after receiving the printed version. If you would like to register for this service, please phone us on 0845 274 0900 and let us know which version you require.

If you know of a friend who is a British Steel pensioner and has a visual impairment, ask them whether they would like to receive this service. If so, get them to phone or, if they need help due to their sight impairment, do it on their behalf.

Plain language

The Plain Language Commission provides advice on many of the Pensions Office's publications to help ensure they are jargon-free and easy-to-read. The Commission has awarded this Update its 'Clear English Standard' mark.



Background to State pension benefits

The Old Age Pension Act 1908 introduced a flat-rate pension from age 70. No contributions were needed to qualify for payment, but there was a means test to make sure it went only to the poor. The means test was dropped 20 years later and a pension became payable, if enough contributions had been made, from age 65. For women, the age at which the State pension was payable was cut to age 60 in 1941. In 1948 the State pension became universal.

The first additional state pension scheme was introduced in 1959 in the form of an earnings-related scheme known as the State Graduated Pension Scheme. Its replacement, the State Earnings Related Pension Scheme (SERPS), came into being in 1978. SERPS benefits were reduced in 1988 and the scheme was replaced by the State Second Pension (S2P) in April 2002.

The final piece of the State pension jigsaw was how to deal with pensioners on low incomes. The Minimum Income Guarantee (MIG)* operates today, but this is to be replaced by the State Pension Credit.

Minimum Income Guarantee (MIG)

MIG can be claimed by those aged 60 or more (or whose partner is aged 60 or over) and have combined savings of £12,000 or less. It is paid as income support. There is a MIG Claimline, operated by the Department of Work and Pensions (DWP), on 0800 028 1111.

The State Pension Credit

It has often been said that there is little or no financial incentive for those of modest means to save for their retirement. The State Pension Credit is to be introduced in October 2003 to address this problem.

The MIG*, is widely considered to deter those on modest means from making additional retirement

provision. Like the MIG, the State Pension Credit remains a means-tested benefit. There are 2 parts to the State Pension Credit:

1. guarantee credit
2. savings credit

1. Guarantee credit

The guarantee credit directly replaces the current MIG. Currently no MIG is payable to those with savings of £12,000 or more. This savings ceiling will be abolished when the State Pension Credit is introduced, so it rewards those who have built up higher savings.

2. Savings credit

This is a new kind of State benefit. It aims to reward those with savings (including occupational pensions) up to certain levels. Pensioners with savings may – from age 65 – get a top-up to a maximum of £718 a year for single people or £967 for couples.

To encourage a high take-up of the State Pension Credit, claimants will not have to report all changes in income as with the MIG. Instead, when a claimant reaches age 65, entitlement to the State Pension Credit will run for a defined period, normally lasting 5 years.

Pensioner group reaction

In a written submission to the DWP committee looking at introducing the State Pension Credit, the National Association of British Steel Pensioners (NABSP), together with the National Federation of Post Office & BT Pensioners and the Civil Service Pensioners' Alliance, welcomed a benefit that took account of pensioners' savings. However, they had concerns about the State Pension Credit meeting the Government's overall aims and expressed a preference for maintaining the value of the basic State pension.

Enquiries about the State Pension Credit should be made to your local DWP office (formerly the Benefits Agency).

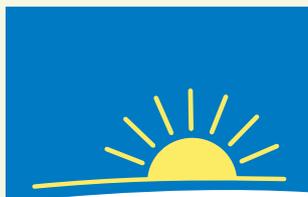


* In the April 2002 budget, above-inflation increases were granted on the MIG:

| | 2001/02 (£) | 2002/03 (£) |
|--------------------|-------------|-------------|
| Single pensioners | 92.15 | 98.15 |
| Married pensioners | 140.55 | 149.80 |

Useful contact details

One reason often mentioned for poverty among the UK pensioner population is reluctance to claim State allowances. Along with your local DWP office, many organisations are committed to providing advice to pensioners on what is available. So you can either contact your local DWP office (contact details in your phone book) or one of the following organisations:



Help the Aged

There is a free telephone service called Help the Aged – Senior Line. Advice workers help older people and their carers with questions on issues such as welfare benefits. Phone: 0800 800 65 65

COUNSEL AND CARE
Advice and help for older people

For advice on your rights to community care and welfare benefits call 0845 300 7585 (at the cost of a local-rate call).



Provides advice on everything from money issues to health. You can phone free on 0800 00 99 66. Age Concern offices are listed in the phone book.

Contact the Citizens Advice Bureaux for free, confidential and independent advice. Details of your local Citizen's Advice Bureau are in your phone book.



April 2002 budget details

Basic State pension

From April 2002 the basic State pension increased by £3 a week for single pensioners and £4.80 a week for a married couple. This is an increase of 4.1%, higher than price inflation of 1.7%. The Chancellor also confirmed the rates of basic State pension payable from 6 April 2003.

| | 2001/02 (£ per week) | 2002/03 (£ per week) | 2003/04 (£ per week) |
|------------------|----------------------|----------------------|----------------------|
| Single pensioner | 72.50 | 75.50 | 77.45 |
| Married couple | 115.90 | 120.70 | 123.80 |

Personal allowances

Only income tax personal allowances for those over 65 years will be increased.

| | 2001/02 (£) | 2002/03 (£) | 2003/04 (£) |
|--|-------------|-------------|-----------------|
| Married couple's allowance | 5,365 | 5,465 | To be announced |
| Personal allowance for people aged 65-74 | 5,990 | 6,100 | 6,610 |
| Personal allowance for people aged 75 and over | 6,260 | 6,370 | 6,740 |
| Married couple's allowance for people aged 75 and over | 5,435 | 5,535 | To be announced |

UK State pensions - overseas pensioners

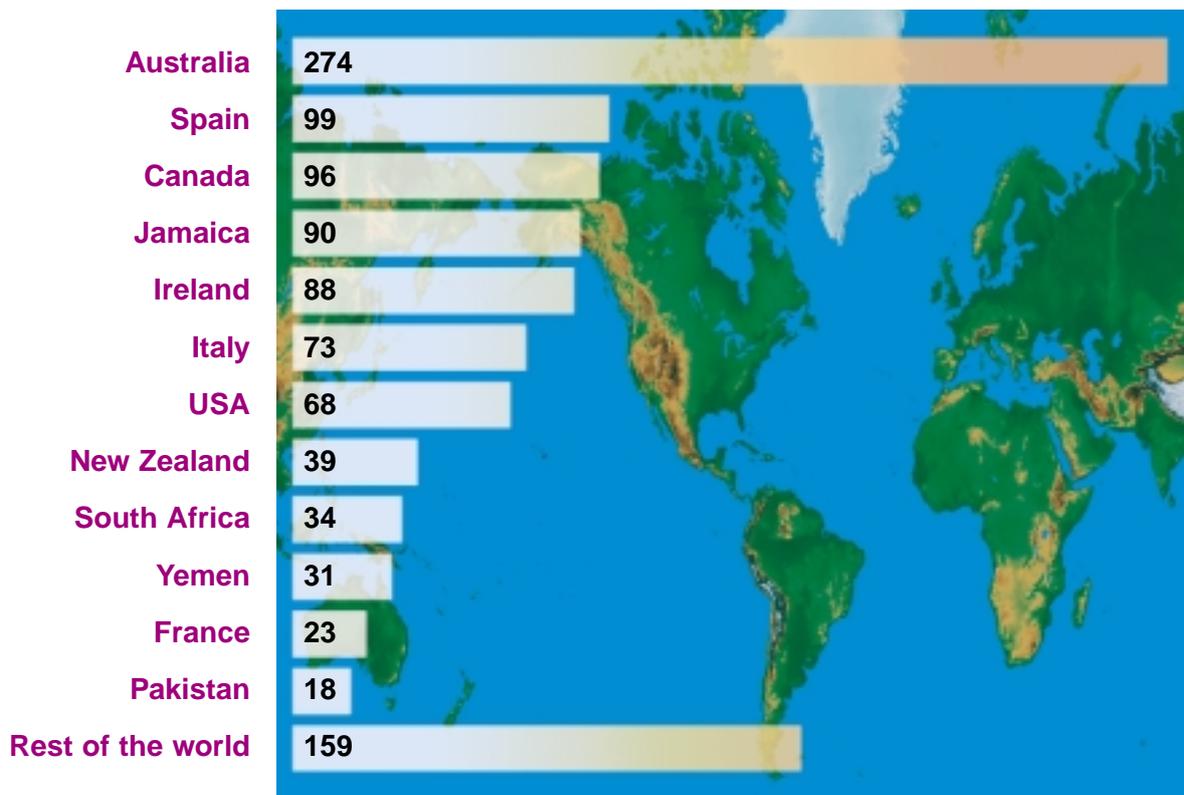
Nearly half a million people who have paid full UK National Insurance contributions have their UK State pension frozen if they live abroad in countries that lack a reciprocal agreement with the UK. A pensioner retiring 20 years ago in one of the affected countries would now receive a weekly pension of £32.85 compared with £75.50 if they had remained in the UK.

Pensioners in around 150 countries do not receive the increase, many of them living in Commonwealth countries including Australia, Canada, New Zealand, and South Africa.

Pensioners who do receive increases include those in all European Union countries and the USA.

A court case was brought (Annette Carson v Secretary of State for Work and Pensions) to challenge the Government's continued freezing of these pensions. However the High Court ruled against any change on 22 May 2002.

The Scheme's 1,092 overseas pensioners live in a wide range of countries, with the biggest concentration in Australia (see chart).



Communications

Contacting the Pensions Office

The Pensions Office aims to make it as easy as possible for you to contact them. All your UK calls to the Pensions Office will only be charged at local rates. Telephone 0845 274 0900. If you decide to write to the Pensions Office there is a Freepost facility (so no need for a stamp). Simply quote the following address on your envelope: **British Steel Pension Scheme, Freepost (MOO 188), Glasgow, G2 7BR.** You can fax us on 0141 248 5299. You can email us at pension.enquiries@corusgroup.com

If you have access to the internet and have not yet logged on to www.bspensions.com why not do so soon? And remember to tell us what you think.

Your feedback

If you have any comments on this edition of Update, suggestions for future editions, or have details of any other pensioner association not referred to on page 6, please write to: **Mike Donohue, Communications Manager, British Steel Pension Scheme, Freepost (MOO 188), Glasgow, G2 7BR,** or email him on mike.donohue@corusgroup.com.

Points to note

Audit check on pensions in payment

To ensure that pensions are paid to the correct people, the Trustee continues to make regular checks by sending out forms for completion. If you receive such a form and have any difficulty getting an appropriate person to act as a witness, please phone the Pensions Office for assistance: 0845 274 0900.

The Pensions Office has recently begun to deal direct with the General Registrar for England &

Wales and this should reduce the Trustee's need to contact pensioners in future to those cases where there might be a real audit concern.

Moved house or changed bank account?

Remember, if you move home or change bank accounts, contact the Pensions Office to let us know. Otherwise your pension might not be available to you when expected.

News round-up

Local pensioner groups

Local pensioner groups exist around the country. A contact name and phone number are given below if you wish to find out more about their activities. While the Port Talbot Association is the smallest, it continues to provide a lively programme of activities for its membership at its premises in the town. It hosts regular indoor bowls events, meetings, trips and an annual dinner.

| Association | Telephone number | Contact | Membership |
|---|------------------|-----------------------------|------------|
| Cumbria Retired Colleagues Association | 01900 605862 | Ted Lancaster | 1,234 |
| Llanwern Retired Employees Association | 01633 412708 | John Herapath | 1,325 |
| London Retirement Association | 020 8658 6617 | Pat Robertson | 402 |
| National Association of British Steel Pensioners (NABSP)* | 01554 756162 | Andrew Evans (Secretary) | 3,000 |
| Port Talbot Retired Employees Association | 01639 773371 | Bob Leonard | 200 |

* The NABSP is considering amalgamating with the National Federation of Post Office & BT Pensioners.

Pension payment dates

Pensions are usually paid into your bank on the last working day of each month. It may take longer for payments into building societies. The payment dates for 2002/2003 are as follows:

Wednesday **31 July 2002**

Friday **30 August 2002**

Monday **30 September 2002**

Thursday **31 October 2002**

Friday **29 November 2002**

Wednesday **18 December 2002**

Friday **31 January 2003**

Friday **28 February 2003**

Monday **31 March 2003**

Tax queries

The Pensions Office acts on tax code information received from the Inland Revenue. If you have a query about your tax code, or any other tax matter, please contact the Revenue direct:

H.M. Inspector of Taxes

Centre 1

East Kilbride

GLASGOW

G79 1AA

Telephone: 0845 0703703

(Your call will be charged at local rates)