HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number CBP-01189, 25 July 2018

Mineworkers' Pension Scheme

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Summary

On privatisation of British Coal in 1994, an arrangement was made between the Government and the trustees of the British Coal pension schemes - the Mineworkers Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS) - on future arrangements for pensions from these schemes after privatisation. Key elements were that the Government would guarantee that any pension earned up to privatisation would not fall in cash terms. The schemes would be subject to periodic valuations. If there was a surplus, this would be shared 50/50 between scheme members and the Government. The members' share of any surplus would be used to fund bonus enhancements over and above annual indexation (HC Deb 27 April 1994 c167-9W). The decision to share the surplus 50:50 was "agreed between the Government, in its role as Guarantor, and the Scheme Trustees," rather than being based on actuarial advice. (PQ128727, 26 February 2018). A 1995/96 National Audit Office (NAO) report noted that the guarantee would be of significant reassurance to pensioners (HC 360 1995-96).

In the 2000s, the Coalfield Communities Campaign argued for a review of the surplus-sharing arrangements, arguing that the guarantee had been struck on actuarial advice which, with hindsight, may have been too cautious. It said a "50% share of an unexpectedly large surplus is too much." The Labour Government did agree to look at the arrangements again but in March 2003 said that, against the background of large falls in world stock markets, it would not be right to adjust the current 50/50 surplus-sharing arrangements (HC Deb 7 March 2003, cc 1278-9W).

An ongoing campaign is calling for the 50/50 split of the surplus to be renegotiated to reflect a "more realistic percentage which reflects the guarantors' risk and recover all monies that rightly belong to the mineworkers of the UK." The Labour Party manifesto for the 2017 election included a commitment to an immediate review of the surplus-sharing arrangements. An EDM in the name of Grahame Morris calls on the Government to negotiate with the trustees to reach a "fairer surplus sharing agreement to benefit former mineworkers".

In a Westminster Hall debate on 5 December 2017, Nick Smith called for a review, arguing that the miners had earned it and deserved a better and fairer share of it. The then Energy Minister Richard Harrington responded that all parties to the agreement had believed it fair at the time. The payments that had been made to the Government reflected the guarantee (which had enabled greater investment risk to be taken) but also the contributions that it had made to the scheme in the past (HC Deb 5 December 2017 c317WH; see also, PQ 47614 21 October 2016).

The results of the 2017 valuation showed the scheme to have a large surplus (just over £1.2 billion) in the Guaranteed Fund. Half of this would be used to provide bonuses for members - equivalent to 4.2% of guaranteed pensions in each of the next six years. The other half would be transferred to the Government over ten years. The Government would also receive a payment from the Investment Reserve by September (MPS, Results of the 2017 valuation; MPS Pensions Newsline, Summer 2018).

On 25 July 2018, BEIS Minister Claire Perry said she had asked officials "to explore work with the Trustees to explore options for revising the scheme for the benefit of all parties" (PQ 164474, 25 July 2018).

1. Introduction

The main pension schemes operating under British Coal: were the Mineworkers' Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS).

The MPS is largest with 177,288 members in 2016 (34,649 deferred and 142,639 pensioner members including dependants), compared to 54,998 in the BCSSS (3240 deferred members and 51,758 pensioner members including dependants).[1]

Both schemes had surplus sharing arrangements put in place at privatisation. However, the arrangement in the BCSSS was brought to an end in 2015, following valuations in 2009 and 2012 which showed the scheme to be in substantial deficit (see below).

This Briefing Paper concentrates on the MPS, on which there is an ongoing campaign to change the surplus sharing arrangements.

1.1 Before privatisation

The MPS website explains the history before privatisation:

> The MPS was introduced in 1952. The Rules of the Scheme set out in detail the benefits payable to members. Contributions before April 1975 were paid on a flat-rate basis, with members paying no more than 20p per week. Benefits payable in respect of membership before April 1975 were therefore relatively small.
>
> After 1975 the contributions members paid, and the benefits that were earned, were both linked to the salary that a member received, providing a higher level of benefits as a result of the higher contribution paid. The contributions paid by a member did not cover the full cost of providing the benefits, so British Coal paid the "balance of the cost of the benefits".
>
> British Coal's contributions went up or down over time based on the amount needed to pay benefits. In the late 1980s and 1990s, many pension schemes found that their investments had performed better than expected and they had more money than was needed to pay the benefits due to members. In the MPS, these surpluses were used to give Scheme members additional benefits and to reduce the level of contributions paid by the employer.[2]

An actuarial valuation of the Mineworkers' Pension Scheme in 1993 explains that the surplus identified in that scheme was used to pay for benefit improvements and reductions in the employers' contributions. The conclusion of the valuation in 1993 was that:

> After allowing for the continuation of the employers' contribution reductions under the arrangements to dispose of the surplus disclosed at the previous review, the excess of assets over liabilities is reduced to £585 million. The available surplus may be used in a

1 MPS Report and Accounts 2016
2 MPS, History of the Scheme before privatisation

> number of different ways, including benefit improvements, or contribution reductions. [3]

1.2 At privatisation

On 27 April 1994, the then President of the Board of Trade announced that comprehensive agreements had been reached between the Government and the trustees of the MPS and the BCSSS.[4]

The main elements were that:

- The existing schemes would be closed to further contributions;
- The Government would take over the role as Guarantor for the Scheme from British Coal.
- 50% of the surplus in the scheme would be used to enhance members' pensions immediately, with the other 50% being payable to the Guarantor.
- The Guarantor agreed to leave its share of pre-privatisation surpluses in the Scheme as the Investment Reserve. This was to be paid to the Guarantor over a 25-year period to 2019;
- For scheme members, the Guarantee meant that they would always receive the benefits they had earned up to privatisation, increased in line with inflation.[5]

These arrangements related to past service pension entitlements. The Act also provided for two new industry-wide schemes for future service, including 'protected person status' for transferred employees. Accordingly the new schemes were required to provide to transferred employees benefits no less advantageous than those provided under the BCSSS and the MPS.[6]

On 26 February 2018, the Government explained that it had not obtained actuarial advice for this purpose:

> Stephanie Peacock: To ask the Secretary of State for Business, Energy and Industrial Strategy, if he will publish the actuarial advice on which the surplus sharing arrangement in the Mineworker's Pension Scheme was based.
>
> Claire Perry: No such advice was obtained. The arrangements were agreed between the Government, in its role as Guarantor, and the Scheme Trustees.[7]

The creation of the Investment Reserve was informed by the copy of the 1993 valuation produced by the Government Actuary's Department.[8]

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3 Mineworkers' Pension Scheme – Actuarial Review as at 30 September 1993. Report by the Government Actuary, June 1994

4 HC Deb 27 April 1994, cc 167-169W; And an exchange of letters between then Energy Minister, Tim Eggar, and the chairmen of the two schemes -Deposited Paper, 3rd series 1828

5 Ibid

6 HC Deb 27 April 1994, cc 167-169W. For information on protected person status, see Library Briefing Paper SN-06725 Pensions: the statutory override and 'protected persons', April 2014

7 PQ128727, 26 February 2018

8 See MPS FOI request and response, August 2013; Valuation produced by the Government Actuary's Department (1993)

Legislation

They were provided for in the *Coal Industry Act 1994* (Sch 5) and the regulations made under it, in particular the *British Coal Staff Superannuation Scheme (Modification) Regulations 1994 (SI 1994/2576)* and the *Mineworkers' Pension Scheme (Modification) Regulations 1994 (SI 1994/2577)*.

In more detail…

In the case of the MPS, the scheme's surplus was calculated at 30 September 1993. Half of the surplus was allocated to the beneficiaries and used to improve benefits; the other half was allocated to British Coal. British Coal's unused share of this surplus became an investment reserve, available to make good any deficit which should arise in the fund, and protect bonus increases which were paid as part of the benefits. This investment reserve would gradually be transferred to the government over a period of 25 years (or such longer period as the Government might from time to time determine), with the scheme's actuary deciding how much could prudently be transferred at each triennial valuation.

In addition, any surpluses that arose in the fund in the future would be split between the beneficiaries and the government in equal shares. The Government stands as guarantor to the scheme, ensuring that it is always able to pay the benefits promised in the rules of the scheme, including the annual indexation of guaranteed pensions in line with price inflation. The remaining 50% is allocated to the scheme's bonus augmentation fund and may be used to improve benefits. The Government does not guarantee these bonuses, but should a deficiency arise in the bonus augmentation fund, it does guarantee that pensions will not fall in cash terms.

In more detail, the terms of the Guarantee for the MPS are that: [9]

- The guaranteed pension (built up before the Scheme was restructured in 1994, including benefit improvements made immediately prior to restructuring) is increased annually in line with the Retail Prices Index (RPI);
- In return for the Guarantee, Government receives, over a 10-year period, a 50% share of any valuation surpluses disclosed after 31 October 1994.
- The remaining 50% share is allocated to the Bonus Augmentation Fund, and subject to the approval of the Guarantor, can be used to improve benefits.
- Bonus augmentations are covered by a lesser guarantee to the extent that, in the event of deficit in the Bonus Augmentation Fund, "standstill" comes into operation. This means bonuses can be restructured and becoming reducing amounts over time. However, the total amount of any pension payable from the Scheme cannot fall in cash terms.

[9] *Mineworkers' Pension Scheme (Modification) Regulations 1994 (SI 1994/2577)*, Schedule, rule 26; Source: *MPS Report and Accounts 2007* (with updates from the scheme); MPS Annual Report 2014 and MPS Annual Report 2017

To facilitate the operation of the Guarantee, the MPS was notionally split into four sub-funds:

- The Guaranteed Fund, from which guaranteed benefits are paid;
- The Bonus Augmentation Fund from which bonus augmentations are paid from the members' 50% share of surpluses;
- The Guarantor's Fund from which payments to the Government are made with its 50% share of surpluses;
- The Investment Reserve, containing the unused balance of British Coal's share of pre-1994 valuation surpluses.

Payments are made between the different funds. To the extent that the Investment Reserve is not required to maintain benefits, initially it could be drawn down by Government over a period ending no earlier than 2019. Under agreement reached with the Guarantor in 2014 the MPS Investment Reserve will now be extended until 2029. The rate of draw down is determined by the Scheme's Actuary.[10]

In the event of a valuation surplus, 50% of the surplus in the Guaranteed Fund is credited to the Bonus Augmentation Fund, where it can be aggregated with any surplus in that fund and distributed to members by way of Bonus Augmentations, subject to the approval of the Guarantor. The remaining 50% share of the surplus in the Guaranteed Fund is credited to the Guarantor's Fund and released to Government as a stream of 10 annual payments.

In the event of a valuation shortfall, the shortfall in the Guaranteed Fund is corrected:

- Firstly, by a transfer of assets from the Investment Reserve;
- Secondly, if the Investment Reserve is insufficient to meet the shortfall, by equal transfers of assets from the Guarantor's Fund and the Bonus Augmentation Fund; and
- Thirdly, if the transfers have not been sufficient, by the obligation on Government to make direct payments to the Scheme in 10 annual instalments.

Once a transfer has been made from the Investment Reserve, the first charge on any subsequent surplus in the Guaranteed Fund is to replenish the Investment Reserve so that it is in the position it would have been had the earlier transfer of assets to the Guaranteed Fund not been made.

There is no provision in the guarantee arrangements for making good a shortfall in the Bonus Augmentation Fund. Bonus Augmentations may therefore be eroded or withdrawn. The Guarantee does, however, ensure that the total pension payable does not fall in cash terms. This works by reducing Bonus Augmentations each year by an amount equal to the index-linked increase paid on guaranteed pension in that year. This process continues until the Bonus Augmentations existing at the time a shortfall was shown in the Bonus Augmentation Fund have reduced to zero. If the assets in the Bonus Augmentation Fund are insufficient to meet the liabilities, the assets and liabilities are transferred to the Guaranteed Fund.

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10 MPS website – History of the Scheme/the trustees' role

As soon as it becomes necessary to make these equal transfers, the Scheme Actuary must certify the balances in both the Guarantor's Fund and the Bonus Augmentation Fund to the Guarantor. If the Bonus Augmentation Fund is greater, the Guarantor is required by the terms of the Guarantee to make payments into the Guarantor's Fund to bring it up to the level of the Bonus Augmentation Fund. These payments are to be made in ten equal annual instalments. Any surplus in the Guarantor's Fund is used to top up payments already being made to Government from previous surpluses.[11]

1.3 NAO report

The National Audit Office (NAO) said that the guarantee would be of significant reassurance to pensioners:

> The Government agreed to make good any deficiencies which might arise, thus guaranteeing the solvency of the closed schemes. The guarantee would be a significant reassurance to pensioners and other members and, given the uncertainty of future investment performance and inflation, could give rise to Government payments in some future years. In return, while half of any surplus declared by the closed schemes on the basis of future three yearly valuations is to be available to provide enhanced benefits for pensioners, the other half is to be distributed in ten equal annual instalments to the Government. In addition, the Government will receive further sums as follows:
>
> • the remaining part of British Coal's 50% share of the last valuation surplus prior to privatisation will be retained in the schemes for the time being as an investment reserve and will be distributed to the Government over a 25 year period:
>
> • any residual surplus will eventually be available to the Government when the schemes are wound up;
>
> • since members' benefits cannot be enhanced beyond limits set by Inland Revenue rules, the schemes, particularly the BCSSS, may be increasingly constrained in later years in making further benefit improvements out of future surpluses. This may increase the residual surplus potentially available to the Government.[12]

Binder Hamlyn, the NAO's advisers, said the Department had:

- Investigated comprehensively the options for the future provision of pensions in the coal industry;
- Consulted extensively with interested parties;
- Determined the future pension arrangements responsibly and secured good benefits for pensioners; and
- Obtained good value for money by negotiating for the Government to receive a share of future receipts (currently estimated to have a net present value of about £3 billion net of any payments by the Government because of its guarantee)

[11] NAO, DTI: sale of the mining operations of the British Coal Corporation, HC 360 1995-96
[12] Ibid

> arising from pensions surpluses in the existing principal British Coal pensions schemes.[13]

1.4 Payments to the Government

The Binder Hamlyn report prepared for the NAO in 1995/96 said the estimated net present value of the projected payments to the Government over 25 years was in the region of £2 billion in total from the two schemes:

> The Government Actuary's Department have carried out separate calculations which suggest that this does not appear unreasonable. Binder Hamlyn have estimated that approximately £1.35 billion relates to the surpluses which existed when the schemes were last valued prior to privatisation and the balance of £6.65 billion relates to further projected surpluses which may arise in the future. In return for the right to receive these surpluses, the Government has guaranteed pension benefits with a net present value estimated by the Government Actuary's Department to be little more than £12.5 billion in real terms as at 31 October 1994.[14]

In 2007, the Government gave up update on payments under the surplus sharing arrangements from both schemes:

> Between October 1994 and December 2006 the Government received £1,785 million in respect of such payments from the Mineworkers' Pension Scheme (MPS) and £1,470 million from the British Coal Staff Superannuation Scheme (BCSSS). A further receipt of £242 million is expected from the BCSSS this month. In addition, the Government have used just over £68 million from the MPS Investment Reserve to fund lump-sum payments to members of the MPS on low pensions, and received £154 million from the BCSSS Investment Reserve, of which over £90 million has been used to fund pension liabilities inherited from British Coal. A further payment of 10 million from the BCSSS Investment Reserve is expected this month.
>
> All payments to the Government as scheme Guarantor are reported in each scheme's published Annual Report and Accounts. Copies of the latest reports are available on each scheme's website:
>
> www.mps-pension.org.uk and www.bcsss-pension.org.uk
>
> I understand that a report for the National Audit Office by Binder Hamlyn in 1995 suggested total gross payments to the Treasury from both schemes over 25 years of £8 billion.[15]

In 2016, the then Energy Minister Andrea Leadsom explained that Binder Hamlyn had produced two figures for estimated payments to the Government from the surplus sharing arrangement – one in net present value terms (£2bn), the other in cash terms (£8bn):

> Analysis by Binder Hamlyn in 2006 for the NAO had estimated the net present value of payments to the Government (net of any

Net present value and cash terms

Figures in cash terms ignore two factors: inflation and the fact the value of a future payment is lower than that of one received today. Payments in the future are 'discounted' to obtain a present value for costs in the future. These figures can be combined to obtain a present value for costs into the future. The resulting "net present value" is used to compare the costs and benefits of different projects.

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13 Ibid, para 1.25
14 Ibid
15 HC Deb 8 March 2007 c2138W; The figure of £8bn relates to the total gross payments to the Treasury from both schemes over 25 years. It is the undiscounted cash flow and therefore more comparable with the actual cash flow figures also included in the answer. Source: DTI

> payments from the Government arising from its guarantee) at £2bn over 25 years. This reflects the value at the time of the expected future net payments.
>
> The parliamentary question 125573 answered on 8 March 2007 records that the Binder Hamlyn report found that the total gross payments to the Treasury would be £8bn. This would have been both gross of any payments from the Government and also in cash terms i.e. allowing for the returns achieved on the funds before payment.[16]

Between1994 and 2017, the Government received £3,356.3 million from the MPS:

> In its role as Guarantor, the Government has received £3,356.3m from the Mineworkers' Pension Scheme since 1994. No payments have been made into the scheme by the Government.[17]

Comparison with earlier estimates suggest this figure is in "cash terms i.e. allowing for the returns achieved on the funds before payment."[18]

Further payments are to be made following the 2017 valuation, with half of the £1.2 bn surplus to paid to the Guaranteed Fund and then transferred to the Government over ten years and a payment of £475 million to be made from the Investment Reserve by September 2018 – see section 2.7 below.

The Government has received £3,119m from the BCSSS since 1994.[19]

1.5 Payments to scheme members

The arrangement reached at privatisation meant that:

> The Government have guaranteed that the pensions to which scheme members were entitled at privatisation, increased each year in line with the retail prices index, will always be paid and that their total pension entitlement, including bonuses funded from the members' share of surpluses, will never fall in cash terms. This guarantee applies, and will be honoured by the Government, regardless of the value of the investment reserves or the solvency of the schemes at any time.[20]

The MPS website states that, as a result, a typical member's pension is around 33% higher in real terms:

> Over the years, the Guarantee has enabled the Trustees to adopt an investment strategy that targeted high returns. The investments have generally been successful in generating excellent returns which has resulted in surpluses at some of the actuarial valuations. These surpluses have allowed the Trustees to award extra benefits to members, usually in the form of bonus pensions. As a result, the typical member's pension today is around 33% higher in real terms than it would have been had they received only their actual earned pension up to privatisation. These high investment returns have also benefitted the Government, via their

16 PQ 38959 8 June 2016
17 PQ 10313 20 September 2017; PQ51065, 3 November 2016
18 PQ 38959 8 June 2016
19 PQ 19313 20 September 2017
20 HC Deb 8 March 2007 c2125W

50% share of surpluses which are paid out over a ten year period.[21]

The 2017 valuation enabled the Trustees to announce new bonuses:

• The new bonuses will provide increases equivalent to 4.2% of guaranteed pensions in each of the next six years.
• The first bonus will take effect from 1 October this year. The five remaining bonuses will take effect at around the same time in 2019, 2020, 2021, 2022 and 2023.
• These bonuses will be provided with certainty over the next six years and cannot be lost in that time, even if financial markets perform disappointingly.
• Without these new bonuses, most members' total pensions would not have increased in 2018, 2019 and 2020 and potentially beyond.
• Bonuses, and therefore increases to total pensions, from 2024 and beyond will depend on the outcome of the 2023 and subsequent actuarial valuations.
• We have also been able to secure improved benefits for members under age 60 who have not yet retired and are in serious ill health.[22]

21 MPS website/history of the scheme
22 Result of the 2017 valuation, MPS website, 12 July 2018

2. Campaign for a review

2.1 Coalfields Communities Campaign

The Coalfields Communities Campaign (CCC) is a national campaign to defend and promote the interests of communities affected by change in the coal mining industry. In 1999, it published a report, *It's the miners' money*, which argued for a review of the surplus sharing arrangement:

> The guarantee was struck on actuarial advice. Hindsight may have shown that the advice was too cautious but that is now history. The point is that the funds are in a robust financial position and under the current arrangements the Government has no real liability. The fears expressed at the time of privatisation no longer carry the same weight.
>
> No-one is suggesting that the guarantee should be abolished. It provides security for the pensioners, and a greater degree of freedom in the funds' investment strategy. No-one is suggesting either that the Government should receive nothing in return. What is at issue is the reward which the Treasury receives for providing the guarantee. At a 50% share of an unexpectedly large surplus it is too much.[23]

The report also pointed to the low level of pensions payable from the MPS, due to the fact that the scheme had not become earnings-related until 1975. According to the CCC, the average pension within the scheme was £38 per week at that time.

The CCC argued that a greater proportion of the surplus should be retained by the schemes to help the poorest pensioners; it also advocated increased investment in coalfield communities. Any surplus paid to the Government from the pension funds is returned to the Consolidated Fund (the Government account into which most revenue from taxation and other money payable to the Exchequer is paid).[24] However, the Government has referred to these surpluses on previous occasions when allocating money to coalfield communities. In December 1998, a DETR press release said that £350 million was to be allocated to coalfield communities and of this sum "£10 million…will be an endowment which recognises the surpluses that the government has received from the miners' pension funds."[25]

2.2 The Labour Government's initial response

The Government made an initial response to the CCC's campaign in December 1999. The then DTI Minister Helen Liddell summarised payments to and from the scheme so far:

> Since 1994 the DTI has paid almost £400m to cover pre-privatisation deficiencies, and has received £519m as its share of

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[23] CCC, *It's the miner's money! Miners' pension fund surpluses and the Treasury's windfall*, 1999
[24] HC Deb 19 April 2004 c67W
[25] DETR press release, *Multi-million pound package for the coalfield communities*, 1 December 1998

> post-1994 surpluses. The remaining surplus has been used to increase mining pensions by 20% over and above inflation.[26]

She said the guarantee arrangements were the envy of other mature pension schemes:

> The guarantee arrangements are for the long term. But recent surpluses must be considered against earlier large deficits, which the Government continues to fund and which, conceivably, could happen again.
>
> The present arrangements were negotiated at the time of privatisation. They are the envy of all other mature pension schemes, and we should be cautious about any re-shaping of them. Retired miners are getting a good deal. Their pensions have increased by 20 per cent in real terms since privatisation. But security of their pensions is also important to miners and important to me."[27]

However, she was willing to consider creative suggestions for building on the 50/50 sharing of surpluses:

> "There may be other ways in which Government and Trustees can build on the present 50/50 sharing of surpluses. Perhaps a more ambitious investment strategy or an extension of the guarantee would provide more opportunities. We will continue to work constructively with the Trustees in exploring how to generate continuing growth in pensions benefits."
>
> "This Government shares the aspirations of the coalfield communities to develop new jobs and infrastructure as mining declines. The DTI are working closely with John Prescott and his team on this." However, she noted that it would require primary legislation to divert the pension fund surpluses for this purpose.[28]

However, in a written answer in June 2000, the Minister said the DTI had "no statutory powers to divert pension surpluses for regeneration."[29] In more detail, she said:

> Since 1994, the DTI has acted as guarantor to the former British Coal pension schemes. In doing so it underwrites 100 per cent. of any downside risk to guaranteed benefits in the event of scheme deficits. The guarantee means that basic pensions will always rise at least in line with inflation and will never fall in cash terms. In return the Government receive 50 per cent. of any actuarial scheme surpluses--the remaining 50 per cent. being available to the scheme Trustees for distribution among their memberships. The Government have no plans to re-open the guarantee arrangements, but it is discussing with the Trustees whether there are opportunities to build upon them to the mutual benefit of Scheme members and Government.[30]

Michael Clapham MP put down EDMs in support of the Coalfields Communities Campaign in the 1999/2000 and 2000/01 sessions,[31] and John Cummings MP put down an EDM in the 2001/02 session which attracted 68 signatures. The motion read:

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26 DTI press release, *Statement by Helen Liddell on coal miners pension funds*, 8 December 1999
27 Ibid
28 Ibid
29 HC Deb 5 June 2000 c 108W
30 HC Deb 25 May 2000, c 595W
31 EDM 264 of 1999-2000 and EDM 184 of 2000-1

> That this House recognises that the 50 per cent. clawback by the Government of any surplus of the Mineworkers' Pension and Superannuation Scheme is grossly unfair; and invites the Government and the trustees of the Pension and Superannuation Scheme to enter into negotiations and agree upon a more just appointment of the surplus and so enhance the pensions of thousands of retired mineworkers and widows.[32]

The actuarial valuation of the MPS published in September 2000 disclosed a surplus of £1,050 million to 30 September 1999. The Minister said that the scheme trustees and government had agreed that the bulk of the members' share of the surplus would be used to provide a 9% increase in pensions in payment and deferred pensions.[33]

Sacked miners

On 11 December 2001, the new Energy Minister, Brian Wilson, announced that some of the miners dismissed during the 1984/85 miners' strike and not re-instated would be given enhanced pension rights. The cost would be met from the residual assets of British Coal:

> **Mr. Kevan Jones:** To ask the Secretary of State for Trade and Industry if she will make a statement on the pension rights of miners dismissed during the 1984-85 strikes. [22728]
>
> **Mr. Wilson:** Following the consultation process last year, I am persuaded that a number of miners dismissed in connection with the 1984-85 strike, and not subsequently re-employed by British Coal, were harshly treated.
>
> I have concluded that the most appropriate way forward would be to enhance the pensions of these miners in recognition of the years of further service they lost as a result of British Coal's decision not to re-employ them. The costs of this will be met from the residual assets of British Coal. I would emphasise that those whose offences involved serious acts of violence or intimidation, or actions which jeopardised the safety of others will not qualify for this enhancement of pension. […] [34]

Apparently, of the 1,000 or so miners sacked in connection with the strike, only 335 were not subsequently re-employed. They would be eligible for a 5-year enhancement to their pensions, as long as this did not increase their service over the maximum.[35]

2.3 Review of the arrangements

In a response to the Coalfield Communities Campaign in January 2002, the Government announced that it would pay one-off lump sums to those with low pensions built up when the scheme was flat-rate:

> I am pleased to announce a new, additional benefit for members of the mineworkers' pension scheme on the lowest incomes, at a cost of £90 million. This will be funded out of the Government's share of the scheme's reserves.
>
> The package will help mineworkers' pension scheme members who have only very modest miners' pensions, despite many years of service to the industry before 1975. Help for that particular

32 EDM 149 of 2001/02
33 DTI press release, *Liddell welcomes boost for miners' pensions*, 8 August 2000
34 HC Deb 11 December 2001, cc 759-760W
35 HC Deb 10 March 2003, c 12W

> group was identified as a priority in discussions with the scheme's trustees. Now, thanks to gains in the scheme's value under the Government's guarantee, the Government and Trustees have agreed a package of benefits, which includes special one-off payments for up to 66,000 of these members, alongside the 9 per cent. bonus for all members agreed earlier this year.[36]

Secondly, there would be a review of the guarantee arrangements made at the time of privatisation:

> […] both the Government and the Trustees recognise that there have been changes in circumstances since 1994. They have therefore agreed to explore how these changes might best be reflected in revisions to the 1994 arrangements which would benefit members. In doing so, they recognise that any revisions will need to be based on an equitable sharing of risks and reward between the schemes and the Exchequer, and will need to be sufficiently robust to operate satisfactorily in a wide variety of conditions.[37]

This announcement was welcomed by coal communities. An Early Day Motion, in the name of Jeff Ennis, MP, welcoming the changes announced by the government received 81 signatures:

> This House welcomes the £90 million scheme recently announced jointly by the Government and Trustees of the Mineworkers Pension Fund to provide additional benefits for retired miners on the lowest pensions; recognises the urgent need for the Government to re-visit the issue of the MPF surpluses with a view to the Government taking a smaller share of the surpluses, leaving more for the pensioners.[38]

By June 2003, almost £60 million had been paid to about 44,000 MPS members on the lowest pensions who left British Coal before or shortly after 1975.[39]

Progress

A statement on the DTI website on 10 December 2002 said that the fall in world stock markets could have an adverse outcome for the schemes. Discussions would continue:

> Since [the 17 January 2002] announcement was made there have been radical changes surrounding pensions. The large fall in world stock markets is having a major effect on investment performance, and may have an adverse outcome on the next actuarial valuations of the British Coal Schemes.
>
> Therefore the discussions will continue, and will focus on considering possible different methods of paying for the guarantee. We will also be exploring the scope to extend the Guarantee to cover bonuses created from the recent years' strong investment performance. This would enable the Trustees to secure the bonuses within members' overall pension entitlements.
>
> These negotiations will be technical, and will rely largely on advice from actuarial experts. They will take time, because they are complex and both sides need to be sure that we get them right.

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36 HC Deb 17 Jan 2002 c417W
37 HC Deb 17 Jan 2002 c417W
38 EDM 711 of 2001/02
39 Brian Wilson, Westminster Hall debate on the MPS, HC Deb 10 June 2003, c 189WH and HC Deb 7 January 2003, c 154W

> But the principles remain unchanged – a fair and equitable sharing of risk and reward in the interests of both Scheme members and taxpayers, and an agreement which is robust and sustainable.
>
> In the meantime, the Government and Trustees have agreed various specific measures, which will put the Schemes on a sounder footing. These include making clear the rules on 'standstill', whereby pensions are protected in cash terms if the schemes go into deficit – which will now apply to all members, including those not yet in receipt of their pension. We have also agreed to discuss extending the lifetime of the Investment Reserve - which is both an asset within each fund to generate future returns to for pensioners, and provides the first line of Government funding in times of deficit - beyond the 25 years agreed in 1994.[40]

Coalfield Communities continued to urge a change in the surplus sharing arrangements. An EDM put down by Michael Clapham in the 2002/03 session attracted 83 signatures:

> That this House recognises that the Treasury is finally proposing new ways of guaranteeing miners' pensions for the future but, according to the Coalfield Communities Campaign's latest calculation is still due to take £3.5 billion historical surpluses out of the two schemes at a time when many retired miners are struggling to make ends meet; and requests that Her Majesty's Government give consideration to leaving more of the past surpluses with the schemes to be used to increase pensioner incomes and also introduce a fairer division of future surpluses in accordance with the recent asset and liability study recommendation, whilst continuing to provide support to help renew and rebuild mining communities.[41]

On 7 March 2003, Mr Wilson said there would be no change to the 50/50 surplus-sharing arrangement:

> Against the background of large falls in world stock markets, which continue to have a major effect on investment performance, the trustees have been advised that the Government does not feel it would be right to adjust the current 50/50 surplus sharing arrangements.
>
> A number of other changes to the Guarantee arrangements have been agreed. In addition, discussions were to have continued to consider different methods of paying for the Guarantee and other ways of guaranteeing bonuses, where these different methods might offer advantages to Scheme members whilst not representing a significant additional burden on the taxpayer. However, NACODS South Wales have instigated a Judicial Review concerning the Guarantee to which the Government is obliged to respond. As a consequence, until this has been resolved, the Government does not feel it would be right to continue those discussions with the Trustees. [42]

David Parry of the CCC was reported to have said that the asset and liability study suggested that the fair payment for the solvency guarantee should be more like 15% to the Government, leaving 85%

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40 DTI website, British Coal Pension Schemes, 10 December 2002
41 EDM 744 of 2002/03, 13 February 2003
42 HC Deb 7 March 2003, cc 1278-9W

of any surplus in the scheme.[43] But in June 2003, Brian Wilson, the Energy Minister, described this split as "off the radar screen in current circumstances".[44]

In a Westminster Hall debate on 10 June 2003, Anne Picking described the surplus-sharing arrangement as a "legalised but grossly immoral raid on the funds":

> The Government have taken about £400 million a year at the same time as some miners are being paid a pension of less than a fiver a week. As hon. Members know, there are taxi drivers in London who would look down their noses at a fiver tip, never mind a fiver pension. I therefore say to my hon. Friend the Minister that it is time to stop patronising these proud people and to give them back their money.[45]

The Minister responded that the guarantee had worked effectively for scheme members:

> There was a different perspective on the matter in 1994, and even if the figure was based on small-c conservative actuarial advice, it was based on actuarial advice, to which everyone had to sign up. In return for a safeguard, the trustees freely entered into an arrangement whereby any future valuation surplus would be split 50:50 between beneficiaries and Government. In providing that guarantee to the two schemes, the Government accepted a pretty massive contingent pension liability, which has been valued at £16 billion. The other side of the coin was that, even if there was no return on investment or there was a deficit in the scheme, as at present, miners' pensions, as at privatisation, would always rise in line with inflation and would never fall in cash terms.
>
> No one has mentioned today that that guarantee has not only been met but comfortably exceeded since 1994. The current arrangements have yielded bonus increases on guaranteed benefits totalling about 30 per cent. since 1994, which is a significant increase in such a relatively short time. Those bonus increases are separate from, and additional to, the inflation-linked increases that are applied to pensions each year to maintain their real values. By any objective analysis of what has happened, the guarantee has worked effectively for members of the scheme. I understand all the concerns about where the other 50 per cent. went, but it should be acknowledged that if the guarantee had not been in place, it would not have been possible for the trustees to make the high-risk, high-return investments that have led to the bonuses being paid.[46]

2.4 Further questions

Valuations of the schemes in 2002 and 2003 found both schemes to be in deficit, calling the government guarantee into play. This resulted in £350 million being transferred to the MPS and £220 million to the

[43] "Pit stop for miners?", *Guardian*, 22 March 2003
[44] HC Deb 10 June 2003, c 186WH
[45] Ibid, c 171WH
[46] HC Deb 10 June 2003, c 187WH

BCSSS from their respective Investment Reserves to ensure members' guaranteed benefits were paid. [47]

Valuations of the MPS and BCSSS in 2006 showed both schemes to be in surplus. Under the terms of the guarantee, the first call on this surplus was restoring the level of the investment reserve. After that, the surplus was divided equally between scheme members and the guarantor.[48]

The terms of the government guarantee were again questioned, with the trustees making representations that the investment reserve should be repaid over a longer period than the 25 years originally intended.[49] However, the Government said it would not change the guarantee arrangements:

> The equal division between beneficiaries and Government of periodic surpluses in the Mineworkers' Pension Scheme is a fundamental element of the arrangements established in 1994 whereby the Government provides an insolvency guarantee to the scheme. These arrangements are not time limited. Although my officials are in regular dialogue with scheme representatives on a range of issues, I have no immediate plans to meet the trustees.[50]

The then Energy Minister, the late Malcolm Wicks summarised the bonus payments made to scheme members since privatisation:

> I understand that, including the new bonuses payable from April 2007, BCSSS pensions in payment will have increased by 82 per cent since 1994 and deferred pensions by 89 per cent. For MPS the increases, effective from September 2006, are just under 78 per cent. for pensions in payment and 83 per cent for deferred pensions.[51]

He also outlined payments that had been made to the Government and how these related to the original estimate made by the NAO:

> Between October 1994 and December 2006 the Government received £1,785 million in respect of such payments from the Mineworkers' Pension Scheme (MPS) and £1,470 million from the British Coal Staff Superannuation Scheme (BCSSS). A further receipt of £242 million is expected from the BCSSS this month. In addition, the Government have used just over £68 million from the MPS Investment Reserve to fund lump-sum payments to members of the MPS on low pensions, and received £154 million from the BCSSS Investment Reserve, of which over £90 million has been used to fund pension liabilities inherited from British Coal. A further payment of 10 million from the BCSSS Investment Reserve is expected this month.[…] I understand that a report for the National Audit Office by Binder Hamlyn in 1995 suggested total gross payments to the Treasury from both schemes over 25 years of £8 billion.[52]

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47 Mineworkers' Pension Scheme, *Report and Accounts 2007; British Coal Staff Superannuation Scheme Report and Accounts 2006/07;* HL Deb 6 November 2003, c WA 146; BIS website: Coal Pensions: The Former British Coal Pension Schemes

48 BCSSS, *Pensions News - Summer 2007*

49 BCSSS pensions news, Winter 2006/07; Mineworkers' Pension Scheme, *Pensions Newsline,* Spring 2007

50 HC Deb, 22 Feb 2008, c1032W; See also HC Deb, 8 March 2007, c2138W

51 HC Deb, 8 March 2007, c2137W

52 HC Deb, 8 March 2007, c2138W

The figure of £8bn referred to in the Minister's response relates to the NAO estimate of total gross payments to the Treasury from both schemes over 25 years. It is the undiscounted cash flow and therefore more comparable with the actual cashflow also provided in the PQ answer of 8 March 2007.[53]

The Treasury Select Committee noted that there was controversy regarding the way in which the schemes had been valued and recommended that the Government Actuary make a statement addressing the potential risk to the taxpayer:

> 150. There are those, such as pensions consultant John Ralfe, who contest the method of valuation used by GAD. They argue that if alternative valuation methods are employed the scheme appears to be in deficit and thus represents a liability for the British Taxpayer. As a relatively recent appointee, Mr Llanwarne admitted that he had not been involved in the valuation of the miners' pensions but he maintained that:
>
>> There is not one unique number as to what the surplus is or not. What is critical about this pension scheme is that the way in which the valuation is done is set out in specific legislation relating to it as to what you do, how you calculate the surplus and it is reasonable to do that because, unlike the private sector, where it is absolutely critical that you get things in balance between your assets and your liabilities, this one has the underlying government guarantee which makes it quite different. When someone asks whether the surplus is this or that, I will say to you that if you do your calculation on one basis you get that surplus, if you do your calculation on another basis you might get another surplus or a deficit.
>
> **151. We note the controversy surrounding the valuation of miners' pensions and recommend that the Government Actuary's Department issues a statement addressing the risk of future liabilities being faced by the ultimate guarantor of these schemes, the UK taxpayer**.[54]

2.5 The Conservative Government's approach

MPS

The Government's position is that the surplus sharing arrangements have worked well:

> **Grahame Morris:** To ask the Secretary of State for Business, Energy and Industrial Strategy, if he will assess the balance of the Mineworkers' Pension Scheme surplus-sharing arrangements.
>
> **Jesse Norman:** The existing surplus-sharing arrangements have worked well to date. The presence of the Guarantee has given the Trustees, who are responsible for managing the Scheme and are

53 Source: DTI. Figures in cash terms ignore two factors: inflation and the fact the value of a future payment is lower than that of one received today. Payments in the future are 'discounted' to obtain a present value for costs in the future. These figures can be combined to obtain a present value for costs into the future. The resulting "net present value" is used to compare the costs and benefits of different projects

54 Treasury Select Committee, Administration and expenditure of the Chancellor's departments 2007-08, January 2009; The requested statement was provided in the 2008 valuation for the scheme, which has not been published.

> independent of Government, the freedom to invest in a way that has generated surpluses and, as a consequence, bonuses to members.[55]

It would be willing to consider proposals put forward by the trustees:

> **Grahame Morris**: To ask the Secretary of State for Business, Energy and Industrial Strategy, if he will enter into negotiations with the Mineworkers Pension Scheme Trustees to discuss the current surplus sharing arrangements.
>
> **Richard Harrington**: The existing surplus sharing arrangements have worked well to date for the Scheme's members. The presence of the Government guarantee has enabled the Scheme Trustees to invest so as to target surpluses, which has resulted in a 30% increase in payments to members. The Department cannot unilaterally amend the terms of the scheme, though we would be willing to consider proposals put forward by the Scheme Trustees.[56]

The MPS Trustees say they have asked the Government to re-consider the terms of the Guarantee on a number of occasions:

> Since 1994, in reflection of the changing financial circumstances of the Scheme, the Trustees have asked the Government to re-consider the terms of the Guarantee, including the surplus sharing arrangements, on a number of occasions. The Government has made it repeatedly clear in its response to the Trustee's requests that it does not regard the 1994 arrangements as being unfair and that it has no intention of agreeing to the changes that are not in its interests.
>
> **What do other schemes do with surplus?**
>
> Many schemes were in surplus in the late 1980s and 1990s. Some schemes, like the MPS, used the surplus to improve members' benefits and/or allow the employer to take a 'contributions holiday'. Nowadays, as members live longer, interest rates are lower and investment markets are more uncertain, very few schemes have been able to generate a surplus. On the rate occasions that schemes have found themselves in surplus, it has generally been used to 'de-risk', i.e. the scheme exchanges its higher returning and riskier assets, such as equities, for lower returning and less risky investments such as government bonds.[57]

On 25 July 2018, Energy Minister Claire Perry said she had asked BEIS officials to with Trustees to explore options for revising the scheme to the benefit of all parties:

> Conor McGinn: To ask the Secretary of State for Business, Energy and Industrial Strategy, what process has been made in discussions between the Government, the Mineworker's Pension Scheme Trustees, Trade Union representatives and others on the Mineworkers' Pension Scheme surplus.
>
> Claire Perry: I met the Mineworkers' Pension Scheme (MPS) Trustees recently to discuss options for the future of the Scheme. As a result of that discussion, I have asked BEIS officials to work with the Trustees to explore options for revising the scheme to the benefit of all parties.

55 PQ 47614 21 October 2016; See also PQ11555 16 October 2015
56 PQ 357, 28 June 2017; PQ46740 12 October 2016;
57 MPS website – surplus sharing

> The MPS has worked well for all parties and credit must go to the Trustees for their excellent investment strategy and administration of the Scheme. As trustees have acknowledged, the Government guarantee has enabled an investment strategy that has resulted in scheme members receiving payments 33% higher than they would have been had they received only their actual earned pension up to privatisation.
>
> The most recent valuation has just been completed. Positive results mean that scheme members will receive an additional 4.2% of the guaranteed pension as bonuses for each of the next 6 years. More information is available here: https://www.mps-pension.org.uk/news/2018/07/results-of-the-2017-valuation.[58]

BCSSS

As a result of valuations in 2009 and 2012 showing it to be in substantial deficit, the surplus sharing arrangements for the BCSSS were brought to an end, although the scheme would continue to receive the support of a Government Guarantee:

> On 13 February 2015 an agreement, hereafter referred to as "the Agreement", was signed between the Trustee and the Secretary of State for Energy and Climate Change ("the Guarantor") to amend the Scheme structure and provide certainty to members over increases to their pensions in the future. The Scheme continues to receive the support of a Government Guarantee.
>
> **Reasons for the changes**
>
> The effect of the global financial crisis on the Scheme's investment returns, together with increases in life expectancy, contributed to the 2009 and 2012 Actuarial Valuations reporting substantial deficits in the Guaranteed Fund. The deficits were eliminated primarily through the reallocation of funds from the Investment Reserve.
>
> At subsequent valuations, in accordance with Scheme provisions, the first call on any Guaranteed Fund surplus would have been to repay the debt to the Investment Reserve including investment returns on that debt. As at the date of the Agreement the debt stood at approximately £2.2 billion.
>
> The Trustee and Guarantor both agreed that the current Scheme provisions were unsustainable, as they constrained the ability of the Trustee to provide increases to members' pensions over the foreseeable future and exposed the Guarantor to volatile and uncertain cash calls.[59]

In the absence of a new agreement, the most likely outcome would have been a "long period with no increases to total pensions."[60] The agreement meant there would be increases to 2019. From 2020, all bonuses in payment would be consolidated into one bonus, which would then be frozen:

> As a result of the Agreement made between the Trustee and the Guarantor on 13 February 2015, funds were allocated to provide three separate level bonuses, equivalent to 2% of Guaranteed Pension, in 2017, 2018 and 2019. The first of these level bonuses was effective on 1 January 2017.

58 PQ 164474, 25 July 2018
59 BCSSS Report and Accounts 2014/15
60 BCSSS pensions news, February 2015

In future members' pensions will increase as follows:

- Guaranteed pensions will continue to be increased annually in line with the percentage rise in RPI.
- Bonuses awarded up to and including 2013, all of which are now reducing bonuses, will continue to reduce in the same way up to and including 2019.
- The bonuses awarded between 2014 and 2017 will remain level throughout the future.
- New bonuses of 2% of Guaranteed Pensions will be awarded in 2018 and 2019.
- No new bonuses will be awarded after 2019.

• From 2020 onwards, all the bonuses in payment at that time will be consolidated into one total bonus: this total bonus will neither increase nor be reduced thereafter.[61]

The MPS is in a different position to the BCSSS – with the 2014 valuation showing it to have a small surplus.[62]

2.6 Ongoing campaign

A campaign for a review of the 50/50 share of the surplus continues. The Mineworkers Pension Scheme for Justice and fair play Association is calling for the 50/50 sharing of surpluses to be changed to reflect:

> a more realistic percentage which reflects the guarantors' risk and recover all monies that rightly belong to the mineworkers of the UK.[63]

They argue that the fund has been reduced – for example, by contribution holidays for British Coal and the Government prior to privatisation – and that the Government had been able to take on the guarantee at low risk.[64]

In the last Parliament, an EDM in the name of Alan Meale calling for a review of the way scheme assets have been used attracted 45 signatures:

> That this House is aware that between 1987 and 1995 British Coal did not pay any employer contributions into the UK industry Mine Workers Pension Schemes (MPS) which benefited them as employers by approximately £1.136 billion; notes that when its representatives and others voted to consequently close the schemes, they also took the decision to allow 50 per cent of any surpluses to be taken by the Government which it is calculated will result eventually in the Government receiving in excess of £8 billion from both the MPS and its associate the BCSSS pension scheme, a scenario forecast by its own actuaries in 1995 and compounded later by their actions between 2002 and 2005 when the fund was used to cover a coal industry deficit for that period estimated as being worth a further £390 million, which it then recovered with interest amounting to £540 million, after which it then added a further £229 million as representing 50 per cent of

61 BCSSS Report and Accounts 2016
62 Mineworkers' Pension Scheme 2016 Report and Accounts
63 UK Miners Pension Scheme Association Justice and Fairplay Facebook page; See also the Miners' Pension Theft
64 Miners: we have been robbed of half our pensions, Chad, 12 November 2015

> the remaining surpluses at that time; finds this depletion of those funds in this way extraordinary, particularly as the industry was facing financial problems and merely was borrowing its own money; and calls on the Government to carry out an urgent review of those practices and the use of those pension assets in such an unacceptable manner.[65]

The Labour Party manifesto for the 2017 election said:

> A Labour government will commit to an immediate review of the mineworkers' pension scheme and British Coal superannuation scheme surplus, sharing arrangements between government and scheme beneficiaries.[66]

In the current Parliament, an EDM in the name of Grahame Morris, currently with 27 signatures, calls on the Government to reach a fairer surplus sharing agreement to benefit former mineworkers:

> That this House believes the Government should enter into open and fair negotiations with the Mineworkers Pension Scheme Trustees; recognises the 50-50 surplus sharing arrangement is grossly disproportionate for the Government guarantee; believes that the scheme should solely operate for the benefit of its members who contributed to the fund and worked in some of the most dangerous conditions to the detriment of their health; notes that successive governments have taken significant dividends in excess of £8 billion from the fund which would have otherwise improved the pensions and quality of life for former mineworkers; and, in view of the sums taken from the fund, calls on the Government to reach a fairer surplus sharing agreement to benefit former mineworkers.[67]

In the Westminster Hall debate on 5 December 2017, Nick Smith MP said the time had come to change the arrangements:

> This is the miners' money. They earned it through years of hard work at the coalface, and they deserve a better and fairer share of it.[68]

Gloria De Piero supported this:

> I and colleagues have been told by Ministers that the surplus-sharing agreement is working well, that only the trustees could change it, and that no objections have been raised. However, I have met the trustees, and they want the arrangement to be changed so that miners can benefit from the scheme's success to a greater and fairer extent. The ball is in the Government's court. They are forecast to pocket many millions more over the next three years. That is wrong, and it is time to say that enough is enough. It is time for justice for ex-miners and their widows.[69]

In response, Energy Minister Richard Harrington said that at the time, "all parties believed the equal sharing to be a fair settlement". Furthermore, the government guarantee had allowed the trustees to pursue a riskier investment strategy and thereby get a better return:

> At privatisation, the Government took on the role of British Coal, and the scheme had a surplus in 1994, half of which was used to

65 EDM 671 14 November 2016
66 Labour manifesto 2017 – social security
67 EDM 235 20 July 2017
68 HC Deb 5 December 2017 c317WH
69 Ibid c318

> enhance members' pensions immediately, with the other 50% payable to the guarantor. The Government of the day agreed to leave their share of the surplus in the scheme as an investment return. Those arrangements were agreed between the trustees and the Government in their role as guarantor—hence the mineworkers' pension scheme of 1994. At that time, all parties believed the equal sharing to be a fair settlement—this arrangement did not come about in conflict or anything like that; it was agreed to be a fair way of proceeding. The Government receive their share not because of their guarantor status—that is a big issue in the financial world, because it allows a much greater risk profile than a normal pension fund could have—but also because of the contributions that they have made to the scheme to make up the pool of money[70]

A recent Parliamentary Written answer from January 2018 said the Trustees have requested a change on two occasions:

> The Mineworkers' Pension Scheme Trustees have requested changes to the surplus-sharing arrangements on two occasions (2000 and 2006). On each occasion, the Government considered that the existing arrangements were working well and fair to all parties. Since then, the scheme has continued to deliver bonuses to members.[71]

However, the Government had no current plans to re-negotiate the arrangements.[72]

2.7 The 2017 valuation

The 2017 valuation showed the guaranteed fund to have a large surplus, of just over £1.2 billion in the Guaranteed Fund. This enabled the Trustees to announce new bonuses equivalent to 4.2% of guaranteed pensions in each of the next six years:

> • **Good investment returns**: Fortunately, financial markets have been kind to us over the three years to the valuation and we've had the right investment strategy to benefit from the market trends. That strategy has also been executed well and the result is a three year investment return of around 40% (or put another way, on average, nearly 12% a year for each of the three years). That's a very good outcome indeed and, realistically, we can't reasonably expect returns to continue at those levels throughout the future.
>
> **Large surplus**: Following a consultation with both your Trustees and the Government (specifically the Department for Business, Energy and Industrial Strategy), the Scheme Actuary calculated that the Scheme's Guaranteed Fund had a very significant surplus (just over £1.2 billion), and hence the potential to pay new bonuses to Scheme members. Indeed, the surplus was large enough to fund bonuses which would provide increases equivalent to 4.2% of guaranteed pensions in each of the next six years.
>
> • **Bonus certainty for six years:** Given our 'stretch target' is to deliver new bonuses of this size throughout the future, the Trustees felt that this was potentially a very good outcome

70 HC Deb 5 December 2017 c319WH
71 PQHL4555 16 January 2018
72 PQ125439 5 February 2018

> indeed. To enable us to be certain that we could provide these bonuses over six years, we suggested to the Government that we make a change to the Scheme's Rules which would prevent these bonuses being lost because of the 'standstill' mechanism at the 2020 valuation, even if the financial markets perform disappointingly between now and then.
>
> I am very pleased to be able to report that the Government has agreed to this proposal. As a result, we've been able to provide new bonuses that will provide increases equivalent to 4.2% of guaranteed pensions in each of the next six years, with certainty. The first bonus will be paid with effect from 1 October this year. The remaining five bonuses will be paid at around the same time in 2019, 2020, 2021, 2022 and 2023.
>
> • **The next valuation in 2020**: There will be a Scheme valuation in three years' time, but the Rule change means that whatever financial markets do between now and then, the 'standstill' mechanism cannot apply and this means that the bonuses we are announcing now cannot be lost at the 2020 valuation. Members can, therefore, have complete confidence in the pensions they will now receive over the next six years. Without these bonuses most members' total pensions would not have increased in 2018, 2019 and 2020 and potentially even beyond then.[73]

The other half of the £1.2 billion surplus would be transferred to the Guarantor's Fund, from where it would be paid to Government over t ten years. There would also be a payment of £475 million from the Investment Reserve to the Government by 30 September 2018

> **Payments to the Government from the Guarantor's Fund**
>
> The Scheme Rules include the requirement that half of any surplus in the Guaranteed Fund should be transferred to the Guarantor's Fund and then be paid out to the Government over the following ten years.
>
> The above-mentioned change to the Scheme Rules will mean the results of the 2020 valuation will not have an impact on these payments to the Government over the next six years. Furthermore, the change to the Rules also means that the Government will not be required to pay any new funds into the Scheme over this six-year period.
>
> Payments, both to and from the Government, from 2024 and beyond will depend on the outcome of actuarial valuations in 2023 and beyond.
>
> **Payments to the Government from the Investment Reserve**
>
> The Investment Reserve is one of the Scheme's four main sub-funds along with the Guaranteed Fund, the Bonus Augmentation Fund and the Guarantor's Fund. It plays an important role in the running of the Scheme. Investment returns earned on the Investment Reserve mean it has grown from £1,066 million at the last valuation in 2014 to £1,488 million at the 2017 valuation.
>
> The Investment Reserve was created when the Scheme was closed back in 1994. It was British Coal's accumulated share of surpluses at the time of closure. It acts as a 'buffer' to help smooth the 'ups and downs' of the Scheme over the years, thereby protecting the Bonus Augmentation Fund (which is used to pay members' bonuses) and protecting the Government against having to pay

[73] MPS, Pensions Newsline, Summer 2018

> extra money into the Scheme should the Guaranteed Fund be in deficit. The Scheme Rules require the Investment Reserve to be paid to the Government over the period to 2029, with the amounts and timings of payments to be decided by the Scheme Actuary following each valuation.
>
> The Scheme Actuary has decided that a payment of £475 million should be made from the Investment Reserve to the Government by 30 September 2018.[74]

On 25 July 2018, Energy Minister Claire Perry said she had asked officials to explore with the Trustees options for revising the scheme to the benefit of all parties:

> I met the Mineworkers' Pension Scheme (MPS) Trustees recently to discuss options for the future of the Scheme. As a result of that discussion, I have asked BEIS officials to work with the Trustees to explore options for revising the scheme to the benefit of all parties.
>
> The MPS has worked well for all parties and credit must go to the Trustees for their excellent investment strategy and administration of the Scheme. As Trustees have acknowledged, the Government guarantee has enabled an investment strategy that has resulted in scheme members receiving payments 33% higher than they would have been had they received only their actual earned pension up to privatisation.
>
> The most recent valuation has just been completed. Positive results mean that scheme members will receive an additional 4.2% of the guaranteed pension as bonuses for each of the next 6 years. More information is available here: https://www.mps-pension.org.uk/news/2018/07/results-of-the-2017-valuation.[75]

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74 Ibid
75 PQ164474, 25 July 2018

3. Payments to the Government

Since privatisation, the MPS has been in surplus at some points and in deficit at others:[76]

1996	surplus
1999	surplus
2002	deficit
2005	surplus
2008	deficit
2011	deficit
2013	surplus
2014	surplus
2017	surplus

The table below shows the total gross payments made to the Guarantor from the MPS since privatisation. The total gross amount paid is the sum of the two cumulative totals in columns 3 and 5:[77]

Mineworkers' Pension Scheme

Fund year ended	Payment from Guarantor's Fund to the Guarantor		Payment from Inv Reserve to Guarantor	
	This year (£m)	Cumulative (£m)	This year (£m)	Cumulative (£m)
1997				
1998	113	113		
1999	113	226		
2000	113	339		
2001	196	535		
2002	196	731	52	52
2003	196	927	10	62
2004	175	1102	5	67
2005	175	1277	2	69
2006	175	1277	0.2	69.2
2007	327	1779	-	-
2008	146	1925	33	102.2
2009	146	2071	33	135.2
2010	145	2,216	-	-
2011	31	2247	-	-
2012	31	2278	-	-
2013	50	2328	-	-
2014	50	2378	700	835.2
2015	92.1	2470.1	-	-
2016	51	2521.1	-	-

[76] Source: MPS Annual Reports
[77] Source: MPS

Further payments are to be made following the 2017 valuation – see section 2.7 above.

4. Administration

Capita has recently been appointed scheme administrator.[78]

However, the Government has confirmed that the level of pensions is guaranteed by the government and unaffected by the finances of the administrator:

> Jon Trickett: To ask the Secretary of State for Business, Energy and Industrial Strategy, what steps his Department is taking to ensure that a further decline in Capita's finances will not affect the level of payments to members from the Mineworkers' Pension Scheme.
>
> Claire Perry: To ask the Secretary of State for Business, Energy and Industrial Strategy, what steps his Department is taking to ensure that a further decline in Capita's finances will not affect the level of payments to members from the Mineworkers' Pension Scheme.[79]

The trustees have put the following statement on the MPS website:

> The Trustees are fully aware of the recent press coverage about the Capita Group following the trading update it issued on the 31st January. The Trustees keep abreast of news about all its key suppliers and regularly meet with them to discuss their future plans and any impact upon the Scheme and its members. The Trustees can provide assurance to our members that their MPS pensions are completely secure.
>
> The only involvement of Capita Group with the Scheme is the administration of pensions through Capita Employee Benefits ("CEB") who continue to be a core operating division within the Capita Group. The due diligence undertaken by the Trustees ahead of contracting with CEB to administer MPS Pensions showed that CEB holds a strong capital position in its own right and is a profitable and successful business in the provision of pension administration and other employee solutions to some of the largest pension schemes and companies in the UK. CEB is also regulated by the Financial Conduct Authority and as a result they have to evidence their financial strength and adequacy of capital on a regular basis as a standalone legal entity. The Trustees will continue to closely monitor the company and service performance as they do for all key suppliers and proactively seek clarification on any matters that might have an impact upon the Scheme. We believe that the Capita Group proposals for strengthening of the Group balance sheet and a focus on core business areas, such as Capita Employee Benefits, will only have a positive impact upon the present Scheme administration arrangements and the ongoing payment of MPS pensions.[80]

78 MPS Annual Report and Accounts 2016, p5
79 PQ 126117, 6 February 2018
80 Trustees Statement about Capital Employee Benefits, 31 January 2018

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BRIEFING PAPER
Number CBP-01189, 25 July 2018