Mineworkers' Pension Scheme (MPS) – History of the Scheme

In 1994, the Trustees were able to secure a Government Guarantee which means that your benefits are secure. Since then, the Guarantee has allowed the Trustees to take an investment approach that has helped generate bonuses to increase your benefits.

The Trustees often receive questions from members about the Scheme and the Guarantee arrangements and therefore thought it would be useful to provide a short, factual history of the Scheme and its benefits.

History of the Scheme 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.

Following privatisation at the end of 1994, the Scheme was closed to further contributions. The Government took over the role as Guarantor for the Scheme from British Coal. The Scheme had a surplus in 1994. 50% of this surplus was 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.

The Guarantee

During the 1994 privatisation discussions, arrangements were put in place whereby the Government guaranteed that the members of the MPS would always receive the benefits they had earned to that date and that, in future, those benefits would rise annually in line with inflation. These arrangements included the provision that 50% of any surplus in the fund at future valuations would be used to increase members' benefits with the other 50% being paid to the Government.

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

Please also remember that your benefits are protected by the Government Guarantee. The Guarantee means that even if investment returns are poor, your total pension cannot fall.

Surplus sharing
We are often asked why the split of surplus sharing is 50/50 and the simple answer is that this was part of the arrangements negotiated between the Government of the day and the Trustees in 1994. The power to change this arrangement lies jointly with the Guarantor and the Trustees. Neither party can change the arrangements without the agreement of the other party. 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 Trustees' requests that it does not regard the 1994 arrangements as being unfair and that it has no intention of agreeing to 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 rare occasions that schemes have found themselves in surplus, it is 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.

The Trustees' role
The Trustees' role is to run the Scheme in line with the rules. The Trustees are, and always have been, committed to achieving the best possible outcome for Scheme members and regularly seek opportunities, through engagement with the Government, to improve the benefits for members. For example, after a period of good investment returns, they approached the Government who agreed with the Trustees request to carry out an additional actuarial valuation as at 31 March 2013. The outcome of that valuation was the following improvements for members:

i) A new bonus of 4% of Guaranteed Pensions in March 2014;
ii) An increased likelihood of a surplus (and therefore new bonuses) from the 30 September 2014 actuarial valuation (the Trustees have subsequently been able to award these bonuses); and
iii) An extension of the life of the remaining Investment Reserve until 2029, instead of 2019. The Investment Reserve acts as a valuable buffer to enable the Trustees to provide some level of new bonuses even when the actuarial valuation discloses a deficit.

Looking Forward
The Government Guarantee continues to serve the Scheme well, ensuring that MPS pensions will always be paid even if the Scheme were to face tough financial conditions in the future. However, the Trustees also continue to seek opportunities to improve benefits for members. This includes engaging with the Government and the Trustees would of course be supportive of any changes to the Scheme arrangements that would benefit members.