MPS Pensions increase examples

Pensioner over age 65

Part of the Guaranteed pension is known as the Guaranteed Minimum Pension (GMP) which is the equivalent of the pension a member would have earned had they been in the State Earnings Related Pension Scheme (SERPS). Members of the MPS were 'contracted out' of SERPS and paid lower NI contributions as a consequence. Part of the arrangements for contracting out means that the MPS cannot pay a pension lower than that a member would have earned in SERPS had they not been contracted out. This 'Guaranteed Minimum Pension' forms part of their overall MPS guaranteed pension and has different pension increase arrangements to the rest of the MPS pension once a member reaches age 65.

This is further complicated by the GMP being in 2 parts which have different increase arrangements too. The GMP earned before 6 April 1988 does not receive any increases from the Scheme once a member reaches age 65. The GMP earned after 6 April 1988 is increased by the Scheme each year by CPI up to a maximum of 3% a year. These are the increases that by law MPS has to apply in April each year to that element of pension.

So once a member reaches age 65 the remainder of the Guaranteed pension gets increased each autumn by the increase in the Retail Price Index.

For example - the increase for 2018 is 3.4% and will be applied from 1 October 2018. The pension increase will therefore be calculated as follows:

Pension element	Pre increase weekly rate	Rate of increase	New pension rate from 1 October 2018
Guaranteed pension (excluding GMP)	£49.50	£49.50 x 3.4 % = £1.69	£51.19
Pre 1988 GMP	£13.00	-	£13.00
Post 1988 GMP	£2.50	-	£2.50
Reducing bonus	£13.00	£13.00 - £1.69 = £11.31	£11.31
Level bonuses granted from 2012 to 2017	£6.00	-	£6.00
New level bonus granted in 2018	£0.00	£49.50 x 4.2% = £2.08	£2.08
Total pension	**£84.00**		**£86.08**

Pensioner under age 65

For pensioner under age 65 the GMP forms part of the Guaranteed pension and is subject to the Scheme's annual RPI increase.

For example - the increase for 2018 is 3.4% and will be applied from 1 October 2018. The pension increase will therefore be calculated as follows:

Pension element	Pre increase weekly rate	Rate of increase	New pension rate from 1 October 2018
Guaranteed pension (including GMP of £15.50)	£65.00	£65.00 x 3.4% = £2.21	£67.21
Reducing bonus	£13.00	£13.00 - £2.21 = £10.79	£10.79
Level bonuses granted from 2012 to 2017	£6.00	-	£6.00
New level bonus granted in 2018	£0.00	£65.00 x 4.2% = £2.73	£2.73
Total pension	**£84.00**		**£86.73**

Mineworkers' Pension Scheme

Mineworkers' Pension Scheme (MPS) Meeting with the Member Support Network

24 July 2018

Introductions

Ken Capstick
Elected Pensioner Representative Trustee
Yorkshire & North Lincolnshire

Jon Heathfield
Head of Benefits

Holly Nelson
Assistant Scheme Secretary

Agenda

- Results of the 2017 Actuarial Valuation
- Trustee's objectives
- Changes to Benefits Arising from Surplus
- Payments to the Government
- The Government Guarantee & Surplus Sharing
- Questions

Mineworkers' Pension Scheme

The 2017 Valuation

- What is an actuarial valuation?
- A funding health check carried out every 3 years
- The Scheme Actuary compares the value of the Scheme's assets with the value of its liabilities (the benefits owed to members and their dependants and the costs of running the Scheme).
- This results in the Scheme being either:
- In balance (the value of the assets is equal to the value of the liabilities); or
- In surplus (the value of the assets is higher than the value of the liabilities); or
- In deficit (the value of the assets is lower than the value of the liabilities).

Mineworkers' Pension Scheme

MPS Mineworkers' Pension Scheme

Results of the 2017 Valuation

Each Sub fund is subject to a separate valuation

Sub Fund	Assets £m	Liability £m	Surplus (Deficit) £m	Comments
Guaranteed Fund	9,013	7,813	1,200	This is split 50/50 between the Bonus Augmentation Fund & The Guarantor's Fund
Bonus Augmentation Fund	1,338	1,087	251	This is added to the £600m share from Guaranteed Fund, so £851m is available for distribution to members.
Guarantor's Fund	402	330	72	This is added to the £600m share from Guaranteed Fund, so £672m available to the Guarantor paid out over 10 years.

The Investment Reserve does not have any liabilities attached to it but has assets of £1,488m.

MPS Mineworkers' Pension Scheme

Main Reasons for the change in funding

- Favourable investment performance which has increased the value of the Scheme's assets (over 3 years, the assets generated a nominal return of 40%).
- A change in the valuation mortality assumptions reflecting the latest views on future improvements (future improvements in life expectancy are slowing down) has reduced the estimated value of the liabilities.
- A reduction of 1% in the assumed real discount rate, reflecting lower future expected returns on the Scheme's assets as a result of the change in market conditions since the last valuation, has increased the estimated value of the liabilities and offsets some of the impact of the 2 points above.

Changes to benefits arising from surplus

- New bonuses of 4.2% of guaranteed pension to be awarded in each of the next 6 years (2018 to 2023). The first of these bonuses to be effective from 1st October 2018.
- A change in the Scheme Rules means that the next valuation (in 2020) will not have an impact on the bonuses that are due to be paid up until 2023.
- Money has been allocated to the Discretionary Fund to allow deferred members who are incapable of undertaking any form of employment before their 60th birthday to take early payment of their benefits without any reduction.

What do the bonuses mean in practice?

Your pension is currently made up of:

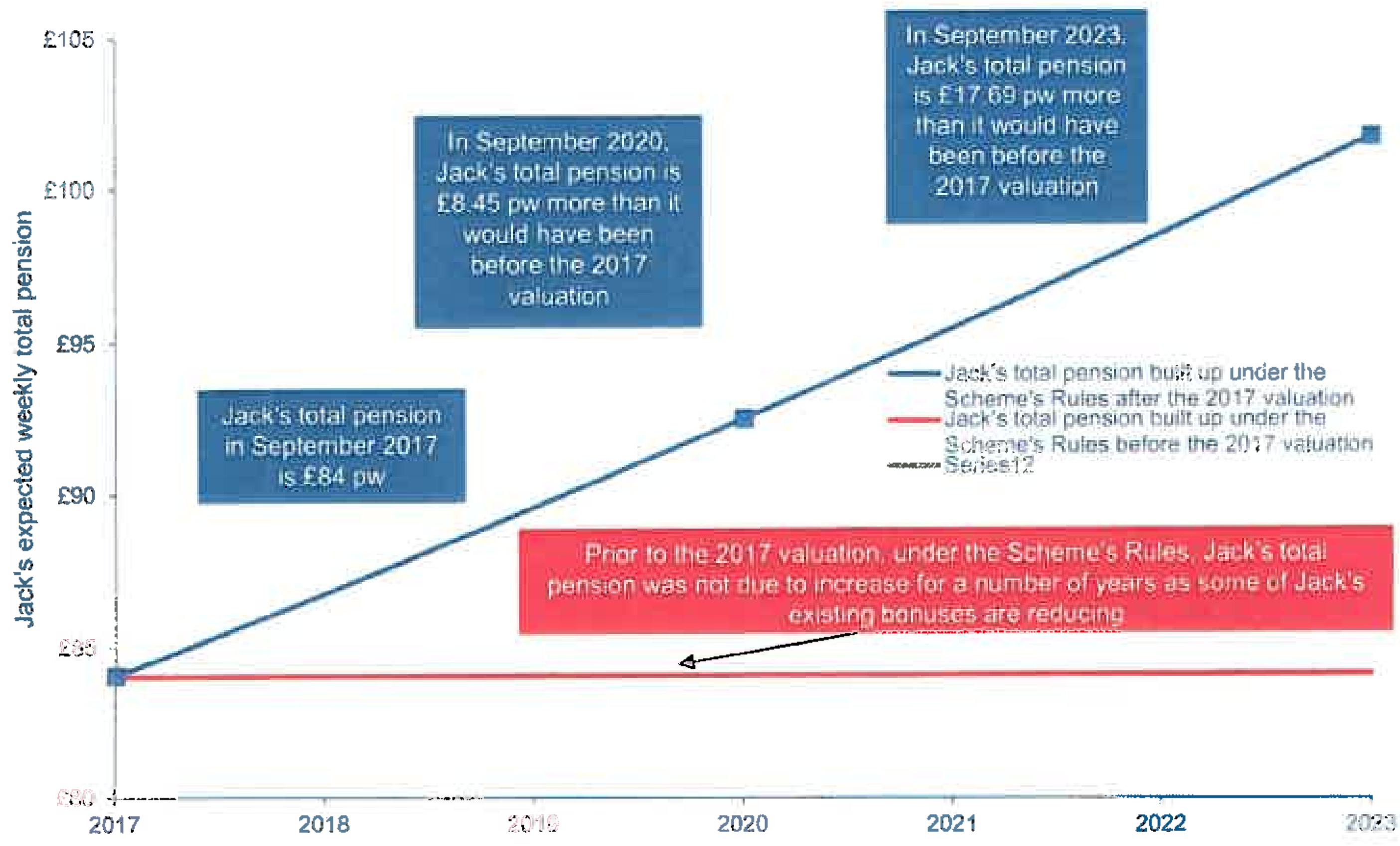
- Guaranteed pension (the pension you had earned up to 1994 when privatisation occurred plus the RPI increases on this since 1994).
- Reducing bonuses (the bonuses awarded from 1995 until 2012, which became reducing bonuses following actuarial valuations in 2002, 2008 and 2011 which revealed deficits). The reducing bonus goes down each year by the same amount that the Guaranteed pension increases.
- New bonuses (the bonuses awarded after 2012, (in 2012, 2014, 2015, 2016 and 2017) which are flat rate and do not go down or increase each year).
- From October 2018 – the new flat rate 4.2% bonuses in each of the next 6 years will be awarded.

An example of how the new bonus works

Bonus 4.20% of Guaranteed pension

	2017	2018	2019	2020	2021	2022	2023
Inflation (assumed)		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Guaranteed pension	£65.00	£66.95	£68.96	£71.03	£73.17	£75.37	£77.64
Reducing bonus	£13.00	£11.05	£9.04	£6.97	£4.83	£2.63	£0.36
Level bonus	£6.00	£8.73	£11.55	£14.45	£17.44	£20.52	£23.69
Total	£84.00	£86.73	£89.55	£92.45	£95.44	£98.52	£101.69

An example of how the new bonus works



The Trustee's Objectives

- The best outcome for all members:
- Over the long term the Trustees believe that delivering new bonuses that would allow for inflation linking of total pensions i.e. both guaranteed plus bonus pensions is achievable provided financial markets perform well.
- The Trustees are conscious of the risks of an investment strategy that seeks to provide high returns. They are very focussed on how we might protect existing bonuses (broadly an additional 30% on top of Guaranteed pensions) which can currently be lost if investment returns disappoint.
- The Trustees feel that the 4.2% bonus award for each of the next 6 years, along with the change in the Scheme Rules meaning that the 2020 valuation will not impact on bonuses, meets all these objectives.

Payments to Government

Payments to Government from the Guarantor's Fund:

- Half of any surplus in the Guaranteed Fund transfers to the Guarantor's Fund which is then paid to the Government over the following ten years.
- This will result in annual payments of £142.4m for the next 6 years, falling to £105.4m in 2024 and then £80.2m in each of 2025 to 2027.

Payments to Government from the Investment Reserve:

- This was the remainder of British Coal's accumulated hare of surplus in 1994 its is used as a 'buffer' to help smooth the 'ups and downs' of investment returns but is currently due to be paid to the Government by 2029 (previously 2019).
- The Actuary decides if any release can be made to the Government at each valuation.
- The Scheme Actuary has decided that a payment of £475m should be made by 30 September 2018.

Government Guarantee & Surplus Sharing

- The current Rules remain unchanged.
- The Trustees have met with MPs to consider ways to improve member outcomes in the future and the dialogue is continuing.
- The Trustees have met with Claire Perry, the Minister within the Department of Business, Energy and Industrial Strategy with responsibility for the MPS, to discuss these same initiatives.
- Important to note that changes to the Scheme Rules can only be made with the agreement of the Guarantor.
- The Trustees will continue to work in the interests of ALL Scheme members to get the best outcome possible.

Any Questions?

Mineworkers' Pension Scheme