Government
Actuary's
Department

British Coal Staff Superannuation Scheme

Report on the actuarial valuation as at 31 March 2024

17 March 2025

[redacted]

The Government Actuary's Department is proud to be accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

Contents

BCSSS: Report on the actuarial valuation as at 31 March 2024

1 This report is addressed to the Trustees and the Guarantor (Department for Energy Security and Net Zero, or 'DESNZ') of the British Coal Staff Superannuation Scheme ('BCSSS' or 'the Scheme') and provides the results of the actuarial valuation as at 31 March 2024. Full details of the actuarial analysis underpinning this report can be found in my supplementary report dated 17 March 2025.

2 The previous valuation was carried out as at 31 March 2021 (see valuation report of 11 April 2022), and was the third following the significant changes to the structure of the Scheme and the valuation requirements in 2015. These changes were implemented through an agreement between the Trustees and the Guarantor which was signed on 13 February 2015 ('the Agreement').

3 The main purpose of this actuarial valuation is to derive the two figures shown in Table 1. These are the annual compound real return[1] on the Scheme's total assets that would be needed over the lifetime of the Scheme to expect to be able to meet:

- the Scheme's future benefit payments and the Scheme's expenses (excluding investment expenses), but excluding any future payments to the Guarantor (the **'Obligations Percentage'**); and
- the Scheme's future benefit payments, the Scheme's expenses (excluding investment expenses) and a payment to the Guarantor on 31 March 2033 equal to the 'Buffer' (as defined in paragraph 2.4 of the Agreement) indexed using the CPI measure of inflation (the **'Buffer Percentage'**).

4 The Agreement also requires the actuary (under paragraph 2.12) to advise the Guarantor and the Trustees if, in the actuary's opinion, the total value of the Fund[2] is less than will be needed to meet the Scheme's obligations over a period of three years.

[1] For the avoidance of doubt, all references to a real return in this report refer to a return in excess of Retail Prices Index (RPI) inflation.

[2] The "Fund" is defined in the Agreement as the "Guaranteed Fund", which includes all Scheme assets following the subfund merger in 2015.

The 2024 valuation results

Obligations and Buffer Percentages

5 The results of the 2024 valuation, and those of the 2021 valuation for comparison, are shown in Table 1.

Table 1 – Obligations and Buffer Percentages

Real rate of return (annual) required over the lifetime of the Scheme [3]	Obligations Percentage	Buffer Percentage
As at 31 March 2021	-1.7%	-0.1%
As at 31 March 2024	-0.5%	1.9%

6 The actual real return on the Scheme assets over this period was lower than the Obligations (and Buffer) Percentage calculated in March 2021. This relative underperformance means that higher rates of return are required from March 2024, all else being equal. In addition, higher inflation than expected between 31 March 2021 and 31 March 2024 has increased future benefit payments.

Consultation

7 Paragraph 2.7 of the Agreement sets out certain triggering events and intended outcomes. At the 2024 valuation, a triggering event occurs if the valuation results show the:

- Obligations Percentage is in excess of 5% a year; or
- Buffer Percentage is less than 1% a year.

8 If a triggering event occurs, the Guarantor and the Trustees are obliged to consult with a view to agreeing a course of action to achieve the intended outcomes described in the Agreement.

9 A consultation was triggered at the 2021 valuation (as the Buffer Percentage was lower than 1%). As part of the consultation, in March 2022, the Trustees considered the funding position of the Scheme strong enough to support the creation of additional benefits to members, along with payments to the Guarantor. In May 2023, the Guarantor declined the proposal, in view of the risk to the Guarantor if future investment returns fell short of those required. As a result, both parties were content to conclude the consultation with no actions arising, on the basis that the assets of the Scheme were considered sufficient (but not materially more so) to meet future benefit payments and maintain a buffer up to 31 March 2033.

10 There is no triggering event at the 2024 valuation, with the Buffer Percentage calculated to be in excess of 1% a year.

[3] Percentage returns are quoted net of any investment management expenses.

Solvency Guarantee

11 In my opinion, the Fund is sufficient to meet the Scheme's Obligations[4] for a period well in excess of three years. In coming to this view, I note that total projected Obligations payments over the three years following the valuation date are expected to represent around 20% of the available assets at the valuation date[5]. Therefore, I expect there to be sufficient funds to meet the Scheme's Obligations for the next three years on any reasonable set of assumptions.

Asset volatility

12 It should be noted that the valuation results are subject to a significant degree of short-term volatility. This volatility arises because the valuation results depend directly on the market value of the Scheme's assets which can fluctuate materially over short periods. Figure 1 below illustrates how the Obligations and Buffer Percentages would change depending on the asset value (assessed at the valuation date).

13 Further comments about the risks to the members and Guarantor can be found in the "Key Risks" section of this report.

14 Figure 1 shows that assets as at 31 March 2024 are around:

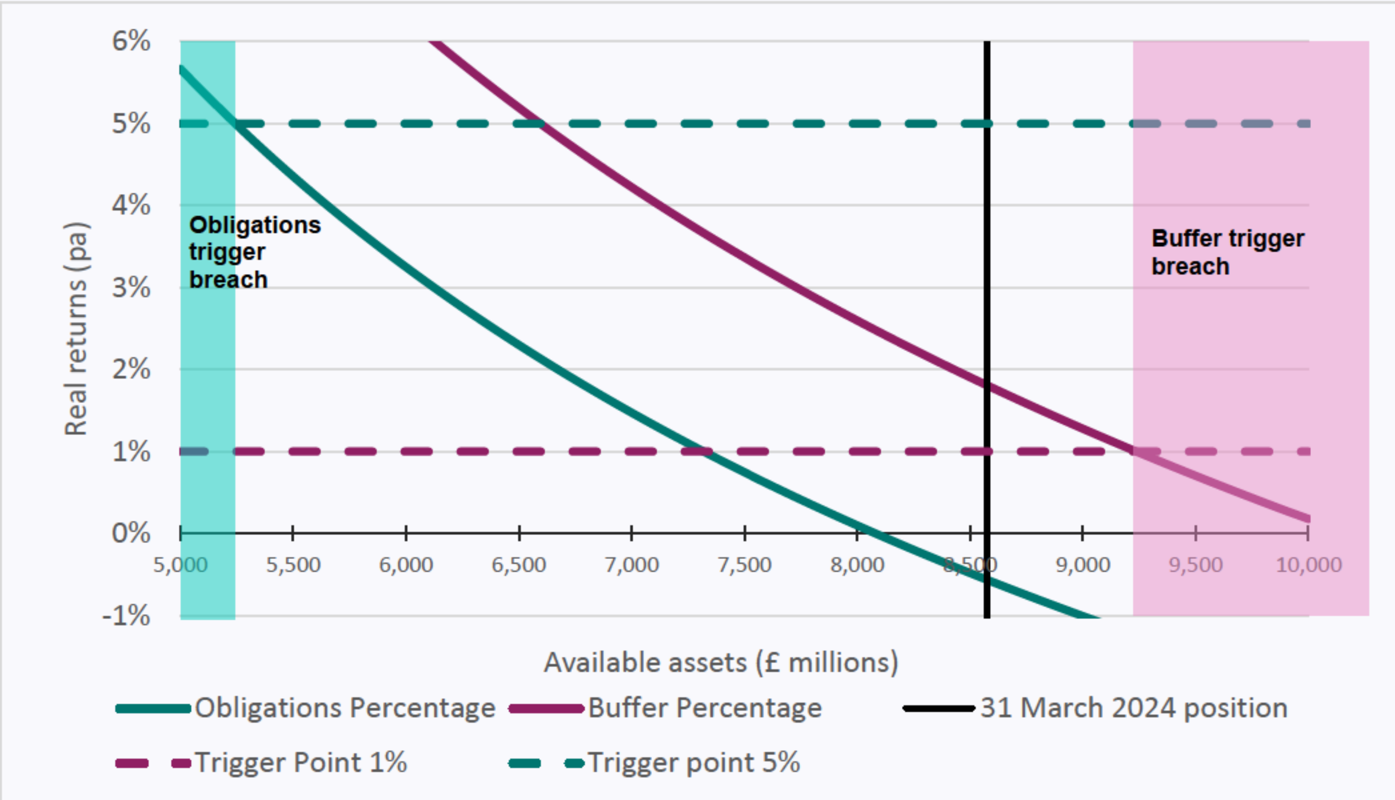
- £0.7bn lower than would have triggered a consultation due to the Buffer Percentage falling below 1% - that is, assets would have needed to be at least around £0.7bn higher at the valuation date to trigger a (Buffer Percentage) consultation.

- £3.3bn higher than would have triggered a consultation due to the Obligations Percentage exceeding 5% - that is, assets would have needed to be at least around £3.3bn lower at the valuation date to trigger an (Obligations Percentage) consultation.

[4] 'Obligations' is defined in paragraph 1.7 of the Agreement and effectively represents the Scheme's benefit payments and expenses.

[5] In this context available assets are considered to be £8,576m.

Figure 1 – Obligations and Buffer Percentages by asset value



Membership data, asset data, methodology and assumptions

16 These results depend on the membership data, asset data and valuation assumptions adopted for this valuation, as discussed below.

Membership data

17 Membership data have been provided by the Scheme administrators, Capita, for the purposes of this valuation. This includes individual membership data as at 31 March 2024, and data covering changes in membership since the 2021 valuation. As at 31 March 2024, there were 41,000 members[6] (with around 97% receiving a pension) and the total annual pensioner payroll was £596 million.

18 Further information on the Scheme's membership is summarised in Appendix D of the supplementary report.

Assets

19 The Trustees have provided copies of the Scheme's annual report and accounts and other relevant information on the Scheme's assets and investment strategy. The market value of the Scheme's assets on 31 March 2024 was £8,576 million. Further details on the Scheme's assets and investment strategy can be found in Appendix E of the supplementary report.

Buffer payment

20 The '2015 Reserve' was defined in the Agreement and its value was calculated as £1,707 million. The 2015 Reserve can be considered to be the Guarantor's share of the surplus when the coal industry was privatised, less the parts of that surplus already released to the Guarantor (including the £500 million paid from the former Investment Reserve[7] on 1 April 2015), accumulated with investment returns to 31 March 2015.

21 The 2015 Reserve, increased in line with CPI from 2015, is due to be paid to the Guarantor in 2033. It is the payment of this amount in 2033 (the 'Buffer') which is allowed for in the calculation of the Buffer Percentage.

22 The 'Adjusted Reserve', which is the 2015 Reserve increased to a certain date (as defined in the Agreement), has been calculated as £2,261 million as at 31 March 2024. For the 2024 valuation, the Buffer is equivalent to the Adjusted Reserve (no further payments have been made to the Guarantor since the payment on 1 April 2015), plus assumed increases in CPI between 2024 and 2033.

[6] Excluding EPB-only deferred members.

[7] This held the surplus present in the Scheme at the time of restructuring in 1994 (after the granting of benefit improvements to members following the 1992 valuation).

Methodology and assumptions

23 The Scheme's benefit liabilities are all in respect of deferred members and pensioners in payment (plus any associated expenses). There are no active members. The valuation methodology is to project the expected cashflows in respect of the members' benefits (and target payment to the Guarantor, as appropriate), using the assumptions adopted. The annual real rates of return required on the Scheme's assets over the Scheme's lifetime, in order to meet the Scheme's cashflow requirements, are then calculated at the valuation date.

24 In preparation for this valuation, I have consulted with both the Trustees and the Guarantor on the assumptions and methodology to be adopted, as required by section 2.17 of the Agreement.

25 I have set the assumptions consistently with a 'best estimate' principle. However, for certain demographic assumptions I have erred on the side of prudence where it is appropriate to do so, for example where there is a choice between two reasonable assumptions or some uncertainty about the statistical credibility of observed experience. This approach is consistent with the rationale adopted at the previous valuations.

26 The following main assumptions have been adopted for this valuation:

- long-term increases in CPI of 2% a year.
- increases in RPI up to February 2030 (when RPI is intended to align with CPIH) of 3% a year.
- from February 2030 onwards, long-term increases in RPI of 2.1% a year, allowing for RPI aligning with CPIH.
- baseline mortality rates are assumed to be in line with standard tables, adjusted to reflect recent Scheme membership experience, with future improvements projected to be in line with those underlying the ONS 2021-based (interim) principal UK population projections.

Reconciliation with Previous Valuation

27 Scheme experience has increased the Buffer and Obligations Percentages by around 1.8% a year and 1.0% a year, respectively. This is mostly due to relative underperformance in (real) investment returns over the intervaluation period.

28 In addition, the change in assumptions led to increases of around 0.2% a year in the required rates of return reported at the 2024 valuation. This effect is mostly attributable to changes to the mortality assumptions.

29 Further details on the assumptions adopted for this valuation can be found in Appendix F of the supplementary report.

Key risks

30 Under the terms of the Agreement, members' benefits are now fixed so their exposure to risk is limited. The risk to members is that their pensions will reduce in real terms as not all the benefits are entirely inflation linked. The Guarantor bears all the other financial risk in the Scheme. The main risks to the Guarantor, assuming member experience is broadly as expected, are:

- Guarantor needs to make an additional payment to the Scheme to ensure that members' benefits can be paid.
- the Buffer payment in 2033 will be lower than anticipated.

31 The Scheme's investment strategy includes a material allocation to return-seeking assets, so that future returns in excess of the Buffer Percentage are possible, albeit with a material risk of worse investment outcomes, including the possibility of additional funding being required from the Guarantor.

32 It should also be noted that the timing and incidence of returns are important. The valuation results are defined as uniform annual real rates of return to be achieved over the lifetime of the Scheme. Due to the significant relative size of benefit payments out of the fund, investment returns in the short-term are more significant to the success, or otherwise, of long-term target outcomes than returns further into the future. This means that real returns over the period to the 2027 valuation could have a material impact on the results at the 2027 valuation.

33 Given the Scheme's maturity and expenditure requirements, the Scheme also faces a material liquidity risk. This is the risk that insufficient liquid assets are available to meet cash flow requirements, and this could result in the sale of assets at unfavourable times. It will therefore be important to manage the asset portfolio effectively.

34 The main demographic risk is that members live longer than expected. There is less scope for the Trustees to manage the mortality risk and, given the circumstances of the Scheme, such management may not be desirable due to additional cost or complexity.

35 Further comments and analysis highlighting some of the risks faced by the members and the Guarantor are given in Appendix I of the supplementary report.

Compliance statement

36 This work has been carried out in accordance with the applicable Technical Actuarial Standards: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

[redacted]

17 March 2025