

British Steel Pension Scheme September 2009

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Union Pension Services Ltd.

Corus Proposal

- Close final salary scheme to new entrants, w.e.f. 21st September.
- Offer a new defined contribution scheme for new joiners.

Corus's reasons

- Increased cost of final pay schemes due to “longer life expectancy, falling investment returns and new legislation”
- A deficit is expected at interim funding update, later this year
- Any worsening in the financial state of the scheme could have significant effect on the company's finances.
- Concern about the “long-term risks”

Valuation at 31 March 2008

- The most recent full valuation was undertaken at 31 March 2008 – published March 2009
- Found the scheme was 100% funded on a “prudent basis” agreed by Trustees
- Future benefits would be met by contributions, also calculated on a prudent basis, of:
 - 12% of pensionable pay by employer
 - 6% of pensionable pay by members

No need for urgent action (1)

- State of the Scheme's finances will have got worse over the last year, but
- The review later this year is not a full valuation
- Next full valuation not due until 31 March 2011, when the recession is expected to be over; and
- The scheme's assets are invested prudently, i.e. largely invested in bonds, including index-linked.
- Valuations are carried out every three years, specifically to avoid a premature response to what may only be short-term difficulties

No need for urgent action (2)

- Corus says it is concerned about the extra long-term risk it might face by admitting new members;
- But this does nothing to help with the risk it already faces for existing members;
- And few new members are expected to join before the next valuation.
- So the decision to close the Scheme has only a marginal impact on the overall risk that it faces now or in the future.
- In addition, the Trustees have already taken steps to limit investment risks and the Unions have accepted changes in benefits

Corus rejects other options for controlling its pension risks

- The Unions have already entered into serious discussions, looking at ways of reducing the risks faced by the employer.
- Corus has refused to give serious consideration to any of the options that were put forward.
- Corus's views are set out in "Pension News"
 - They will not accept any risks greater those of a DC scheme
 - They will not accept anything more complex than a DC scheme
- In other words, they want a DC scheme for new entrants and will not consider any alternative

Future Changes for Current Members

- Corus states in “Pension News” that “The benefits for current members of BSPS will not be affected by [the] proposed change”.
- But this commitment only applies to current benefits for past service.
- Corus has made it clear in discussions with the Unions that it wants to make changes to the benefits that will accrue to members in the future

Conclusions

- The Scheme is being funded and invested on a prudent basis, following the 2008 valuation.
- There is no pressing need for any action prior to the next actuarial valuation, which is due within two years.
- Continuing to admit new members will have only a limited effect on the overall risk that the employer already faces in respect of the existing membership.
- The Unions have demonstrated a willingness to discuss more ways of reduce the risks faced by the employer.
- But the employer is only prepared to accept a straight DC scheme for new entrants.