New British Steel Pension Scheme

“Re-tranching” – Technical note

Members of the British Steel Pension Scheme have recently received information packs giving them the option to either stay with the British Steel Pension Scheme and subsequently move into the PPF, or move to the New British Steel Pension Scheme. The information members have received in these packs is sufficient to enable them to make an informed decision.

This note has been prepared by the Trustee to supplement the information packs already provided to members, and in particular to help members and their financial advisers understand how pension increases will apply in the New British Steel Pension Scheme (the “New Scheme”).

When a deferred member left service they will have received a leaver statement which contains their service dates and other information regarding their benefits. Members who had their pensionable service terminated on 31 May 2016 or 31 March 2017, and who were subsequently moved into Tata Steel’s replacement group personal pension scheme, will also have received a similar “leaver” benefit statement.

A financial advisor should be able to broadly determine what pension increases would apply in the New Scheme for a member based upon the information contained in this note, together with

i. The member’s dates of pensionable service in the British Steel Pension Scheme *(note that these can be found on the member’s leaver statement, but are <u>not</u> shown on the annual deferred statements that were issued each October)*

ii. The dates the member started and stopped paying AVCs in the British Steel Pension Scheme

iii. The member’s dates of pensionable service in any previous pension scheme from which benefits were transferred into the British Steel Pension Scheme

If the member is missing the information in (ii) or (iii) they can obtain this by calling the deferred pensioner helpline. The helpline can also provide (i) for members whose pensionable service terminated on 31 May 2016 or 31 March 2017.

The British Steel Pension Scheme has a number of different legacy sections, and members of these will have transferred as deferred members as their legacy schemes merged into the current scheme. These different sections may have different revaluation in deferment and increases in payment to the Main and Acquisition sections, which are used as the basis for examples below. Information on whether a member is a member of one of the legacy sections can be usually be found in their information packs.

All the information provided in this note and the examples provided are illustrative, and each member’s service split and applicable pension increases will be unique to them based upon their service dates and which section they are in.

Background for determining pension increases: “re-tranching”

What is “re-tranching”?

In order for a member to understand what pension increases would apply for them in the New Scheme, they need to divide their pension into different parts (called ‘tranches’) based on when each part of the pension was built up, as each part of pension will receive different pension increases both before and after retirement. The process of splitting a member’s pension into the different parts is known as “re-tranching”.

Re-tranching is required for the New Scheme, because in the old British Steel Pension Scheme, pension increases for most members (Main Section and Acquisition Section members) were the same for all pension accrued prior to 31 March 2006. However, a more detailed breakdown of pension is needed in the New Scheme (and in the PPF) because different pension increases apply in payment for pension accrued before 6 April 1997, between 5 April 1997 and 6 April 2005, and after 5 April 2005.

How is it done?

A members' pension is split into the different tranches based on the proportion of pensionable service (in days) that the member built up within each tranche. This is to ensure that the new pension split is as if it had been calculated when the member's service ceased.

Firstly the original service has to be calculated in the periods:

- Prior to 6 April 1997
- 6 April 1997 to 5 April 2005
- 6 April 2005 to 31 March 2006

Pension built up before 1 April 2006 received the same increases (excluding GMP) in payment in the old Scheme, and this is why these splits are required. Pension built up before 1 April 2006 then has to be split at date of leaving or retirement (as required and based on the benefit rules and/or data available) by the service proportions from the first stage above.

Pension splits are then projected to current date from date of leaving or retirement in line with the current British Steel Pension Scheme rules. Therefore current pension amounts are unaffected by re-tranching.

No re-tranching is required for:

- members who left, retired or died prior to 6 April 1997; or
- members with no pre-1 April 2006 pension.

Please note that there are further tranches for Post 31 March 2006 pension, but these are the same as for the old scheme. The Appendix shows a full list of tranches for a Main section member following the re-tranching exercise, as well as a comparison showing the different increases in deferment and in payment between the PPF and the New Scheme.

Additional "added years" pension or service credits for pre 2006 pension

There are some members who did not receive a personal breakdown of their pension into the different tranches of pension in their option pack. This might be because all of the information was not yet available in electronic format. In other cases, we did not have all of the information available because members had transferred in benefits from another scheme, or paid Additional Voluntary Contributions to add a period of service, and details of uplifts that applied to these benefits when members left service were not available in electronic format.

These uplifts were provided to members who left service, but did not retire immediately and they were calculated to compensate for the fact that the original transfer-in or AVC quotation to which the member agreed to, assumed that the member would retire once they had left active service. If the member became a deferred member instead of retiring directly from active service, then they were not entitled to certain benefits available to active members including a salary link to their benefits up until retirement and also generous early retirement terms that were available in certain circumstances. The uplift compensated them for this.

In the absence of a personal breakdown, we set out below the approach taken to allocate service in respect of Additional Voluntary Contributions added years and individual transfer-ins.

Additional Voluntary Contributions (AVCs)

The way additional added service in respect of the AVCs is treated depends on the date of leaving active service. The short examples below provide an overview of the principles applied.

Members who left service before 6 April 1997

Re-tranching is not necessary for these members as all pension in relation to AVC added years will be treated as pension built up before 6 April 1997.

Members who left service between 6 April 1997 and 31 March 2006

The AVC added years' service is applied uniformly here across the tranches. For example:

Member A

- Date of joining Scheme (DoJ) 20 April 1985
- Date AVC contract started (DAVCS) 1 January 1995
- Date of leaving active service (DoL) 1 January 2006
- AVC added years 5 years

The AVC added service is spread uniformly between the different tranches based upon the breakdown in days between each tranche between DAVCS and DoL.

Pension Tranche and dates they apply to in the example above	Number of days in tranche	Added service in respect of AVCs in days
(1) Before 6 April 1997 **01/01/1995 – 05/04/1997**	826	375
(2) 6 April 1997 to 5 April 2005 **06/04/1997 - 05/04/2005**	2,922	1,328
(3) 6 April 2005 to 31 March 2006 **06/04/2005 – 01/01/2006**	270	123

The added service in respect of AVCs for your pension built up before 6 April 1997 has been calculated as { (1) / [(1) + (2) + (3)] } x number of days in five years, e.g. { 826 / (826 + 2,922 + 270) x (5 x 365.25) } = 375. The added service for the other tranches have been calculated in a consistent manner.

Members who left service after 31 March 2006

For these members, no AVC service is attributable to service beyond 1 April 2006, because members paid for AVC added years on terms that were agreed prior to 1 April 2006. The element of AVC service built up before 5 April 1997 is calculated in the same way as for members who left service between 6 April 1997 and 31 March 2006. The remaining AVC service is then split proportionally between the 6 April 1997 to 5 April 2005 tranche and the 6 April 2005 to 31 March 2006 tranche. No AVC service will be allocated to the post-1 April 2006 tranche.

Member B

- Date of joining Scheme (DoJ) 20 April 1985
- Date AVC contract started (DAVCS) 1 January 1995
- Date of leaving active service (DoL) 1 May 2014
- AVC added service 5 years

For Member B, the additional pension built up before 5 April 1997 is calculated in the same way as the example above. This means that it is based upon the total AVC service up until 1 May 2014 rather than up until 31 March 2006.

The remaining AVC added service balance is then split proportionally between the 6 April 1997 to 5 April 2005 tranche and the 6 April 2005 to 31 March 2006 tranche.

Pension Tranche and dates they apply to in the example above	Number of days in tranche	Added service in respect of AVCs in days
(1) Prior to 6 April 1997 **01/01/1995 – 05/04/1997**	826	214
(2) Total AVC service **01/01/1995 – 01/05/2014**	7,060	N/A
(3) 6 April 1997 to 5 April 2005 **06/04/1997 - 05/04/2005**	2,922	1,436
(4) 6 April 2005 to 31 March 2006 **06/04/2005 – 31/03/2006**	359	176

The added service in respect of AVCs for pension built up before 6 April 1997 is calculated as [(1) / (2)] x number of days in five years = 826 / 7,060 x (5 x 365.25) = 214.

The added service in respect of AVCs for pension built up between 6 April 1997 and 5 April 2005 is calculated as [(3) / ((3) + (4))] x remaining AVC added service balance (in this case number of days in five years minus 214) = 2,922 / (2,922 + 359) x (5 x 365.25 – 214) = 1,436.

The added service in respect of AVCs for pension built up after 6 April 2005 is the balance from the five added years = 5 x 365.25 – 214 – 1,436 = 176.

Please note that the above examples do not allow for the adjustment to AVCs for members who left service and became deferred pensioners as described above. In practice, for any eligible member, each tranche of AVC added years would be increased by this adjustment.

Individual transfer-ins

For transferred-in service, the electronic data records provide a breakdown of pension into pension built up before and after 6-April 1997, and this split of pension is used to determine the pension increases that apply.

If a transfer-in was received after 31 March 2006, an allowance is made to reflect that fact that some of this pension was built up before 1 April 2006, by consideration of the length of the transferred-in service credit and the transfer-in date.

If a transfer-in was received after 31 March 2006 and the member had built up pension after 31 March 2006 in the previous scheme, then a proportion of the service credit is allocated to post 31 March 2006 pension based on the ratio of service built up after 31 March 2006 to total service in the previous scheme.

If a member has transferred-in service built up after 5 April 1997, and the previous scheme service dates overlap into 6 April 2005 to 31 March 2006 service, then the service credit is allocated into 6 April 2005 to 31 March 2006 pension based on the ratio of 6 April 2005 to 31 March 2006 service to total service in the previous scheme.

Other forms of additional pension or service

There are a number of other additional pension credits that members may have, but these are less common than the ones described in this note. The Trustee has used an approach to re-tranche these other pension amounts, taking into account the need for pragmatism given data limitations, complexity of benefits and size of the Scheme in order to complete the re-tranching in the necessary timescales.

Appendix – All tranches for a Main Section member in the New Scheme

The table below shows all of the tranches that will be required to calculate the different increases in the New Scheme for a Main Section member who had service across all tranches. It also shows the different pension increases in deferment and in payment between a member in the New Scheme and in the PPF. This information is also available in the membership packs, but has been shown here for completeness.

Members will have the details of their GMP from their leaver or latest benefit statements.

Pension Tranche	Revaluation in deferment in the New Scheme	Revaluation in deferment in the PPF	Increases in payment in the New Scheme	Increases in payment in the PPF
Pre-88 GMP[1]	CPI	CPI capped at 5% p.a. over whole deferment period	Nil	Nil
Post-88 GMP[1]	CPI	CPI capped at 5% p.a. over whole deferment period	CPI capped at 3% p.a.	Nil
Pension in excess of GMP prior to 6 April 1997	CPI	CPI capped at 5% p.a. over whole deferment period	Nil	Nil
6 April 1997 to 5 April 2005	CPI	CPI capped at 5% p.a. over whole deferment period	CPI capped at 5% p.a.	CPI capped at 2.5% p.a.
6 April 2005 to 31 March 2006	CPI	CPI capped at 5% p.a. over whole deferment period	CPI capped at 2.5% p.a.	CPI capped at 2.5% p.a.
1 April 2006 to 5 April 2009	CPI capped at 4% p.a.	CPI capped at 5% p.a. over whole deferment period	CPI capped at 2.5% p.a.	CPI capped at 2.5% p.a.
6 April 2009 to 31 March 2012	CPI capped at 4% p.a.	CPI capped at 2.5% p.a. over whole deferment period	CPI capped at 2.5% p.a.	CPI capped at 2.5% p.a.
1 April 2012 to 31 March 2016	CPI capped at 3% p.a.	CPI capped at 2.5% p.a. over whole deferment period	CPI capped at 2.5% p.a.	CPI capped at 2.5% p.a.
1 April 2016 to Date of Leaving active service	CPI capped at 2.5% p.a. over whole deferment period	CPI capped at 2.5% p.a. over whole deferment period	CPI capped at 2.5% p.a.	CPI capped at 2.5% p.a.

[1] In the Main Section, the whole pre 1 April 2006 pension is revalued in line with CPI in deferment, with an anti-franking test carried out at GMP payment age.