SLIDES 1&2

Kate

You will be aware that, as a result of the Covid-19 pandemic, and with the health and safety of our members and staff our paramount concern, we decided to cancel the 73rd Annual General Meeting of Scheme members, which was due to be held in Nottingham on 1 October 2020. We are, however, very keen to ensure that, although the AGM itself has been cancelled, members still have the opportunity to receive the latest Report & Accounts for the year to 31 March 2020, read about the issues facing the Scheme and to ask any questions.

SLIDE 3

In a similar way that we would present the information at the AGM we have prepared brief reports from myself, Kate Barker, Chairman of the Committee of Management of BCSSS, Alan Rubenstein, Investment Sub-committee Chairman and Jon Heathfield, BCSSS Scheme Secretary.

The latest Scheme Report & Accounts is available on the publications section of the Scheme's website https://www.bcsss-pension.org.uk/scheme-publications or can be emailed or posted to you on request to the Scheme Secretary,

Before I get into the report back on the Scheme over the financial year, on behalf of all the Trustees and Scheme staff, I would like to extend our heartfelt sympathy to those of you who have been bereaved or suffered ill health due to the Covid-19 pandemic. These are difficult times and we wish you all well in managing through this period.

There have been no changes to the Committee of Management of the Scheme, more commonly referred to as the Trustees, over the last year. The Scheme's Committee of Management is made up of eight individuals with varying lengths of Scheme experience and also highly relevant backgrounds and skills. We have a good balance between retention of Scheme knowledge and the challenge of new ideas and ways of working. It is also worth mentioning that our duties and powers are set out under the Scheme Rules and Trust law – we must abide by these Rules and are not allowed to act outside of them.

Being a member of the Committee of Management is a significant commitment. Over the year to March 2020 we held 26 Committee of Management and Sub-committee meetings. Papers for each meeting are issued in advance and the amount of preparation required for each meeting should not be underestimated. In addition, all of us have continued to refresh and improve our knowledge and understanding, through attendance at external courses and seminars, and through formal and informal training. During the current pandemic this has all become harder and, like many of you, we have embraced technology and our meetings and training sessions have become virtual ones.

To help us manage the Scheme we have an Executive Management team, Coal Pension Trustees Services ("CPT"). CPT employs 38 staff, who provide investment, actuarial, risk management, accounting, benefits management and secretariat services. CPT supports not only the BCSSS but also the Mineworkers' Pension Scheme.

SLIDE 4

The last months of the Scheme year to 31 March, and the period since then, have been dominated by the Covid-19 pandemic. This had adverse impacts on the year-end asset valuations and has posed significant ongoing challenges to the Trustees across all aspects of the Scheme's business. We have been faced with volatile investment markets and the challenges of operating the Scheme remotely (due to offices being shut and travel being severely restricted). Sadly, during the spring, we also had to respond to a higher than expected number of deaths among our members. Although none of us could have predicted the nature of the challenges we faced, I am pleased to report that the continuity and investment plans we had in place have worked well. As a result, we have been able to manage the Scheme effectively throughout this difficult period and continue to do so.

SLIDE 5

As you would expect, our primary funding aim is to ensure that all future benefits can be paid to members as they fall due, without requiring funding from the Guarantor. In order to achieve this goal (and also to pay the Adjusted Reserve to the Guarantor) a high level of return on the Scheme's assets is required over the future. This means that the Committee has to invest in assets that seek a significantly higher return than can be achieved with 'low risk' assets. The BCSSS is a 'mature' pension scheme. This means that the annual benefit payments of about £600 million are significantly more than can be earned from the investments alone. Therefore, we will always need to sell assets over time to pay the pensions. As a result, in developing our funding strategy, we need to think about both achieving the return target and investing in assets that will generate cash income to pay the benefits.

During March 2020, asset prices across the world fell markedly as the Covid-19 pandemic took hold. At the same time, currencies became volatile and income on some assets was not received (one example being UK property, where a number of tenants withheld rent payments during the lockdown, supported by the Government). The Committee already had an established plan to deal with such a situation. We hold around £1.25 billion in low risk liquid assets which are available to meet benefit payments, and other cash requirements, during such periods of market volatility. In addition, we entered into an options strategy during 2019 to provide further protection of liquidity levels in the event of a significant fall in equity prices. I am pleased to say that the outcome is that, to date, we have been able to navigate the immediate challenges. We did not need to sell any equities, or other growth assets, during the period when we considered that the sale prices of those assets were too low. We have also maintained the target level of liquid assets as protection for future market falls.

The requirement for 'high' annual investment returns means that the Committee invests a large proportion of the assets in a diversified 'Growth Portfolio'. The values of many of these growth assets also fell sharply during March 2020, reflecting uncertainty around the immediate economic outlook and longer-term risks. There was considerable uncertainty about the valuations of some of the assets around that time, particularly the private assets, where there are no quoted market prices and as a result, they are harder to value. I'm pleased to say that since the Scheme year-end most investment markets have recovered, although there remains a heightened risk of further market falls and volatility.

It is uncertain how long we will have to live with Covid-19, and therefore the longer-term impact on the global economy is also uncertain. The Committee remains vigilant and will seek to manage the portfolio carefully through these difficult times. We are fortunate to have a strong internal team and many high-quality investment managers to support us.

SLIDE 6

An important part of the Committee's investment focus relates to environmental, social and governance (ESG) considerations. The Committee recognises that these factors can have a significant impact on long-term returns and risks. Our clear objective is to achieve the required high rate of prospective returns for any given level of risk. However, we recognise that ESG factors, including, but not limited to, climate change, can impact investment outcomes and we therefore ensure that they are considered in all our investment decisions. These factors are likely to become even more important in a post Covid-19 world.

SLIDE 7

Turning to the Scheme's administrators, I am pleased to report that over the year the benefits administration provided by Capita continued to operate successfully in line with the required performance targets. As a result of Covid-19, all our service providers, including Capita, were forced to invoke business continuity plans and introduce new technology to enable staff to work from home.

During this time, we prioritised our most critical services, for example putting members' pensions into payment and dealing with bereavements. This meant that other enquiries potentially took longer than normal, for which we appreciated your patience. Capita did, of course, continue to respond to all correspondence received, but this may not have been as timely as we would usually require. Overall, We are very pleased with how Capita responded to Covid-19 and managed to maintain a high standard of service to you, our members, whilst also dealing with an increased workload.

You may also be aware that due to the risks posed by Covid-19 and the restrictions in place at the time decisions needed to be taken, the Committee had to make some changes to our normal governance processes. In addition to cancelling the AGM, we also had to postpone the 2020 Pensioner Representative Trustee election but expect to run it concurrently with the 2021 election process.

SLIDE 8

I would now like to hand over to Alan who will outline the funding and investment strategy of the committee.

Alan

I would like to update you on our investment activity and performance to 31 March 2020. This period covered the initial stages of the Covid-19 outbreak, so I'll also summarise the effects that has had on the investment performance and outlook.

As Dame Kate has already highlighted, our primary funding objective remains to pay all future pensions as they fall due, without requiring new money from the Guarantor in future.

SLIDE 9

We expect to pay about £12.5 billion in total benefits to Scheme members over the future. In 2033, we are also due to pay the Adjusted Reserve (previously called the Investment Reserve) to the Government. We estimate that this will have grown to about £2.4 billion at that time. So our total aggregate future cash payments from the Scheme will be nearly £15 billion.

At 31 March 2020, our assets were valued at £8.8 billion, so you can see that we still need to grow these assets significantly.

In fact, we need to earn returns on our assets in excess of 4% every year over the future lifetime of the Scheme. Although this is less than we have earned in the past, we expect future returns to be lower than those achievable in the past, so this remains a challenging objective.

SLIDE 10

We also have some shorter term challenges. Over the year to March 2020, we received £278 million in income from our assets. But we paid out over £580 million this year in benefits, leaving us over £300 million short. We have to fund this £300 million difference by selling assets.

So in summary, we have to deliver returns of over 4% per annum on the assets over the long-term, whilst also selling £300 million of assets each year in the short-term. I'll now summarise how we meet these challenges.

Let's start with the cash requirements. The first thing that we do is look for assets that provide income. We receive income from various sources: property rents, infrastructure income, shipping charters, interest from fixed income securities and equity dividends. The table on page 25 of the Report & Accounts shows in detail where the income came from over the last Scheme year.

SLIDE 11

As I've already mentioned, we don't receive enough income to be able to meet all of the pension payments each month, so we need to sell assets regularly to make up the short fall. Some of our best income-generating assets are also 'illiquid', which means that we can't quickly and easily go into the market and sell them. Property, infrastructure, ships and private credit all fall into this category – they all take time to sell. So, let's look at the other assets. Firstly, public equities. These are generally liquid and are expected to deliver good returns over longer time periods. However, their price can go up and down quite markedly, especially over the short-term. We don't want to be forced to sell equities just after their price has gone down. That leaves sales and redemptions of government bonds and investment grade credit. These are also generally liquid and their price tends to be less volatile than that of equities. We expect to pay for this greater reliability of price in lower returns, but it gives us the assurance that we can meet our pension obligations over time without being forced to sell our equities at depressed prices.

Moving on to the growth requirements, as I mentioned earlier, our required return is over 4% per year. Public and private equities, private credit, and property and infrastructure are all assets in the portfolio that we expect to deliver good returns over the longer term. We hold a mixture of assets in order to diversify the risks in the portfolio. For example, we look to hold some assets that should do well in a strong economic environment (such as equities) but also assets that might do better in a recession (bonds) or in periods of high inflation (property and infrastructure) and make sure that we have a balance across the portfolio.

SLIDE 12

So, how are we doing in achieving that 4% per annum return target I mentioned earlier? If you look at the returns table on page 17 of your Report and Accounts, you'll see that the returns over the last five years remain in excess of this target, although returns over shorter periods have been lower. We now have the confirmed (beneficial) impact of the equity hedge referred to in the Report and the Updated Return figures on this slide are adjusted to allow for this. Even so, the Scheme's returns for the last Scheme year were negative, reflecting in particular the falls in many markets during the early stages of the Covid-19 pandemic. Since the Scheme year-end the markets have rebounded, although the near term outlook for markets remains particularly uncertain.

The absolute levels of return on our assets against this target are the most important measure of progress towards achieving our objectives. However, we also monitor the relative performance against the various benchmarks set for managers. This relative performance helps us measure the success of the implementation of the strategy and the performance of the investment managers. Over shorter periods, in particular over the year to 31 March 2020, this relative performance has been poor. There were a number of reasons for this poor short-term performance, including the effect of recent market conditions, and the Trustees are monitoring this closely. We do try to align our manager mandates with the Trustees' objectives, which focus on the longer term. I am pleased to report that the performance over longer periods remains good.

Finally, let me say a few words about the outlook. As always, there are a number of challenges facing all investors at present. However these feel significantly heightened at present and include the ongoing economic effects of Covid-19, global and local political challenges, including both the outcome of the US Presidential election in November and what deal (if any) the UK agrees with the EU on trade following the ending of the Brexit transition period, and the impact of an extended period of low interest rates on future returns.

SLIDE 13

I will now hand over the Scheme Secretary, Jon Heathfield, who will summarise the key statistics in the Scheme accounts and read and address the written question received in advance.

Jon

SLIDE 14

As in previous years, I will highlight and explain some of the key statistics from this year's Report and Accounts, these can be found on page seven.

In terms of membership numbers, at 31 March 2020 the Scheme had 46,636 pensioner members (this includes 12,871 widows and 127 dependent children). In addition, it had 2,200 deferred members (including 50 deferred members with small EPB pensions). In total there was a reduction of 1,559 members in the Scheme over the year from 31 March 2019.

SLIDE 15

During the Scheme year we paid a total of £603 million to members in benefits and transfers out and, combined with the £3 million of administration expenses, the total withdrawals from the Scheme were £606 million. This is just under 7% of the value of the Fund.

Investment income received into the Scheme was £278 million. However, the value of the Schemes assets by the year end had fallen by £262 million and this, together with investment costs of £31 million, resulted in the negative 'net return on investments' of £15 million.

Combined with the £606 million of payments out of the Scheme, this resulted in the 'net decrease in the Fund during the year' of £621 million to £8,760 million.

SLIDE 16

I will now address the written questions we have received and give the Committee's response.

We have received two questions from Mr D Platts.

SLIDE 17

Question 1:

Covid-19 - Are there implications for the Scheme given Stock Market falls, zero interest/gilt rates, also high death rates etc. given assumptions adopted by the Actuary previously? What is the long-term effect on Scheme and Guarantor payments?

Answer:

Covid-19 has affected investment markets and, as evidenced by the numbers you can see in the Report & Accounts, it has had a negative impact upon the Fund at the Scheme year-end. However, ultimately, regardless of future investment performance, the Government Guarantee means that this will not affect the value of the pensions paid to members. All Scheme payments (including the consolidated level bonus) will continue to be paid and guaranteed pensions will continue to increase annually.

The next Actuarial Valuation is due as at 31 March 2021 and the Actuary will report on whether the Scheme's mortality experience has been impacted by the pandemic and what the overall impact on the Scheme's funding position has been.
No money has been paid to the Guarantor since 2016. The Adjusted Reserve (previously called the Investment Reserve) is due to be repaid in 2033. There has been no change to this arrangement.

Question 2:

GMP - The High Court has held further hearings in May of this year; when will Members be told of GMP uplifts, and will the Guarantor need to approve methodology to be adopted, or can our Trustees act without Guarantor agreement? Also, will GMP uplifts, impact tax-free Cash Entitlements paid to Members once their Scheme Pensions commenced?

Answer:

The question refers to a High Court case in 2018 and a further Court determination in May of this year. The court case was in relation to sex equality and has implications for the BCSSS and the benefits we pay. As a result of the court determinations, BCSSS is required to review the benefits members have built up in the BCSSS and correct them, where necessary, so men and women are treated the same. This process is known as “GMP equalisation”. It is not yet possible to say exactly who will be affected, but we will be writing to all those members who are affected in due course. Any changes to members’ pensions as a result of GMP equalisation are expected to be small and many members will probably not be affected at all. Many pension schemes are affected by this issue and the pensions industry is still awaiting further guidance that will affect decisions that need to be made.

There are a number of methods available to achieve GMP equalisation and the Trustee will be required to decide which method to use. Depending on the method chosen, the Guarantor may be required to approve the method. Any changes to the Scheme Rules require the consent of the Guarantor. So, if the changes require the Rules to be changed, Guarantor approval will be needed. Of course, as these are changes that will be required by law, we expect the Guarantor to support them.

We do not expect that the BCSSS tax-free cash lump sums that some members took at retirement will be affected by GMP equalisation.

SLIDE 18

A question has been submitted from Mr T P Jackson

Question

For a while now I have been concerned by the differential caused by the percentage increase format on pensions each year.
Would the Trustees not consider a flat monetary rate increase for all to slow down the huge gap it continues to allow and which subsequently causes a bigger divide year on year?
The flat rate could be on a sliding scale on the number of years contributed, not just a percentage of final year's salary

For example
Two members both with 20 years' service

A: starting pension £10,000
Average increase 4% per annum
Increased to £14802.39 after 10 years

B: starting pension £20,000
Average increase 4% per annum
Increased to £29604.53 after 10 years

These two examples do not take into consideration the years of contributions paid.

I understand that it was a final salary pension but believe that a payment similar to my suggestion maybe possible.

Answer

The Scheme Rules set out the way in which BCSSS pensions are increased. The Rules (Rule 33A) state that pensions are to be increased annually by the percentage ratio of the cost of living index for the month of November in the previous calendar year. The cost of living index to be used is also stipulated in the Rules as the General Index of Retail Prices.

The change as you suggest would, therefore, require an amendment to the Rules. Moving to a flat rate monetary increase for all members would also mean that some members receive lower increases than they would otherwise have received from the Scheme.

Such a Rule change would, therefore, not be possible as Rule amendments are prohibited if they worsen the benefits that would otherwise have been payable to members. Clause 45 (1)(ii) of the Scheme and Rules provides that any Rule amendment cannot be made which has the effect of "reducing the amount of any superannuation benefits (apart from Bonus Augmentations other than Guaranteed Crystallised Augmentations) accrued to a Member….".

Thank you to all members who submitted written questions. I'd now like to hand back to Kate.

SLIDE 19

Kate

Thank you to Mr Platts and Mr Jackson for your questions.

SLIDE 20

If anyone would like to ask a question about the Report & Accounts or the running of the Scheme that you would like the Trustees to answer, please send it to Jon (bcsss.enquiries@coal-pension.org.uk or call 0114 2536444). We will publish any questions received before 30 November 2020, together with our responses, on the AGM section of the Scheme's website (which can be found under the publications section) and also in the next edition of Pensions News, which will be sent out in January. We will, of course, respond to questions received after 30 November, but these will not be published.

Finally, I would like to take this opportunity to thank my fellow Trustee Directors on the Committee and the executive teams in London and Sheffield for all their support and dedication over the past Scheme year and especially the last six particularly difficult months. Thanks to very hard work by the CPT staff, and good crisis planning and management, everyone has been able to focus on continuing to deliver the best possible service to members and to ensure the effective oversight and running of the Scheme.

We will all be pleased if we are able to see you in person at the AGM next year, which will be held on 30 September 2021 at the Nottingham Conference Centre (in Nottingham!) I hope you and your families stay safe and well.