

FACTSHEET – CONSULTATION ON THE BRITISH STEEL PENSION SCHEME

This Government has made very clear its commitment to ensuring an on-going British Steel industry. We have taken clear action on energy, procurement and unfair trading practices - key steel industry requests.

To this end, the Government has published a consultation setting out a range of options for the British Steel Pension Scheme to deliver clarity and security for the scheme members whilst also supporting the sale process. We are determined to consider all options as we develop a wider package of Government support to do what we can for UK Steel, steel workers and affected communities.

The consultation will explore how our strong and well established pension protection framework should be applied in this instance, as well as a proposal from the Trustees of the British Steel Pension Scheme and Tata to allow the Trustees to reduce the scheme's financial liabilities in advance of a separation with the business.

Background

In March this year Tata Steel UK announced that they had lost £2 billion in five years, and that Tata was unable to continue covering these losses. Tata said that it would explore all options for restructuring the UK steel business, and wanted to move quickly to secure a sale of Tata Steel UK.

The British Steel Pension Scheme is a very large scheme, with approximately 130,000 members. Of these, around 14,000 are active (currently employed); 32,000 are deferred (no longer employed by Tata Steel UK, but below the scheme's normal pension age and therefore not yet receiving a pension); and 84,000 are pensioners. It is a defined benefit pension scheme, where the amount paid to members is based on how many years they have worked for the employer and the salary they have earned. The sponsoring employer, who contributes to the scheme, is responsible for ensuring the scheme has enough money to pay out the promised pensions as the members retire.

As is common for many defined benefit schemes, the British Steel Pension Scheme is in deficit. But it is relatively well funded compared to many other large defined benefit schemes. It has £13.3 billion of assets, and liabilities, assuming there is a sponsoring employer backing it, of around £14 billion.

Given its size, it is likely that as part of a sale, the pension scheme will need to be separated from the business. In these circumstances pension scheme would usually enter the Pension Protection Fund. The Pension Protection Fund was set up in 2004 to pay compensation to members of this type of pension scheme who risk losing their pension because the sponsoring employer has ceased trading.

The Pension Protection Fund's compensation levels represent a substantial safety net for pension scheme members. Members of the scheme who are over the scheme's normal pension age are entitled to 100% compensation, and younger scheme members are entitled to 90% compensation when they reach their normal pension age. The Pension Protection Fund does cap compensation payments for those yet to reach their normal pension age at £33,678 annually, much higher than the average annual income from a private pension of £11,400. The value of these capped compensation payments increases every year, and the Government plans to increase the capped amount for

people with over 20 years' service in a particular pension scheme; for example, a person with 30 years' service might get up to £43,700.

The British Steel Pension Scheme Trustees' proposal

Given Britain's steel industry is an important part of our economy, the Government is willing to consider all workable proposals for how to provide better outcomes for members.

The Trustees of the British Steel Pension Scheme believe that, although they could not pay all members the pension they were originally promised, they have enough to pay the majority of members the same as or higher pensions than the Pension Protection Fund would pay in compensation, and in particular they would not have to cap higher pensions.

The British Steel Pension Scheme's rules allow them to reduce the level of pension promised, but the use of these rules is restricted by Government legislation designed to protect members. The Trustees of the British Steel Pension Scheme, supported by Tata Steel UK, have therefore approached the Government asking us to change the law to allow them to amend their Scheme rules without needing to get the consent of the members.

If the option is found to be workable, the Trustees' proposed changes would reduce members' future pension payments by reducing the amount by which the pension was to increase in future. This would mean that most, but not all, members would be at least as well off under the proposal as they would be were the British Steel Pension Scheme to enter the Pension Protection Fund.

Why is the Government consulting on this option?

Any changes to our strong and well-established pension protection framework should be carefully thought through. The Government wants to ensure that this option is workable and that members of the British Steel Pension Scheme are properly protected. The Government needs to be sure that it understands how the trustees plan to use their powers; that the scheme can make the savings it thinks it can and that the changes are in the best interest of the scheme members.

In addition, it is important to take account of how this change could affect all other defined benefit pension schemes and their members. It is important that members can be confident that their pensions are secure and that the wider pension protection framework is not undermined. There are 11 million people in this type of pension scheme, so any change needs to be carefully thought through.

The Government has not yet taken any decision on whether to pursue any option; this consultation is to explore a full range of possible ways forward. If you have any concerns you can ask the trustees of the British Steel Pension Scheme, or your union, or your local MP or The Pensions Advisory Service.

The consultation is available at: <https://www.gov.uk/government/consultations/british-steel-pension-scheme>.

If you want to reply to the consultation please contact the Department for Work and Pensions at bsps.consultation@dwp.gsi.gov.uk before June 23rd.