Changes to the 'Cash Equivalent Transfer Value' basis

A Cash Equivalent Transfer Value (CETV) is calculated on request when a member is considering transferring benefits from the IWMPS to another registered pension arrangement, or when a value has to be put on the member's pension rights, for example, if it was needed in a divorce settlement.

The basis on which CETVs are calculated changed from 1 October 2008 to comply with a change in the law. Before 1 October 2008 CETVs were calculated in accordance with pension scheme actuaries' general principles. After this date trustees must set their own calculation basis specific to the financial position of their own scheme, although they will still consult the Actuary for expert advice.

The new basis takes account of options that the member might choose to exercise when taking their pension (such as converting part of the pension to cash) and assumes the member will benefit from any decision that favours them financially regardless of what decision they might actually make. It does not, however, include allowance for any benefits the trustees might pay by discretion, such as choosing to pay an increase to pensions above the minimum required under the Rules.

Where there is a funding shortfall in the employer section from which the transfer is to be made CETVs are reduced in proportion to the shortfall unless the employer is prepared to 'top up' the CETV to the amount it would have been had the section been fully funded.

Factors used to calculate the CETVs are based on the funding position of the employer sections as at 31 December (the Scheme year-end). The factors will be reviewed on an annual basis in order to take account of any movement in the funding position of the employer sections over the year.

Any Questions?

The main contacts for Scheme members are with Aon Consulting Limited, the Scheme's administrators, and Coal Pension Trustees Services Limited. Aon is responsible for the maintenance of member records, the collection of contributions and the calculation and payment of benefits.

Coal Pension Trustees acts for the trustees in a number of ways. These include dealing with member enquiries about Trustee policy and with any disputes raised by members. Coal Pension Trustees is also responsible for the Scheme's financial management, for monitoring the administration and investment management contracts and for liasing with the other advisers appointed by the trustees.

If you have a query concerning your benefits please telephone or write to the administration office. The telephone number for the administration office is **0114 203 5543**. The address is:

Industry Wide Mineworkers' Pension Scheme
Floor 5
Fountain Precinct
Balm Green
Sheffield
S1 2JA

e-mail address: industrywideschemes@aonconsulting.co.uk

If you are not happy with the reply you receive, or if you have a query about trustee policy, staff at Coal Pension Trustees Services will be able to help. You can telephone Coal Pension Trustees on **0114 285 4602** or you can write to John Haigh, the Scheme Secretary at:

Coal Pension Trustees Services Limited
Hussar Court
Hillsborough Barracks
Sheffield
S6 2GZ

Any problems?

The Scheme operates a formal procedure for helping members to resolve disputes or complaints. Details of the procedure can be obtained from the administration office or from Coal Pension Trustees.

Information for members

Personal benefit statements are sent automatically each year to members in contributing service with a separate statement for members paying Additional Voluntary Contributions (AVCs).

Please get in touch with Coal Pension Trustees if you would like to see the Trust Deed and Rules for the Scheme, a full copy of the Report and Accounts, the most recent actuarial valuation, or the Scheme's Statement of Investment Principles.

Pension update

Industry Wide Mineworkers'
Pension Scheme

Winter 2008/09

Contents

2006 valuation update

In our last newsletter we reported that progress towards signing off the 2006 valuation had been slower than we had hoped, as the trustees had made significant demands on employers to meet the costs of reducing deficits as quickly as possible.

We can now confirm that all employers have agreed in principle to the contribution rates payable up to the next valuation. As reported previously, the trustee's target was to eliminate deficits in five years, though in some cases where this would jeopardise businesses to the extent that more harm than good would be done to the pension scheme in the long term, trustees have agreed to longer recovery periods where the employers ability to keep up payments is evidenced. All employers have agreed to recovery plans that are expected to eliminate the deficit in ten years or less. The amount payable will be reviewed after each actuarial valuation.

You will have received a summary funding statement showing the level of funding in your employer section as at 31 December 2006. If your employer section has more than 100 members you will receive a summary funding statement every year. Statements showing the funding position as at 31 December 2007 have started to be issued to members of these employer sections and should be received by the end of March at the latest.

The next valuation is due as at 31 December 2009, which means that the funding position of each employer section will be re-assessed in mid 2010. Trustees hope to have employers agreement to new funding rates (if appropriate) later that year.

The following article on the implications of the economic downturn comments on the funding targets set by the trustees.

Economic downturn – what it means for your pension

As members will be aware from coverage in the press and media, 2008 was one of the worst ever years for returns on stock markets around the world. On top of that, the banking crisis, which came to a head last autumn, has led to a shortage of credit and the global economic down turn has already pushed the UK into recession. This article looks at the implications for the IWMPS.

Implications for funding

Most employer sections in the IWMPS hold some investments in equities and falling markets have significantly reduced the value of those holdings. This will have pushed some employer sections into deficit or worsened existing deficits. Employers' businesses are under financial strain as a consequence of the economic downturn and finding extra cash to pay into the company pension scheme will be difficult.

Pension schemes invest over a very long time frame, with benefit liabilities stretching decades into the future. Most of the employer sections in the IWMPS with active members have more cash coming in each month in contributions than is being paid out as benefits. Some employer sections have no contribution income but in most of these only a relatively small proportion of the section's assets has to be paid out as benefits. So we are not being forced to sell equities at their currently depressed values. The Scheme's Actuary and Investment Consultant are working together to advise the trustees on investment strategy and to select investment managers who are best placed to help steer the Scheme through the current difficulties and take advantage of investment opportunities.

The trustees' long term objective is to be 100% invested in assets that carry little or no investment risk. Once achieved this will minimise the risk of deficits arising and will therefore reduce the reliance on the ability of employers to find extra cash to pay into the Scheme to eliminate such deficits. This prudent approach required a much higher funding level to be set for each employer section since we have to assume lower future investment returns from less risky investments. The trustees have set targets with employers to reach these new funding levels which require most employers to pay substantial deficit contributions. If equity values are slow to recover then inevitably it will take longer to reach the target funding levels. However, the substantial contribution rates being paid by employers mean the Scheme is better placed than it would have been if less prudent funding targets had been set. Progress against the funding targets will be assessed when the next full actuarial valuation is carried out as at 31 December 2009 at which time the trustees will review the rates of contributions being paid by employers.

Implications for pensions

We know some members are concerned about the possibility that pensions in payment and the pensions promised to deferred pensioners and contributing members may have to be reduced because there are insufficient funds to meet the cost of paying them. Pensions cannot be reduced. As long as the sponsor employer of your employer section continues in business pensions will be paid in full. The trustees have to reach agreement with each employer on the amount of money they need to pay into the Scheme to make sure there are sufficient funds.

If the level of underfunding at any time was so great that the employer could not repay it, even if allowed time to do so, then this would almost certainly lead to the company's insolvency i.e. it would go out of business. In that event the trustees would try to secure the promised benefits with insurance policies. If there were insufficient assets to do that we expect members would be compensated by the Pension Protection Fund (PPF). We are not aware of any employers who are close to insolvency but in the present economic climate the risk of insolvency has inevitably increased. The PPF provides compensation of between 90% and 100% of the benefits payable under the Scheme Rules (subject to a maximum this tax year of £27,770).

Health check on investment decision making

The trustees' investment consultant, Hymans Robertson, recently completed a review of the trustees' decision making framework against best practice in other schemes, and HM Treasury's code of practice that it expects well run schemes to follow. Hymans concluded that the trustees:

- Had clear investment objectives and had an effective decision making process in place
- Focused appropriately on investment strategy
- Took advice from qualified experts in their field
- Set appropriate targets and were transparent in reporting performance

Some areas of improvement in terms of judging the effectiveness of investment decisions and obtaining more information about investment management costs were identified and are being addressed. The trustees are also taking steps to ensure employers are consulted about funding and investment matters more frequently in view of the speed of events in investment markets and the difficulties employers face at this time.

Early retirement arrangements

Earliest age at which benefits can be taken

IWMPS members have always had a right to take their benefits early with a reduction for early payment once they had left employment and once they were age 50 or over. These provisions were extended in 2007 to allow members in contributing service (sometimes referred to as active service) to opt out of contributing service and take their benefits early without leaving employment, subject to obtaining the agreement of their employer. This new provision is caught by the change to pensions law which, with effect from 6 April 2010, raises the minimum age at which a pension can start from age 50 to age 55.

This change in the law does not affect rights that already existed, so members taking benefits early having left employment will continue to be able to take their benefits before and from 6 April 2010 at any time on or after their 50th birthday. Pensions already in payment at 6 April 2010 are not affected i.e. if you take your pension before 6 April 2010 and you are still under age 55 on 6 April 2010, payment of your pension will continue.

We thought it might be helpful to set out a summary of the position for your future reference.

Members in contributing service

- If you leave IWMPS employment aged 50 or over you can take an immediate pension reduced for early payment. The minimum age at which you can take pension does not rise to age 55 from 6 April 2010.
- If you leave IWMPS employment aged under 50, or you leave employment aged 50 or over but you do not want to take an immediate pension, you will have a deferred pension in the IWMPS. The early retirement arrangements for members with deferred pensions are outlined below.
- If you opt out of contributing service before 6 April 2010 but remain in employment you can take a reduced pension immediately on opting out if you are age 50 or over, subject to obtaining your employer's agreement. If you opt out of contributing service on or after 6 April 2010, you will only be able to take a reduced pension immediately on opting out if you are age 55 or over (subject to obtaining your employer's agreement).

Members with deferred pensions

- Deferred pensioners are Scheme members who no longer pay contributions into the Scheme and have not yet taken their IWMPS pension. Your deferred pension will be paid in full at age 60. Alternatively, you can take it with a reduction for early payment at any age between 50 and 60. The minimum age at which you can take pension does not rise to age 55 from 6 April 2010.

Early retirement terms

Benefits taken early are reduced to reflect the cost of early payment. The amount of reduction is intended to be 'cost neutral' i.e. it is set on a basis intended to ensure the Scheme makes neither a gain nor a loss from paying pensions for longer than planned. The reduction terms have to be reviewed periodically to ensure cost neutrality is being maintained. The last review was carried out after the 2006 actuarial valuation and this resulted in an improvement in the terms. We wrote to members in more detail about the new terms in December 2008. The new terms take effect from 1 April 2009. So if you take an early retirement pension after 1 April 2009 the new terms will apply, if your early retirement pension starts before 1 April 2009 the older and less generous terms will be used.

In future the early retirement terms will be reviewed annually. Any changes required will be reported in advance to members, so you can review your retirement plans if you wish to.

Although the Scheme's normal pensionable age is 60, members who leave IWMPS employment at age 59 are entitled to an immediate pension without reduction for early payment. Correspondingly, the amount by which benefits are reduced for a member leaving employment before age 59 and taking an immediate pension is calculated by reference to the entitlement to unreduced pension at age 59. The amount of reduction for members with deferred pensions and members who opt out of contributing service and take their benefits early is calculated by reference to the IWMPS normal pensionable age of 60. There are therefore two reduction scales, one based on full pension payable at age 59 and the other based on full pension payable at age 60. Full details were given in the announcement to members in December.