



**Changes to the MPS that provide  
additional protection to your pension  
October 2020**

# Message from the Chairman

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**Dear Member,**

I hope that you and your family are keeping safe and well during these difficult and very challenging times.

When I last wrote to you in June, I explained that the Trustees' discussions with the Government about the protection of all current bonus pensions were progressing well and that I hoped to be able to communicate the outcome to you later in the year.

I am now delighted to be able to report, on behalf of my fellow Trustees, that these discussions have concluded and the changes to the Scheme's rules, necessary to protect members' current bonus pensions, have been agreed and implemented.

Whilst these changes will have no immediate impact on your pension they will, along with the bonuses provided following the last actuarial valuation in 2017, provide you with meaningful extra protection in the future, as summarised below:

- Bonus pensions make up a substantial part of members' pensions. For example, at the time of the last valuation, the average pension paid from the Scheme was around £84 per week, of which around £19 per week was bonus pension.
- As previously confirmed, following the 2017 valuation new bonuses providing increases equivalent to 4.2% of your guaranteed pension have been and will continue to be paid in each year up to and including 2023.
- Prior to the changes that have just been agreed, bonus pensions could then be lost or reduced if there was a deficit at an actuarial valuation in 2023 or after. In future, as a result of the changes, any bonus pensions in payment in 2023 can no longer be lost or reduced at subsequent actuarial valuations.
- Surplus sharing is not affected by the changes. As a result, should there be a surplus at the 2023 or subsequent actuarial valuations, then new bonuses will be declared.

I hope that you'll find the extra certainty of pension increases and longer-term protection of your bonuses reassuring, particularly during these challenging and uncertain times.

The rest of this letter includes more detail about the changes including further information about how and when they will impact your pension and the reasons why these changes are valuable to members.

Take care and stay safe.

Yours faithfully

*Chris Cheetham*

**Chris Cheetham**  
**Chairman of Trustees**  
**Mineworkers' Pension Scheme**



# How pensions are made up

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To help you understand the changes which have been made to the Scheme, and how they will benefit you, I would like to start by reminding you how members' pensions are made up.

Each member's pension broadly consists of two elements – a guaranteed pension and a bonus pension.

At the time of the last actuarial valuation in 2017 the average pension paid from the Scheme was around £84 per week, made up as shown below.

## How an average weekly pension is made up

	£ per week
Guaranteed pension	65
Bonus pension	19
<b>Total</b>	<b>84</b>

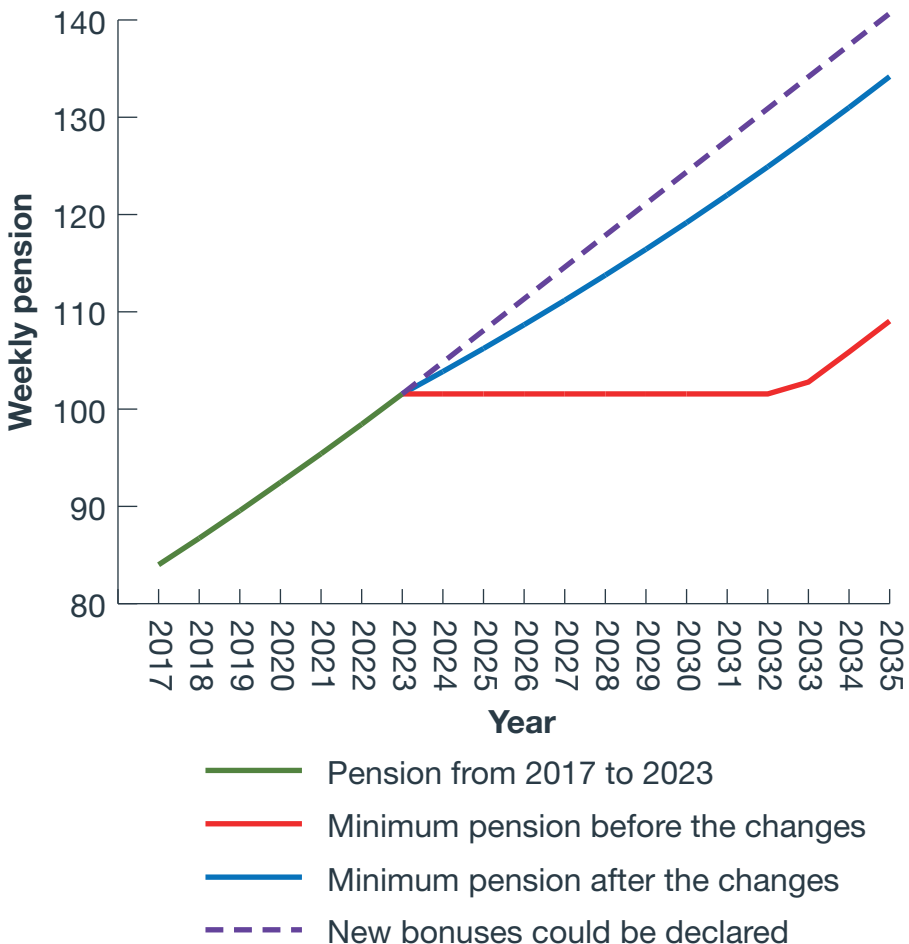
The guaranteed pension increases by inflation each year and cannot be lost. The bonus pension is the additional pension provided to members from the good investment returns made on the Scheme's assets. These bonus pensions depend on the future performance of the Scheme's assets and could go up, down or stay the same. Under the rules, if the Scheme is in surplus at an actuarial valuation, 50% of that surplus can be used to fund new bonus pensions. The other 50% is paid to the government.

Prior to the changes that have just been agreed, if the Scheme was in deficit, members' pensions would go into 'standstill'. This means that members' total pensions may not increase. For example, for the average pension of £84 per week (shown above), the guaranteed pension of £65 would increase in line with inflation, but the bonus pension of £19 would reduce by the same amount so that the total pension 'stands still'. In this situation, if investment returns were low for a long period, members may have experienced a prolonged period during which their pension did not increase and eventually their bonus pension could have been lost entirely.



# How will protecting bonuses affect my pension?

I show in the graph below a simplified example of how Jack, an example pensioner in the Scheme, who received a total pension of £84 week in 2017 (made up of £65 per week guaranteed pension and £19 per week bonus pension), could expect his total pension to grow over the coming years before and after the changes to protect bonus pensions from 2023.



- The **green** line shows how Jack's total weekly pension will increase over the period to 2023 allowing for the bonuses that are to be paid as a result of the 2017 valuation. The changes that have just been made to protect bonuses from 2023 do not have any impact on these 2017 valuation bonuses, and therefore, on Jack's pension over the period to 2023.
- The **red** line shows what could have happened to Jack's total pension from 2023, prior to the changes, if there was a large deficit at the 2023 actuarial valuation.
- The **blue** line shows what will now happen to Jack's total pension from 2023, in the same scenario.
- As can be seen from the graph, the **blue** line is higher than the **red** line. This means that the minimum pension that Jack can expect to receive, if there was a large deficit at the 2023 valuation, is higher as a result of the changes to protect bonus pensions.
- Of course, should there be a surplus at the 2023 or subsequent actuarial valuations then new bonuses will be provided, which will increase Jack's benefits above those shown in the **blue** line (as illustrated by the **purple** dotted line). The amount of any future bonuses (and correspondingly the amount of Jack's total pension) will depend on the size of any future surpluses.



# What do these changes mean for the government?

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The impact of these changes is to increase the level of benefits backed by the government guarantee and hence, increase the government's liability to members in the event there aren't sufficient funds in the future to pay the pensions built up to 2023 in full. This improvement in the government guarantee will mean that the Trustees can continue to target the investment returns on the Scheme's assets needed to generate additional bonuses for members, without the risk that members' pensions are adversely affected if those returns can't be achieved.

Changes to the MPS Scheme rules which benefit members can only be made if the government agrees to such changes.

The government currently has a financial interest of about £2.0bn in the Scheme. This represents its share of surpluses from previous valuations both since privatisation of the coal industry in 1994 and before privatisation. These assets are not available to pay member pensions, unless the Scheme is in deficit and the guarantee required.

As part of the overall package of changes agreed to protect bonuses, changes have been made to the rules to give the government more flexibility over how it can access its financial interest and more flexibility over how it supports members' pensions in the event of a deficit. These additional flexibilities will not adversely affect members' pensions, either now or in the future. As mentioned above, the government continues to have a legal obligation to ensure that sufficient funds exist so that pensions built up to 2023 can be paid in full in the future.





# Where to get more information

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Thank you for reading this letter. I know the MPS is a complex pension scheme to understand and that there is a lot of information above.

If you would like any further clarification on any of the points in this letter, for example further details about the calculation of Jack's pension before and after the changes, please contact the Scheme Secretary by emailing the Trustees Office at:

 [mps.enquiries@coal-pension.org.uk](mailto:mps.enquiries@coal-pension.org.uk)

or by writing to:

 **MPS Scheme Secretary, Coal Pension Trustees Services Limited, Ventana House, 2 Concourse Way, Sheffield S1 2BJ.**

You can also visit the MPS website at:

 [www.mps-pension.org.uk](http://www.mps-pension.org.uk) for general information on the Scheme.

Further information can also be found in the letter I sent to you in July of last year, which explained why the Trustees have been keen to protect bonus pensions. A copy of this letter can be found on the Scheme website ([www.mps-pension.org.uk/news/2019/07/a-message-from-the-chairman-of-trustees](http://www.mps-pension.org.uk/news/2019/07/a-message-from-the-chairman-of-trustees)). Alternatively, if you would like to be sent a copy you can request one from the Scheme Secretary, using the contact details above.

# For Scheme information and more visit: [www.mps-pension.org.uk](http://www.mps-pension.org.uk)

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