Mineworkers' Pension Scheme

Darren Jones MP
Chair of the Business Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

8 April 2021

Dear Mr Jones

Business, Energy and Industrial Strategy Committee
Mineworkers' Pension Scheme Inquiry

I would like to begin this letter by thanking you for inviting the MPS Trustees to present oral evidence at the meeting on 23 March 2021. We welcome the Select Committee inquiry into the Scheme and I hope you found the evidence we were able to provide helpful.

It is now twenty-seven years since the negotiations about the future of the MPS took place and, inevitably, corporate memory has faded. For this reason, in the time available since being called to provide evidence to the inquiry, we have carefully searched our available files and archives in order to ensure we have as complete a picture as possible of the history and the development of the Scheme.

Further to our oral evidence, I have attached a written submission which I hope helps to clarify and, where appropriate, supplement the evidence we have already provided.

A consultative document entitled 'The Government's Proposals for British Coal Pensions after Privatisation', published by the Department of Trade and Industry in September 1993, offers a useful background to the negotiations that followed. The document very clearly sets out two options for the Trustees under the heading 'Proposals for pensioners and deferred pensioners'. The first was a guarantee of RPI linked pensions along with a 'share in any surplus arising with the beneficiaries of the schemes on an equitable basis'. The second option stated that there would be 'no undertaking from the Government to maintain the solvency of either of these closed schemes' and continued, 'However, any future valuation surpluses would not be shared and would be available for benefit improvements'.

The then MPS Trustees appear to have spent a considerable amount of time, both as a Trustee Board and with their legal and actuarial advisors, evaluating which course of action was likely to be in the best interests of members. These discussions and the negotiations with Government covered many issues, but the Trustees reached the conclusion that the first option, a guarantee with some share of any future surplus going to Government, was the best available option for members.

However, we have been unable to find any evidence of actuarial analysis which addressed the question, what share of surplus would be 'equitable'? It seems clear, that having determined that a Government Guarantee was in the best interest of Scheme members, the Trustees had no real influence on how any future surplus would be split between the Government and the members. Moreover, we can find no evidence of any attempt to demonstrate that a 50/50 split was equitable.

It would be very difficult now, to look back and assess what such an analysis might have concluded. However, we do know what the outcome has been, and it is this outcome, combined with the fact that MPS pensions are still very low by any standards, that has led to a strong feeling of injustice amongst the Scheme membership.

As far as those members are concerned, the evidence for that injustice includes: the fact that surpluses at valuations before 1993 were shared 70/30 in favour of members; the fact that the Government has already had £4.4bn out of the Scheme, with another £1.9bn still due, bearing in mind the conclusions of the National Audit Office report published in 1996, which appeared to project much lower amounts; and the fact that the Government will continue to share in any future surpluses. Of course, all of this is in the context of an average pension of £84 per week, with many members on much lower pensions.

The Trustees' primary responsibility is, of course, to manage the Scheme within its existing rules and act in accordance with their fiduciary duties as a trustee, which includes considering the interests of members. However, we have always made it clear that we would be supportive of any changes to those rules, or combination of changes, which would benefit members. With this in mind, we have included within our written submission an illustration of how possible changes might improve member outcomes.

From the member perspective, any change that led to an immediate increase in benefits would be very welcome and might also be viewed by those members, in part, as a compensation for historic grievances over this issue. A change in the surplus share itself, while less immediate and certain in its impact, might contribute to a greater sense of fairness on the part of members going forwards.

Finally, the MPS Trustees, both in 1994 and today, recognise the value of the Government Guarantee to our members and understand that in providing this Guarantee the Government is exposed to some risk. However, to date, the Government has not been required to put any money into the Scheme, even when there have been deficits at valuations, and even in the event of future deficits the Government is very unlikely to be required to provide immediate deficit funding.

Given the nature of the Government's risk and the mitigants in place, the Trustees believe that careful consideration should be given to how significant this risk might be in practice and, in particular, whether it is likely to be proportionate to the total of £6.3bn which the Government has already been paid, or is due to be paid, from the Scheme's assets.

I hope that the Committee finds the Trustees' written submission helpful in their inquiry.

Yours sincerely

Chris Cheetham

Chris Cheetham
Chair of Trustees
Mineworkers' Pension Scheme

Business, Energy and Industrial Strategy Committee
Mineworkers' Pension Scheme Inquiry

Written evidence submission from the Trustees of the Mineworkers' Pension Scheme

8 April 2021

Introduction

The Trustees of the Mineworkers' Pension Scheme (MPS or the Scheme) would like to thank the Business Energy and Industrial Strategy (BEIS) Committee for giving them the opportunity to present oral evidence at the meeting on 23 March 2021.

This written evidence submission is intended to summarise and, where appropriate, clarify and supplement the oral evidence given by the Trustees at that meeting.[1]

It is split into the following four sections:

1. How has the Scheme evolved to date?

2. How have the Government Guarantee and 50/50 surplus share impacted the members and the Government?

3. How might future changes to the Scheme benefit members?

4. Conclusions

[1] Prior to the meeting on 23 March 2021, the Trustees also submitted to the BEIS Committee some relevant extracts from the Scheme's Annual Report and Accounts at 30 September 1992, as well as relevant extracts from Newsletters sent to members between May 1993 to May 1994 and in Autumn 2002 and Spring 2007. Following the meeting, the Trustees also submitted some information about the 30 September 1993 actuarial valuation.

1. How has the Scheme evolved from privatisation to date?

Surplus sharing prior to privatisation

Prior to privatisation in 1994, the Scheme Rules did not set out how a surplus at an actuarial valuation should be utilised.

The first surplus declared in the Scheme was at the 30 September 1987 valuation. There was a further surplus declared at the 30 September 1990 valuation. Following discussions between British Coal and the mining unions, both of these surpluses were split 70/30 in favour of members.

On each occasion, the members' 70% share was used to provide a range of benefit improvements. British Coal's 30% share was used to fund an employer pension contribution holiday in relation to the accrual of future benefits. This contribution holiday started on 26 March 1989 and, in the event, ran through to privatisation.

There was also a surplus at the 1993 actuarial valuation. The discussions on the utilisation of this surplus formed part of the privatisation arrangements (see below).

Privatisation

It is now twenty-seven years since the negotiations about the future of the MPS took place and, inevitably, corporate memory has faded. For this reason, in the time available since being called to provide evidence to the inquiry, we have carefully searched our available files and archives in order to ensure we have as complete a picture as possible of the history and the development of the Scheme.

Based on the information that is available, the Trustees are able to make the following observations about the privatisation process:

- A consultative document entitled 'The Government's Proposals for British Coal Pensions after Privatisation'[2], published by the Department of Trade and Industry in September 1993, offers a useful background to the negotiations that followed. The document very clearly sets out two options for the Trustees under the heading 'Proposals for pensioners and deferred pensioners'. The first was a guarantee of RPI linked pensions along with a 'share in any surplus arising with the beneficiaries of the schemes[3] on an equitable basis'. The second option stated that there would be 'no undertaking from the Government to maintain the solvency of either of these closed schemes' and continued, 'However, any future valuation surpluses would not be shared and would be available for benefit improvements'.

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[2] https://archive.org/details/op1279362-1001

[3] There were two major British Coal pension schemes, the MPS and the British Coal Staff Superannuation Scheme. The consultative document was in respect of both schemes.

- There were detailed and lengthy discussions between the Trustees of the time and the Government around the arrangements that would apply after privatisation. These discussions covered a range of subjects, including: the role of new employers and the benefits to be offered by those employers; the benefits to be offered to pensioners and deferred pensioners after privatisation, including inflation increases on those pensions; security of benefits; and how future surpluses should be utilised. The Trustees took relevant actuarial advice (from R Watson & Sons (now part of Willis Towers Watson)) and legal advice (from Lovell White Durrant (now part of Hogan Lovells)) on these areas.

- Based on the advice received, the Trustees concluded that a Government Guarantee was important. The Trustees would have been aware of the potential challenges of running the Scheme without a sponsor and the implications for members if the Scheme's investment strategy failed. As such, without the Government Guarantee the Trustees may well have had to adopt a more cautious investment strategy which may have reduced the chances of future surpluses.

- The "price" offered by the Government for providing that Guarantee was 50% of the surplus from the 1993 valuation and 50% of all future surpluses. Given the importance attached to the Guarantee, and in the absence of any credible alternative, the Trustees had no reasonable option but to accept this offer.

- However, we have been unable to find any evidence of actuarial analysis which addressed the question of the appropriateness of the 50/50 split or any evidence of an attempt to demonstrate that a 50/50 split was equitable.

National Audit Report - 1996

A report from the National Audit Office[4] titled "Department of Trade and Industry: Sale of the Mining Operations of the British Coal Corporation", was presented to the House of Commons in 1996. The Trustees have a copy of the report which is publicly available.

The report contains a section relating to the two major British Coal pension schemes, the MPS and the British Coal Staff Superannuation Scheme (BCSSS). Paragraph 1.21 contained in this section states "Binder Hamlyn, the National Audit Office's advisers, have calculated that, based upon middle range assumptions for future investment performance, the net present value of the projected payments to the Government over the next 25 years (net of any payments by the Government arising from its guarantee) is 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 estimate does not appear unreasonable."

The Trustees have not had sight of the Binder Hamlyn report or underlying calculations. However, it is the Trustees understanding that, when responding to questions in Parliament in 2007[5] and 2016[6],

[4] https://www.nao.org.uk/pubsarchive/wp-content/uploads/sites/14/2018/11/Department-of-Trade-and-Industry-Sale-of-the-Mining-Operations-of-the-British-Coal-Corporation.pdf
[5] https://publications.parliament.uk/pa/cm200607/cmhansrd/cm070308/text/70308w0006.htm#07030867000052
[6] https://questions-statements.parliament.uk/written-questions/detail/2016-06-03/38958

the Government confirmed the projected cash payments underlying the £2bn net present value figure calculated by Binder Hamlyn, were £8bn.

Although the Trustees do not know the details of the underlying assumptions Binder Hamlyn used, based on the fact that the MPS and BCSSS had similar asset sizes at the time of privatisation, it is probably reasonable to assume that the projected cash payments from MPS, calculated by Binder Hamlyn, totalled around £4bn.

Looking at what has actually happened since 1994:

- From 1994 to date the Government has received cash payments from the Scheme totalling £4.4bn (£1.3bn from the Investment Reserve and £3.1bn from the Government's share of post 1994 surpluses).[7]

- Over the same period, it has not needed to pay any money into the Scheme under the Guarantee arrangements.[8]

- In addition, there are assets currently totalling circa £1.9bn that, under the current Scheme Rules, are due to be paid to the Government in the future (£1.2bn in the Investment Reserve and £0.7bn in the Guarantor's Fund).[9]

So, the Government has received, or is due to receive, a total of £6.3bn compared to an original projection of around £4bn.

Requests by the Trustees to reconsider the surplus sharing arrangements

The Trustees have ongoing dialogue about the Scheme with the Government through their respective officials. Over the years, these discussions have covered a number of areas, including surplus sharing, the risk to members of losing bonus pensions through "standstill" and the size and term of the Investment Reserve. The discussions have also considered the risk to the Government and the timing of any payments to or from the Government. These discussions have led to some changes to the Scheme's Rules that have benefitted both the members and the Government. The Trustees have always made it clear that they would be supportive of further changes to the Scheme's Rules that would benefit members, including changes to surplus sharing in members' favour.

The Trustees formally asked the Government to consider surplus sharing between 2000 and 2002 and again in 2006 after substantial surpluses at the 1996 and 1999 valuations and a further surplus at the 2005 valuation. On each occasion, the Government made it clear that it would not change the arrangements.

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[7] Information compiled from the Scheme's Report and Accounts

[8] Between 2002 and 2005 the Government paid a one-off lump sum of up to £2,000 directly to Scheme members with more than five years' service on small pensions (less than £10 a week). These payments fell outside of the Guarantee arrangements. 66,000 members were eligible for such a payment (although the Trustees have been unable to confirm from their past records how many actually received a payment). In total, payments of £68m were made. Equivalent payments totalling £68m were paid from the Investment Reserve to the Government to cover these payments.

[9] Information compiled from the Scheme's Report and Accounts

Evolution of members' pensions

The average pension in payment is £84 a week.[10] This is made up of £65 a week guaranteed pension and £19 a week bonus pension which has been paid from the members' 50% share of surplus since 1994.

Furthermore, based on summarised member data, the Trustees have estimated that: [11]

- 50% of pensions in payment are less than £65 a week
- 25% of pensions in payment are less than £35 a week
- 10% of pensions in payment are less than £18 a week

[10] As at 30 September 2017 (the date of the last completed actuarial valuation of the Scheme)
[11] As at 30 September 2017 (the date of the last completed actuarial valuation of the Scheme)

2. How have the Government Guarantee and 50/50 surplus share impacted the members and the Government?

Exemption from legislation

One important factor in the management of the Scheme is the exemption from parts of legislation that apply to the vast majority of pension schemes in the UK (in particular the Statutory scheme funding requirements of the Pensions Act 2004). This exemption arises because of the Guarantee. It means the Trustees are able to pursue a long-term investment strategy without the need to take specific short-term actions that may be detrimental to the long-term position of the Scheme, should a deficit arise at any point. It also allows the Government significant flexibility to take payments from the Scheme and flexibility in the timing of paying money into the Scheme after a deficit which, in turn, has the potential to significantly reduce risk and ultimate cost.

Members

Collectively members have received bonus pensions totalling £3.3bn from 1994 to 30 September 2020 from their 50% share of surplus. [12] As outlined above, the average pension payment is £84 a week, of which bonus pension accounts for £19 a week. Had the share of surplus allocated to members been higher, then the outcome for members would have been higher bonus pensions.

It is not possible to say what the financial outcomes for members would have been had no Government Guarantee been put in place, not least because we can't know how the Trustees would have managed the Scheme in the absence of a sponsor.

Government

In providing the Guarantee, the Government clearly carries risk in the form of a contingent liability. If there are ultimately insufficient assets in the Scheme to pay the guaranteed benefits, which now includes the majority of current bonuses, then the Government will have to pay the difference.

It is important to recognise here that the structure of the Guarantee arrangements provides the Government with protection from having to put cash into the Scheme in the event of deficits that prove to be "short-lived". For example, following low returns in 2001 and 2002 and again in 2008 and 2009, there were deficits at the 2002, 2008 and 2011 actuarial valuations. The Investment Reserve was used to fill these deficits until such time that the Scheme's investments had recovered enabling the 'repayment of the Investment Reserve' from which the Scheme had notionally borrowed. This meant the Government was not required to pay any cash in to the Scheme following these deficits.

More importantly, in principle, in consultation with the Trustees, the Government could seek to delay the repair of any "permanent" deficit for a significant period.

There are two very important implications of this. Firstly, the risk to Government cash flows is likely to be far off into the future. Secondly, the Government would be able to adopt a longer-term strategy to the funding of any deficit and, potentially therefore, in the event of a deficit caused by a

[12] Information compiled from the Scheme's Report and Accounts

market crash, for example, it would have time to assess whether a self-correcting recovery in markets was likely to close the deficit without the need to put money into the Scheme.

Balance of impact

The Guarantee and 50/50 surplus sharing arrangements have to date benefitted both the members and the Government.

Members continue to benefit from the security of the Government Guarantee and also continue to benefit from the associated freedom to pursue a long-term investment strategy (as do the Government). Therefore, the Trustees would not want to see the Guarantee weakened in any way but, as mentioned earlier, would be supportive of changes to surplus sharing or other changes to the Rules that would benefit members.

The Government clearly faces a risk as a result of the Guarantee it provides to the Scheme. However, given the nature of this risk and the mitigants in place, the Trustees believe that careful consideration should be given to how significant it might be in practice and, in particular, whether it is likely to be proportionate to the £6.3bn the Government has already been paid and is due to be paid from the Scheme's assets.

3. How might future changes to the Scheme benefit members?

Trustees' role

The Trustees' primary responsibility is to manage the Scheme within its existing Rules. However, throughout the life of the Scheme the Trustees have considered whether changes to the Scheme Rules which benefit members might be possible. This has included the recent agreement with the Government to protect members' current bonus pensions, in return for flexibility of the timing of future payments to or from the Scheme.

Looking forwards, the Trustees note that the recently announced change to the way RPI is to be calculated from 2030 onwards (to bring it line with CPIH) is likely to reduce the increases on members' pensions from 2030 onwards. The reduction in liabilities caused by this change could also lead to a transfer of additional surplus to the Government, albeit unintended, via the surplus sharing mechanism.

The Trustees cannot unilaterally change the Rules of the Scheme. However, the Trustees have always made it clear that they would be supportive of any changes, or combination of changes, to the Scheme's Rules which would benefit members. The Trustees therefore thought it might be helpful to clarify and quantify the impact on members' pensions of some possible changes to the Scheme.

Potential future changes

As outlined earlier, the average pension in payment is £84 a week, of which £19 a week is bonus pension. The Trustees have quantified below how different changes to the Scheme would increase the average bonus pension.[13]

The changes illustrated are:[14]

(i) What if existing Government funds in the Scheme were used to increase pensions?

(ii) What if surplus sharing was changed going forwards?

To help put these potential changes in context, it is perhaps informative to note that if the surplus share had been 70/30 from the date of privatisation, then broadly speaking the Government might have received £1.2bn less in surplus payments to date.[15] The potential value to members of £1.2bn today would be to increase the average bonus pension by £14 a week. It is therefore clear that, had surplus sharing been at this higher level since privatisation, members would have benefited to a significant degree.

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[13] Figures are based on the 30 September 2017 actuarial valuation assumptions, are approximate in nature and are intended to give a broad feel of impact only. Broadly speaking the proportionate impact on each member's pension should be similar to the impact on the average pension.

[14] These are provided for illustrative purposes only. They are not intended to represent an exhaustive or mutually exclusive view of future options. Neither are they intended to represent the "preferred" approach of the Trustees to any potential future Rule changes.

[15] Figures are approximate in nature and have been derived by pro-rating the £3.1bn the Government has received to date by 20% divided by 50%.

(i) Potential value to members of existing Government Funds

The table below illustrates the amount by which the average bonus pension could increase if different levels of the funds that are due to be paid to the Government (totalling £1.9bn) were transferred into the Scheme's Bonus Augmentation Fund (although it is worth noting that, under the existing Rules of the Scheme, any new bonuses that might be declared are not protected and could therefore be reduced, or even lost completely, in the event of a subsequent deficit).

Source of funds	Current value	Equivalent increase to average bonus pension
Guarantor's fund	£0.7bn	£8 a week
Investment Reserve	£1.2bn	£14 a week
Guarantor's Fund & Investment Reserve	£1.9bn	£22 a week

Such a change could increase members' pensions immediately.

(ii) Changes to future surplus share

The table below illustrates the amount by which the average bonus pension could increase as a result of a change in the share of surplus going to members at future valuations.

- This is hard to quantify as it will depend on the size of any future surpluses.

- At one extreme, if there are no future surpluses, then members would not benefit at all from such a change.

Size of surplus in 2023	Surplus share	Additional increase to average bonus pension relative to 50/50 surplus share
£0bn	70/30	£0 a week
	100/0	
£0.5bn	70/30	£1 a week
	100/0	£3 a week
£1bn	70/30	£2 a week
	100/0	£6 a week

A change in the share of surplus awarded to members would be very welcome. However, it is important to recognise two important points.

- First, such a change would not benefit members until 2024, at the earliest, following the results of the 2023 valuation, by which point the Scheme will have fewer members. To help put this reduction in membership in context, over the last three years nearly 20,400 members have died with only around 3,900 resulting dependant pensions coming into payment.[16] Going back further, since 1994 the Scheme's membership has reduced from circa 460,000 to circa 136,000 members today.[17]

[16] Information compiled from the Scheme's Report and Accounts
[17] Information compiled from the Scheme's Report and Accounts

- Second, under the existing Rules of the Scheme any future bonuses awarded would not be protected and could therefore be reduced, or even lost completely in the event of a subsequent deficit.

4. <u>Conclusions</u>

Following what appears to have been extensive discussion and debate about the future of the MPS twenty-seven years ago, the then Trustees reached the conclusion that a Government Guarantee, with some share of any future surplus going to Government, was the best available option for members.

However, we have been unable to find any evidence of actuarial analysis which addressed the question, what share of surplus would be 'equitable'?, or evidence of any attempt to demonstrate that a 50/50 split was equitable.

It would be very difficult now, to look back and assess what such an analysis might have concluded. However, we do know what the outcome has been, and it is this outcome, combined with the fact that MPS pensions are still very low by any standards, that has led to a strong feeling of injustice amongst the Scheme membership.

As far as those members are concerned, the evidence for that injustice includes: the fact that surpluses at valuations before 1993 were shared 70/30 in favour of members; the fact that the Government has already had £4.4bn out of the Scheme, with another £1.9bn still due, bearing in mind the conclusions of the National Audit Office report published in 1996, which appeared to project much lower amounts; and the fact that the Government will continue to share in any future surpluses. Of course, all of this is in the context of an average pension of £84 per week, with many members on much lower pensions.

In section 3 above we have illustrated how different changes to the Scheme might impact members. From the member perspective, any change that led to an immediate increase in benefits would be very welcome and might also be viewed by those members, in part, as a compensation for historic grievances over this issue. A change in the surplus share itself, while less immediate and certain in its impact, might contribute to a greater sense of fairness on the part of members going forwards.

Finally, the MPS Trustees, both in 1994 and today, recognise the value of the Government Guarantee to our members and understand that in providing this Guarantee the Government is exposed to some risk. However, to date, the Government has not been required to put any money into the Scheme, even when there have been deficits at valuations, and even in the event of future deficits the Government is very unlikely to be required to provide immediate deficit funding.

Given the nature of the Government's risk and the mitigants in place, the Trustees believe that careful consideration should be given to how significant this risk might be in practice and, in particular, whether it is likely to be proportionate to the total of £6.3bn which the Government has already been paid, or is due to be paid, from the Scheme's assets.

We hope that the Committee finds the Trustees' written submission helpful in their inquiry.

MPS Trustees	**8 April 2021**
Ken Capstick	Pensioner Representative Trustee for Yorkshire and North Lincolnshire
Chris Cheetham	Appointed Trustee
Bobby Clelland	Pensioner Representative Trustee for Scotland, North West England and North Wales