iwmps - *Industry-Wide Mineworkers' Pension Scheme*

Autumn 2017

AN INTRODUCTION FROM THE CHAIRMAN OF YOUR TRUSTEES, HEATHER McGUIRE

Dear Member,

I am pleased to welcome you to this latest edition of "Pensions Update", our annual Trustees' Report newsletter for members of the Industry-Wide Mineworkers' Pension Scheme. This issue covers the financial year to 31 December 2016, and whilst the Scheme consists of 13 distinct employer sections, each with its own ring-fenced fund, this report gives you an overview of the progress of the Scheme as a whole.

In terms of the Scheme's financial performance, after a very subdued 2015 the 2016 Scheme year saw much stronger returns from most of the world's investment markets. As a result the market value of the Scheme's investments grew strongly, by nearly £7.5 million. In addition, extra contributions totalling £1.3 million were paid into the Scheme by four employers in line with ongoing "recovery plans" designed to correct funding deficits in those employer sections. As a result, the overall value of the fund increased by approximately 13.1% over the year, from just under £50.7 million to more than £57.3 million.

As far as the Scheme's longer-term financial health is concerned, the latest three-yearly actuarial valuation of the Scheme, as at 31 December 2015, has now largely been completed. The valuation determines the financial position of each IWMPS employer section, and estimates how much money the employer needs to contribute into the Scheme in order to fund members' promised pension benefits.

The Trustees agreed a new approach to the actuarial valuations of each section with the employers, based upon the Pensions Regulator's recent guidance on "integrated risk management", and allowed for different valuation parameters based upon the company's strength. The Trustees had each company's strength assessed by an independent accountancy firm, Grant Thornton UK LLP. The result of this new approach is that the Trustees had concluded more valuations before the statutory deadline of 31 March 2017 compared to the previous valuation cycle. We will be writing to you shortly with your section's results.

As we reported last year, the IWMPS is now a much smaller Scheme than it was in earlier years, but it remains just as important that we as your Trustees run the Scheme as efficiently, profes-sionally and cost effectively as ever for all its remaining members. We will of course continue to monitor closely all developments which affect the Scheme and your benefits and, as ever, I hope you will find this annual report useful and informative.

With best regards,

Heather

***Heather McGuire,** Chairman of the Trustees*

THE YEAR IN BRIEF

Some of the main developments during the year were as follows:

> The fund's total value increased from just under £50.7 million to more than £57.3 million, a rise of approximately 13.1%. This was primarily due to the value of the Scheme's investments increasing by nearly £7.5 million, in a much stronger investment climate.

> In addition, extra contributions of £1.3 million were paid in by four employers, as part of ongoing "recovery plans" designed to correct funding deficits in those employer sections.

> In total, the participating employers paid nearly £1.7 million into the Scheme.

> Benefits totalling just under £1.7 million were paid out, to individual members who had retired from the Scheme or transferred out, or to the dependants of members who had died.

> Total membership fell very slightly from 922 to 919 (2015 figures in brackets):

Current contributing members	**16** (17)
Former members eligible for deferred pensions on retirement	**450** (528)
Retired members and dependants receiving pensions	**453** (377)

> David Morgan, Head of Legal Services at CPL Industries, became an employer-nominated Trustee with effect from 9 September 2016.

PENSION INCREASE

The Scheme's Actuary was unable to certify as affordable by any employer section (with the exception of the Jones Lang LaSalle Resources section), any level of increase to pensions in payment above the statutory minimum during 2016. The statutory minimum increase is based on the increase in the Consumer Prices Index in the 12 months to June; this was 0.5%, so pensions in payment in respect of service after 5 April 1997 were increased by that amount with effect from 3 October 2016.

SCHEME *accounts*

THE SCHEME'S ACCOUNTS FOR 2016

The Scheme's income and expenditure in the financial year to 31 December 2016, and other detailed financial information, are given in the formal, audited Trustees' Report and Accounts. While the Scheme had 13 separate employer sections during the year (each with its own ring-fenced fund) these Accounts reflect the aggregated position for the Scheme as a whole.

In the Accounts the Scheme's auditors have stated that the financial statements give a true and fair view of the transactions that have taken place. You can obtain a copy of the Report and Accounts (together with an annex containing information specific to your own employer section) by contacting the Scheme (please see contact details on page 4). The chart below shows the key highlights of the Accounts, and gives you a brief commentary on what the figures actually mean in layman's language.

	2015 £,000	**2016** **£,000**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS:	47,141	**50,694**
THE MONEY ADDED TO THE FUND DURING THE YEAR WAS:		
Employer contributions	4,473	**1,663***
Members' normal contributions	911	**28**
Income from investments *(interest, etc.)* and other income	47	**47**
TOTAL INCOME	5,431	**1,738**
THE MONEY SPENT BY THE FUND DURING THE YEAR WAS:		
Pension payments and family benefits	999	**1,067**
Tax-free cash sums paid on members' retirements	295	**258**
Lump sum benefits paid to dependants on members' deaths in service or in retirement	0	**22**
Transfers-out of leaving members' benefits to other pension arrangements	464	**349**
Premiums for Life Assurance policy	13	**2**
Professional and administrative fees and expenses *(including investment management, administration, actuarial/consultancy, auditing, legal, secretarial, PPF levy, etc.)*	823	**846**
TOTAL EXPENDITURE	2,594	**2,544**
THIS GIVES NET INCOME OR (NET EXPENDITURE) (TOTAL INCOME LESS TOTAL EXPENDITURE) OF:	2,837	**(806)**
PLUS increase in market value of investments:	716	**7,450**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS:	50,694	**57,338**

* *This included extra contributions totalling £1.3 million paid in by four employers. This was in line with the schedules of contributions agreed between those employers and the Scheme's Actuary, as part of ongoing "recovery plans" designed to correct funding deficits in those employer sections.*

So the Scheme's income (including the extra employer contributions) was significantly lower than last year's, while its expenditure was roughly the same. This was more than offset, though, by the fact that investment income and gains of nearly £7.5 million were generated, which meant that the overall value of the fund increased by around 13.1% over the year.

SCHEME *investment*

During the year (as illustrated on page 2), the Scheme receives money through contributions, investment income, etc., and pays money out in the form of pensions, other benefits, transfers-out, life assurance premiums and administrative expenses. The balance is then added to the Scheme's assets, which are invested through professional investment managers; here we report on the investment climate which prevailed during 2016, the strategy followed by the Scheme, and the performance which resulted.

Climate

After a very subdued 2015, the 2016 Scheme year saw much stronger returns from most of the world's investment markets. The FTSE All-Share Index in the UK, for instance, rose by 12.5%, with the second half of the year seeing particularly strong performance. The North American equity market as measured by the Dow Jones Industrial Average delivered growth of around 20.9%. A typical European index, the Dax in Germany, increased by more than 16.5%. And in the Far East, the Japanese Nikkei index produced a reasonable return of just over 8%.

The bond markets also performed quite well: the S&P UK Investment Grade Corporate Bond Index had a return of 10.7% over the year, while the S&P UK Gilt Bond Index gained 8.7%. The property market was less buoyant, though, with the IPD UK All Property Index rising only by 2.8%.

Strategy

The investment strategy for each employer section is decided separately, but the Scheme's total assets were invested as follows at the end of 2016:

> approximately 88.6% of the assets were managed by **Legal & General Investment Management,** using a mixture of UK and overseas equity and bond funds
> around 4.9% of the assets were invested in property funds managed by **Legal & General Investment Management, BlackRock Investment Management** and **Standard Life Investments**
> and the remaining 6.5% of the assets were invested in the **Willis Towers Watson** Diversifying Strategies Fund.

Performance

All of our investment managers are set challenging performance targets or "benchmarks" which they are expected to match or exceed, which are based upon the indices of the markets in which they invest. Against an overall benchmark of 15.2% for the year, the Scheme's assets produced a total return of 14.7%. This shortfall was largely due to underperformance by the Willis Towers Watson Diversifying Strategies Fund, and the Trustees decided to sell the Scheme's holding in this fund after the year-end. In total the Scheme's assets increased in value by nearly £7.5 million over the year.

Investment strategy review

We reported in last year's "Update" that the Trustees were working with the employers on a further review of the Scheme's whole investment strategy. This had become particularly important at a time of so much uncertainty in global financial markets, though the Trustees are always careful to look at what they want to achieve over the long term.

As described in the Chairman's introduction to this newsletter, part of the new approach to the 2015 Actuarial Valuation was that each Employer Section was given a categorisation based on the strength of its employer covenant and the Section's investment profile. Based on this categorisation, the investment strategy for that Section was determined. The Trustees also looked at how to make the investments more efficient, in terms of performance, cost and risk, and have decided, in consultation with the employers, to make some major changes during 2017. Going forward, the investments will be broadly divided into two types: "Growth" assets (those which seek to generate a return) and "Matching" assets (those which seek to match the existing pensions being paid out or built up by members).

For the Growth assets, each Section will retain or acquire an allocation to property, with the remainder being split equally between equities (shares), multi-asset credit (which includes corporate and high-yield bonds, bank loans and technical instruments such as commercial mortgage-backed securities) and a Diversified Growth Fund (DGF) (which gives access to a range of investment classes). The Trustees have appointed **PIMCO** as the Scheme's multi-asset credit manager and **Invesco** as the DGF manager, with **Legal & General Investment Management** remaining as our global equities manager.

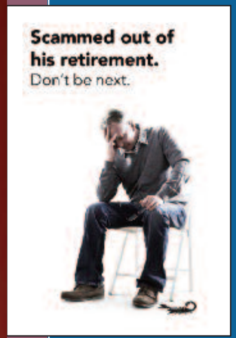
On the Matching assets side, each Section will also have an allocation divided between three funds: a profile LDI fund, an index-linked gilt fund and a cash fund. LDI stands for "liability-driven investments", which seek to match the value of the pension commitments the Scheme has, aiming to improve the overall funding level whilst reducing risk. **Legal & General** will manage the whole of this side of the portfolio for the Trustees.

The transition between the old investment strategy and the new one is taking place over the second half of 2017. Given the volatility of the markets, the Trustees are being careful to take their time about the transition so that they are not tied to asset prices on one particular day. We will report on the new investment structure in the next "Update", once the transition has been completed.

PENSIONS newsdesk

DON'T LET A PENSION SCAM RUIN YOUR RETIREMENT!

The new pension freedoms which came into effect in April 2015 apply primarily to members of Defined Contribution (DC) pension schemes, and don't directly affect you as a member of a Defined Benefit (DB) scheme like the IWMPS (whether you're already receiving your pension, have a deferred pension or are still an active member).



As we reported last year, however, this hasn't stopped fraudsters targetting thousands of people with DB benefits, aiming to persuade them to transfer into a DC arrangement in order to "take advantage" of the new flexibilities - particularly, perhaps, the "opportunity" to release a large cash sum or to achieve "guaranteed" high investment returns. What the scammers won't tell you, of course, is that you risk losing all your money and the security you've saved for throughout your working life, **and** you could face a huge tax bill as well.

To try and combat this rapidly-growing problem, the Pensions Regulator has launched a new website: **www.pension-scams.com**

We urge all IWMPS members to have a look at this website. It contains steps to help you protect your pension including, importantly, never being pressured or rushed into making decisions without doing your homework and checking everything yourself.

TRUSTEE CHANGES

Gavin Lloyd resigned as one of the Scheme's employer-appointed Trustees on 31 March 2017. Gavin had served as a Trustee since June 2008 (becoming the Scheme's longest serving employer-appointed Trustee), and we would like to place on record our appreciation for his contribution to the Scheme during that time.

Gavin will not be replaced in the short term; in view of the transfer of the UK Coal and Scottish Coal employer sections to the Pension Protection Fund, the Scheme is much smaller in terms of assets and membership numbers than before, and we are considering the future structure of the Trustee board in that light.

NEW SCHEME WEBSITE

The Scheme's new website is now available, although information is still being added to it. The address is **www.iwmps.com.**

CONTACT POINT

If you have a query about your Scheme membership, please contact the **IWMPS Administration Office**:

Industry-Wide Mineworkers' Pension Scheme, 20 Waterloo Street, Glasgow G2 6DB
Telephone: 0141 566 7677 Email: iwmpsadmin@hymans.co.uk

FURTHER CHANGES TO HMRC ALLOWANCES

The **Lifetime Allowance** is a limit imposed by HM Revenue & Customs on the total size of your pension fund earned from all sources over your working life. Previously the level of the Allowance was £1.25 million, **but from 6 April 2016 it was reduced to £1 million.** If your fund at retirement exceeds the Allowance, you will incur extra tax charges.

The Lifetime Allowance will only affect a few IWMPS active and deferred members, but it is worth noting that as well as the value of your IWMPS pension, it also includes any pension benefits you may have earned elsewhere, such as any service in the MPS, previous employers' schemes, AVCs and any personal pension arrangements (but excluding your State pension entitlement).

If you think your total pension savings might be close to £1 million, you should seek independent financial advice about protecting the value of the benefits you have built up from tax charges. You can find information about the Lifetime Allowance generally at: **www.gov.uk/tax-on-your-private-pension/lifetime-allowance**

The amount of annual pension savings you can make (including both your and your employer's contributions) that benefit from tax relief is limited by the **Annual Allowance.** This Allowance is currently 100% of your earnings or £40,000, whichever amount is the lower, and any pension savings you make above this will give rise to a tax charge.

A further restriction called the **Money Purchase Annual Allowance (MPAA)** applies to members with DC benefits, who take a one-off cash sum from their DC pension "pot" or transfer it to an income drawdown arrangement. If you continue to make contributions to your DC arrangement after doing so, the amount on which you can receive tax relief will be subject to this Allowance. The MPAA is currently £10,000 pa. but is to be reduced to £4,000 pa. with retrospective effect from 6 April 2017 (subject to Parliamentary approval which is expected in the Autumn).

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Industry-Wide Mineworkers' Pension Scheme

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