HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Mineworkers' Pension Scheme, HC 1331

Tuesday 23 March 2021

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Ms Nusrat Ghani; Paul Howell; Charlotte Nichols; Alexander Stafford.

Non-Committee members also present: Ben Bradley; Stephanie Peacock.

Questions 1 - 41

Witnesses

I: Chris Kitchen, General Secretary, National Union of Mineworkers; Chris Cheetham, Chair of Trustees, Mineworkers' Pension Scheme; Allen Young, Pensioner-Elected Trustee, Mineworkers' Pension Scheme; and Dan Whincup, Head of Pension Strategy, Coal Pension Trustees Ltd.

Written evidence from witnesses:

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Examination of Witnesses

Witnesses: Chris Kitchen, Chris Cheetham, Allen Young and Dan Whincup.

Q1 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee. Our hearing today is looking at the functioning and management of the Mineworkers' Pension Scheme, which is an issue this Committee has previously taken an interest in, following a letter from a number of Members of Parliament across the House who wrote to the Committee asking us to undertake this inquiry. On that basis, we are delighted to welcome Stephanie Peacock and Ben Bradley, two Members of Parliament who co-signed that letter to this Committee and who will be joining us today.

Our witnesses for this session this morning are Chris Kitchen, general secretary of the National Union of Mineworkers; Chris Cheetham, chair of trustees at the Mineworkers' Pension Scheme; Allen Young, pensioner-elected trustee at the Mineworkers' Pension Scheme; and Dan Whincup, head of pension strategy at Coal Pension Trustees Ltd. Welcome to all of you this morning, and thank you for your time.

The first question from me is to cast our mind back to the point when the pension scheme was valued at the point of privatisation. We understand that, at that point, there was an agreement that any surplus from the pension scheme would be shared on a 70:30 basis. Chris Cheetham, is our understanding about that correct?

Chris Cheetham: It is correct, yes. Prior to privatisation, there were two valuations at which there was a surplus in the scheme. That was in 1987 and 1990. On both occasions, the surplus was split 70:30 in the favour of members.

Q2 **Chair:** Allen Young, if that was the case and the split was originally agreed at 70:30, how have we ended up at 50:50?

Allen Young: In 1993, when discussions were taking place, there was not an option. There was no negotiation. Basically, the trustees were given an option of a guarantee, with a 50:50 split, take it or leave it. The trustees took legal and actuarial advice, and they were advised that the guarantee was important and that they should accept it. However, they were a bit reluctant. They were not happy with the split of 50:50 but saw the importance of the guarantee.

Chair: You had no choice: guaranteed income for your members, but you had to agree to a 50:50 split.

Q3 **Stephanie Peacock:** Good morning. Before I go into my first question, I would like to begin by thanking the Committee for holding this inquiry into the Mineworkers' Pension Scheme. That is a thank you not just on behalf of the 50 MPs from across the House who signed the letter, but from the people I represent here in Barnsley and the coalfield communities across the country, for whom this is a really important issue. Thank you for holding the inquiry, and for letting me and Ben join

the session.

My first question relates to the answer we just heard. It is generally directed at the trustees, but the NUM might want to comment. I tabled a written parliamentary question on 20 February 2018, and the answer to that disclosed that the Government had not obtained actuarial advice as far as the Mineworkers' Pension Scheme arrangements were concerned. We have heard that the trustees sought advice. Feel free to elaborate on your previous answer: what was the conclusion of that independent actuarial and legal advice that was received in relation to the proposed changes in 1994? I use the word "changes" because, as we have heard, before that it was 70:30 and it ended up being 50:50.

Chris Cheetham: To confirm what Allen has just said, the trustees had advice. That advice, essentially, led to the conclusion that the guarantee was essential, but there was no analysis at the time, either by the trustees or, as far as we understand, by the guarantor, about what the share of surplus ought to be. There was no science behind the decision made by the guarantor, which was then imposed on the trustees, that it should be 50:50. The trustees were, essentially, faced with a fait accompli: "Take it or leave it. If you want the guarantee, it is 50:50," but there was no analysis done to support that split at the time.

Chris Kitchen: Thank you to the Committee for holding this inquiry. The rationale that I have picked up from talking to a previous joint secretary of the scheme was that, from 1987, the employer, British Coal, wanted to have a pension holiday from paying contributions into the scheme. Therefore, the 70:30 split came from the actuarial advice as to how much that would cost, which worked out at 30%, and the remainder was left to improve benefits to members. Those who were in payment received an above-inflation increase to their weekly pension, and those who were deferred or contributing received service credits. That was the same for 1990.

If you take that rationale through to the 1993 valuation, the decision to close British Coal had already been made; therefore, British Coal required no funds from the surplus and it should have been 100% in favour of the members on that rationale at the time. There was also some £160 million left over when the industry was privatised, which the Government then claimed as the investment reserve fund. That has been gradually returned over the years, with more to come. British Coal had more than enough funds without taking any of the surplus in 1993. It therefore begs the question, which I hope the Committee will be able to answer, as to whether it was a political decision to move to a 50:50 split in 1993, in order to put it into the agreement going forward at 50:50.

Q4 **Paul Howell:** I have a follow-up question. In reading and trying to research for this, it seems to be apparent that, in terms of the unfairness—or however it is described—of going for a 50:50 split instead of 70:30, those discussions started very shortly after the decisions in 1994. It is not like we are now looking at it 20 years later and saying,

"They have made good returns. It is all unfair." It seems as though things happened and there started to be a discussion very shortly afterwards. I just wonder if you could give us any insights as to why that body of concern arose so quickly after what was, apparently, a decision that had been taken properly. I wonder if I could take that to the trustees. Mr Whincup, would you like to start on that one?

Dan Whincup: After 1994, at the 1996 and 1999 valuations, there were big surpluses in the scheme at those times. Perhaps the surpluses came sooner than would have been expected. After the 1999 valuation, in recognition of the big surpluses that had happened in the 50:50 split, the trustees at the time approached the guarantor to ask whether the surplus sharing should be changed in members' favour.

Q5 **Paul Howell:** The point at which you started to see very good returns was what stimulated the request for change. Is that your understanding as well, Mr Young?

Allen Young: The trustees were never happy with the 50:50 split. The trustees were pushing for a 70:30 split, which they had received in 1987 and 1990. The Government had no negotiations. It was a basic "take it or leave it." After seeking advice, the guarantee was essential, but it has come at a cost to members, because that 50:50 surplus sharing is, as we have now found out, totally unfair.

Q6 **Paul Howell:** It is the root negotiation at the start that is the concern, rather than the way it has since developed. I want to get a sense as to at what point in time people started to feel unhappy with it: whether it was just because things had gone one way in a deal or whether it was the root negotiation. It sounds, from what Mr Young and Mr Whincup are saying—and I do not want to put words in their mouth and maybe they can confirm this—that it is the root negotiation that is the problem, as opposed to what was happening afterwards.

Allen Young: The trustees were never happy with the 50:50 split, because, after the previous two valuations, they had received 70%. The Government did not give them an option. It was either take it or leave it. After seeking legal and actuarial advice, they took the guarantee but were never happy with the 50:50 surplus split.

Paul Howell: I will come back to this point, because we will get into this in a little more detail at a later point in the questions.

Q7 **Alan Brown:** Chris Cheetham, again going back to 1994, when the agreement was reached, are you able to elaborate on how much the Government expected to receive from the surplus sharing arrangements, in 1994 terms and net present value or actual value terms? How does this compare with what the Government have received over the years?

Chris Cheetham: That is a good question. As far as we know, the Government did not do any analysis at the time of the agreement on what they would receive from the scheme going forward. That happened a bit later with a piece of work that was done by Binder Hamlyn for the

National Audit Office. I can share our understanding of that analysis, if that would be helpful.

Alan Brown: Yes, please.

Chris Cheetham: Based on some assumptions about future investment returns, Binder Hamlyn estimated that, from the two coal schemes combined, the Mineworkers' Pension Scheme and the British Coal Staff Superannuation Scheme, the Government would receive cash payments of £8 billion over 25 years, including the repayment of both investment reserves. The £2 billion figure that you quoted was the then present value of those cash flows.

What is important, and where your question is leading, is to compare those cash flows with the actual cash flows that have been received. The two schemes were about the same size back in 1994, so we can say that £4 billion of those cash flows were due from the mineworkers' scheme. The Government have already had £4.4 billion from the scheme, and there is another £1.9 billion left in the scheme, which the Government are due to receive over the next few years. That is a total of £6.3 billion, compared to an expected outcome at the beginning, based on that Binder Hamlyn analysis, of just £4 billion. As we understand it, although we have not seen this work, the Government Actuary did some analysis as well, which concluded that Binder Hamlyn's conclusions were reasonable.

Q8 **Alan Brown:** Could you reconfirm how big the Government's underestimation was?

Chris Cheetham: Based on those estimates from Binder Hamlyn, the cash flows that the Government have received from the scheme so far and the cash they are due to receive going forward, there was an underestimate of £2.3 billion in today's money.

Chris Kitchen: There is also a side issue in respect of what the Government expected to get at the time and what they have had in present day values. As Mr Cheetham said, the Binder Hamlyn report quoted £2 billion from both schemes, which, accounting for inflation, is roughly £8 billion today. The Government have had more than that.

There is also the question about the guarantee, which guaranteed members' pensions to increase in line with the retail price index. Unfortunately, pensioners have not seen a 400% increase in the value of their pensions as of 1996 to date. I am suspicious as to which way of working out that £2 billion to £8 billion has been done, because it seems to have been done differently to the way that the value of pensions has increased over time. That is also another reason for people not feeling that this is a fair agreement.

Q9 **Alan Brown:** One of the arguments that the Government have now put forward is that their guarantee allowed the trustees to have higher-risk investments, which has created higher returns that benefit the pension fund overall, as well as the Government. How realistic is that argument,

taking into account that the Government moved from a split of 70:30 to 50:50? They are arguing that they have helped the pensioners, but they are taking and creating more money for themselves. How does that square up to scrutiny?

Chris Kitchen: When you are looking at that, you also have to look at the value of the guarantee and how it has reduced to members over time. At the time of privatisation, members were told that all their earned pension up to privatisation would be covered by the guarantee and would increase in line with inflation, as calculated by the retail price index.

Unfortunately, Government legislation changed. The scheme rules said that, in respect of the guaranteed minimum pension, you would receive increases in line with Government legislation, not the guarantee. Government legislation has changed over the years, so that pre-1988 GMP receives no increase, and post-1988 receives CPI, which, historically, is 1 percentage point less than RPI, capped at 3%. Some of the benefit that members have had from the increased returns has been eroded by changes in Government pensions legislation, so the beneficiaries of the scheme have not had an equal benefit to what the Government have had over the years, when you take into account how the scheme has changed and changes in Government pensions legislation.

Q10 **Alan Brown:** Chris Cheetham, how does the actuarial advice that the trustees originally received in 1994 compare with how the fund has performed since then?

Chris Cheetham: Just to come back to what that advice said, it focused primarily on the importance of the guarantee and the fact that the trustees should secure that guarantee. As Allen Young said, the Government's response to that was, "If you want a guarantee, there has to be a share of surplus coming to the Government, and that has to be 50%, full stop." The actuary did not get into the long-term returns and how they would impact outcomes for members or the Government at that time.

The actuary did a piece of work for the 1999 valuation, which did address that question, and we are not really sure, having looked back at that analysis, that we completely understand what they did, to be honest. They used a term called "equalising cash flows" and, based on that analysis, said that they thought a fair share of surplus would be 80% to 85% to members, rather than 50:50, although, just to repeat, we are not completely sure we understand how they did that work. They say in their report that there is no allowance in there for a profit margin, which a private sector firm would look for if trying to provide a similar guarantee, or any risk premium to reflect the risks that the Government were taking. That is as close as we can find to a piece of analysis that was prepared for the trustees that looked at the price of the guarantee.

Q11 **Alan Brown:** Did that cause political arguments at the time about

fairness, if you had actuarial advice that was erring towards an even higher recommendation for the split?

Chris Cheetham: We cannot comment on that, because, as far as we know, that issue was not addressed by the actuary at the time. There is certainly nothing we have found in the paperwork that we have managed to uncover in the few days since we were asked to present evidence here. To repeat, the key piece of advice that the trustees received at that time was that the guarantee is essential. Therefore, the trustees, as I have said, were faced with no choice but to accept the 50:50, whether or not they agreed with it and whether or not it was consistent with precedent. We do not believe that the Government had any analysis, evidence or science that supported that 50:50 split at the time.

Allen Young: Binder Hamlyn supports what the trustees said at the outset. At least a 70:30 split was what they were after. If you follow that report, the Government had received 50% more than they were expecting to receive.

The other thing is about the surpluses. When it is split 50:50, 50% is paid out in bonuses to members. Those bonuses are not guaranteed. When there is a deficit in the scheme, those bonuses come to a standstill, so they start reducing. The guarantee is that the basic pension goes up with inflation. An average pension is £65 a week, so if you get a 2% inflation rise you get £1.30. However, if the scheme is in deficit, the bonuses reduce by the same amount and come to a standstill. In real terms, the pensioners do not get an increase. They get an increase in their basic pension, but that is taken off the bonus. However, the Government do not put anything back.

Q12 **Chair:** Chris Cheetham, can you help me understand whether it is usual that the guarantor is also the body that receives a surplus?

Chris Cheetham: This is highly unusual and, in fact, probably now a unique arrangement in the pensions industry. With a private sector scheme, those schemes are now being managed to move to a situation where they are completely de-risked. Although the sponsor does not take money out of the scheme, it gets to put less money in, if investment returns are good. There is no current situation where sponsors take money out of the scheme that they are responsible for; indeed, they cannot. Regulations do not enable it.

Chair: That is interesting in itself.

Q13 **Stephanie Peacock:** What we have heard so far this morning has highlighted that the Government have received more than they expected. Perhaps the figures are not set in stone, but, in a previous answer and in the analysis shortly after, it was perhaps anticipated that it would be £4 billion. They have so far taken £4.4 billion, which is projected to go up to around £6 billion, so we are talking of an estimated £6 billion being taken out of the scheme. They have not contributed anything since 1987. It is clear that miners in the scheme benefit from the guarantee, but not to

the same proportion.

Looking forward—and this is directed at the trustees—how much are the Government likely to receive from the surplus sharing arrangements in the future, in 1994 terms as well as in net present value terms?

Allen Young: It is impossible for us to say how much they are going to receive, because that depends on the surplus. What we can prove is that they have received 50% more than what they thought they were going to get, so they received an extra £2.3 billion. Going forward, if the rules are not changed, they will continue to receive 50% of any surplus that the scheme achieves. That is where we think it is unfair, because the average pension for our members is £65 a week, plus a bonus of about £19. We cannot say how much they will receive in the future—it is just a guess—but they will receive 50% of any surplus.

Stephanie Peacock: You cannot give a figure but you can give a proportion.

Dan Whincup: To add to what Allen said and to talk about the numbers we have talked about already, the Government have, to date, received £4.4 billion in cash payments. They are due to receive another £1.9 billion in the future. To split that £1.9 billion out, £1.2 billion relates to the investment reserve, and £0.7 billion relates to post-1994 surpluses—the 50% that they have not been paid yet. That is due to be paid over the next seven years. As Allen said, if there are good investment returns in the future, the Government will also benefit, as the rules stand, from the 50% surplus share. If there are good investment returns, the £1.2 billion will grow as well. I thought it would be helpful to break down the numbers that we have spoken to you about already.

Q14 **Stephanie Peacock:** That is really helpful. Why was the period over which the Government could draw down funds from the investment reserve extended in 2014 to 2029?

Chris Cheetham: I will answer first and Dan can add colour, if that is necessary. In essence, the investment reserve acts as a buffer for the guarantor in the event that there is a deficit, so it is in the guarantor's interests to have that buffer there. It also helps members in certain circumstances.

This is a bit more complicated. Allen was discussing earlier this question of standstill, where, if there is a deficit in the scheme, the total pension literally stands still, so members do not see an increase in the value of their pension from one year to the next. Because of the existence of the investment reserve, for technical reasons, it is sometimes possible to mitigate the short-term impact of standstill and give members some increases from one year to the next, and that is what the trustees have successfully done over the years. There is some value to the investment reserve both for the guarantor and for the members. Therefore, we took the view that it made sense to extend it, because it was due to be repaid in 2019.

From the members' point of view, the deal we have just agreed to protect all existing bonuses, which is important for members, might mean that the benefits to the members of having the investment reserve there are somewhat reduced. There is still some benefit, but perhaps less so than was the case before.

Chris Kitchen: In reality, when the scheme has gone into deficit, the Government have not had to put any new money into it. They have not contributed a penny piece to this, regardless of what some MPs have been told and have said in response to their constituents when they have been asked.

In effect, we have ended up, as far as the members can see, with a guaranteed loan arrangement, where, if money is required, we can lend it out of the investment reserve fund or the guarantor's fund, but we then have to pay it back out of future surpluses, plus interest. By definition, that is a loan, not a guarantee. It is a guaranteed loan arrangement, and that is what the members have seen happen when we have had deficits in the scheme. That is why they feel they have been misled as to what the benefits of the guarantee are, in that it has not really been value for money and it is not a guarantee.

As Allen Young said, couple that with a period where members do not see any increase in their pensions at all because they are in standstill, and what they are given is taken off. It all shows why people feel that this is an unfair arrangement for scheme members.

Q15 **Alexander Stafford:** We have heard how much the Government have already received. We saw that, in October 2020, they received £3.4 billion. How much have the Government contributed to the scheme since the guarantee agreement was reached? That is a question for the trustees.

Chris Cheetham: Nothing. The Government have paid no money into the scheme.

Q16 **Alexander Stafford:** To ask it another way, they have paid no money whatsoever, but have they provided any benefits in kind with the scheme? I am thinking of professional services or anything to help, which would have had a monetary value?

Allen Young: Dan may have the answer to that. There was a small contribution back in the early 2000s, but not into the scheme as such.

Q17 **Alexander Stafford:** To clarify, there has been absolutely no payment whatsoever under any Government.

Dan Whincup: I will just clarify what Allen said. There has been no payment into the scheme, but between 2002 and 2005 the Government made some payments to some of our members who are on the lowest pensions. That totalled £68 million. The Government paid that money

directly to those members, and that money was then paid to the Government out of the investment reserve.

Q18 **Alexander Stafford:** How many members was that paid to?

Allen Young: It was paid only to members who were on less than £20 per week and had at least five years' service.

Q19 **Alexander Stafford:** Do you have a rough idea of numbers?

Allen Young: I do not have them. I could probably supply you with them. Apart from that, they have not paid a penny.

Chris Kitchen: On the payment that was made to those on low payments, you also have to remember that we received a lot of complaints at the NUM from those people who received that payment. It amounted to about £2,000 per individual. They were asking if there was any way they could refuse the payment or give it back, because people on those low incomes were on pension credits, council tax rebates and things, and some of them were worse off after receiving that benefit than they had been, because the Government saved money by not paying the pension credits.

Dan Whincup: We can follow up with information on the number of members.

Q20 **Alexander Stafford:** Can we also have any information about how many people refused the money or sent it back, if not everyone took it?

Allen Young: Chris said that members were asking if it was possible. I do not think it was. As Chris said, it did not benefit the members at all. As for putting money into the scheme to support members, there was nothing. No Government since 1994 has put a penny into the scheme.

Q21 **Alexander Stafford:** Basically, no one has put their hand in their pocket to help out the miners.

Allen Young: No.

Q22 **Judith Cummins:** My question is to Chris Kitchen from the NUM. In 1995-96, the National Audit Office financial advisers said that the Government had determined the pension changes "responsibly" and had "secured good benefits for pensioners". From what we have heard this morning, quite frankly, they had secured an even better deal for the Government. Do you agree with the NAO that this is the case and, if not, why not?

Chris Kitchen: I do not agree with the NAO. It has been a much better scheme for the Government than for the members. Given that the members are the ones who put the money in with the employer, British Coal, which is no longer in existence, it should be the members who benefit from it.

When you take into account, like I said, the changes for the GMP calculation for increases, and possibly another change in 2030, when the retail price index on which our current guaranteed increases are based is going to be abolished and replaced with CPIH, that is going to be another reduction in the benefit to scheme members. I genuinely feel that this has been a better deal for Government, which is the wrong way round. It should have been a better deal for scheme members.

If I could go back to Mr Stafford's point, I have been trying to find out. The Government are on record as saying that they put money into the scheme prior to privatisation. For most schemes, it is the employees and the employer that put money in. If the Government, prior to privatisation, put money into the scheme, that must have been as the employer. If the Government were the employer, there was no need for a guarantee whatsoever, because the Government had a legal responsibility to guarantee the scheme.

Q23 **Paul Howell:** Looking more at the current situation than anything else, one of the things that the Government have said is that the risk in the investment strategy has not been reduced by as much as they could have expected, meaning that the value of the Government's guarantee has increased. You can look at that question in two ways, really. Do the Government have a significant contingent liability in that the value of that guarantee has increased? Have the trustees considered looking at their investment strategy and de-risking it, or are you in agreement with the Government that that could be a rationale for negotiation?

Allen Young: We would be happy to discuss anything with the Government with regard to the surplus sharing. We constantly look at the investment strategy that we have, and that is done by the investment team and the trustees jointly. In terms of the Government's contingency, it is very unlikely that, considering that they are on target to have £6.2 billion, they would ever be out of pocket. It would have to be drastic returns and probably a tail-end event. It would mean that we would completely run out of money in, say, 10 years' time.

Dan Whincup: The Government have a contingent liability, but it is a long-term one, whereby money would need to be put into the scheme over the long term, if investment returns turned out to be low. Like Allen said, if you look at what the Government have had to date and what they are due to receive, the chances of them needing to put in over £6.3 billion are likely to be low.

Picking up on your question about whether the Government would be interested in the trustees de-risking, that would have to be discussed between the trustees and the Government at the time. What I would say is that de-risking would not help our members. If we de-risk, it is unlikely that we would generate the extra investment returns whereby we might be able to pay those bonus pensions in the future.

Chris Cheetham: Although the investment strategy of the scheme is designed to deliver the returns needed to generate further bonuses, the fact is that the trustees and our investment advisers work very hard to manage risks, and we do that in two ways. We ensure that we have a well-diversified portfolio, so we are not exposed to poor performance in any one asset class or market. Recognising the significant cash outflows from the scheme needed to pay benefits, we also work hard to try to invest in assets that throw off income, and/or assets with predictable cash flows as bonds mature, for example. Taken together, those two things—the diversification and the management of the cash flows—significantly reduce the risks that the scheme faces for the level of returns that we are seeking to achieve.

Q24 **Paul Howell:** This goes back to a question I was going to bring in later, but I will bring it in now. From what I am hearing, it seems that you almost have a priority to protect the bonuses over getting the 50:50 split changed. Is that a fair statement or is that just me misinterpreting what you are saying?

Allen Young: It was a decision that we took in 2016. The average member receives £65 a week pension and £19 bonus. Those bonuses are not guaranteed. They can be taken away, and they decrease whenever there is a deficit in the scheme. We have twice asked the Government to relook at the surplus sharing arrangements; both times, we were just told no. There was no explanation, other than that the Government thought it was fair.

We turned our focus to the bonuses, which make up about 30% of a member's pension, and decided that it would be really important to protect these bonuses going forward, because, if a member lost all of those bonuses, they would be back down to an average of £65 a week. It is a big chunk of their weekly pension. The trustees took the decision to go forward and get into discussions with BEIS with regard to the protection of bonuses. We would also welcome any changes, or discussions on changes, to the surplus, but we felt that this was the most important thing at the time.

Chris Kitchen: Some members of the scheme are yet to benefit from any of these bonuses, because their pension is not in payment. Allen has stressed the importance of trying to maintain those bonuses, because you could find that, if those bonuses are eroded and they end up back at zero, some younger members of the scheme, when they draw their pension, will have had no benefit whatsoever from past performance, because they were not in receipt of the pension at the time the bonuses were being distributed. The unfairness based on age was another consideration, in that some of the younger members may have received no benefit whatsoever from the bonuses.

Q25 **Paul Howell:** Chris, do you also endorse the position that protecting bonuses is more important than changing the 50:50 split?

Chris Kitchen: I would not endorse that it is more important. I would say that it is equally important, because of the unfairness of the 50:50.

Q26 **Paul Howell:** When was the last time that you, as the trustees, directly asked the Government to reconsider the 50:50 split?

Chris Cheetham: It is important to say that the trustees, either directly or indirectly via the Coal Pension Trustees Services executive, are in ongoing discussion with the Government Department that looks after the scheme. Formally, the trustees have asked for a change in the surplus share twice, in 2000 and in 2006. On both occasions, we were very clearly told no. It was clear in 2006 that a further request would also be declined.

It is worth adding that what then happened is that it ran into the financial crisis of 2008. There were deficits in the scheme and, when we emerged from those very difficult, challenging market conditions, as Allen explained, the trustees concluded that the risk members were facing to their bonuses was becoming unacceptable. Again, as Allen explained, the average member has a pension of £84 a week. Of that, £19 is bonus pension, all of which could be lost through the standstill mechanism, if investment markets were disappointing.

I would like to add some colour to this question of member pensions and the risks that they would face, if they lost a significant piece of it. We talk about the average pension being £84 a week, but the median is only £65 a week, so 50% of members have a pension of less than £65 a week, 25% less than £35 a week, and 10% less than £18 a week. When you think about those numbers, it explains why there is so much frustration and anger over the huge sums of money the Government have taken out of the scheme. Our priority was to protect those bonuses, because we felt that members would suffer significant hardship if they were lost.

Q27 **Paul Howell:** I must admit that I am surprised there has not been another formal approach in the last 15 years as to where it is. Putting that to one side just for a second, the trustees have said that they would welcome changes to the sharing split. Do you believe that, over the long term, pensioners have been badly served by this 50:50 split? You have just talked about when it has gone into deficit and come back out, and the risk management. What is your view in the longer term as opposed to the point in time now?

Allen Young: The guarantee has been important, but it has come at a cost. As we have already pointed out, the Binder Hamlyn report states the Government have received 50% more than they expected, so they will have received, in the next seven years, as it stands now, without any future surpluses, £6.3 billion in total. As Chris has just pointed out, when you have pensioners receiving between £18 and £65 a week, you can see that that is totally unfair. I can understand the frustration of those pensioners.

If the Government were willing to put some of that money back in immediately, it would have a dramatic effect on pensioners. We would be able to increase pensions for members immediately. Everybody recognises that, if you read the Binder Hamlyn report, it is totally unfair: 50% more than what was expected, and £6.3 billion, having never put a penny in. Remember that the members who are drawing their pensions contributed to this pension scheme. The Government have never contributed a penny and have received £6.3 billion.

Q28 **Paul Howell:** We have talked from the start as to where it is. It is about guarantees and risk, and all sorts of things, but it does bring it home, when you talk about the figures of £60, £80 or £20 as opposed to X billion pounds, as to what the significance is at the individual miner level. I get that.

I have one final question before I leave this section. There is £1.2 billion in the scheme's reserve fund at the moment. What will happen to that in the future? If it were to be distributed to pensioners as bonuses, how much would these bonuses equate to? Is it possible to distribute it and still keep the Government guarantee?

Allen Young: It is possible, but I will let Chris answer.

Chris Cheetham: There are two questions there. Under the existing rules and arrangements, that money will be repaid to the Government between now and 2029. If, on the other hand, it was moved into the bonus fund and available for distribution to members, taking the average pension that Allen has talked about of £84 a week, such a pensioner would see their pension increase by £14 a week. That would then be applied pro rata to all other members. That is a very significant increase in the weekly pension, if that money was moved across into the bonus fund.

Q29 **Paul Howell:** I just thought it was worth getting context as to where that was at. In terms of potential negotiations with Government, are there any current approaches being made or is this the forum that things are being driven through at the moment?

Allen Young: Hopefully, coming out of this Select Committee, we get the chance to renegotiate the surplus sharing.

Chris Kitchen: To confirm what Allen said, the NUM has been pushing against a locked and bolted door every time we have tried to talk to Government about renegotiating this. It seems that it needs to be renegotiated. We spent a lot of years where the trustees were not in a position to renegotiate and, when we approached Government, Government told us it was not their role as guarantor to renegotiate. That is the reason why we have asked for the Select Committee hearing to look into it. This will, hopefully, open negotiations and we can try to rectify this unfair situation.

Q30 **Charlotte Nichols:** My question is to Chris from the NUM. Do you believe

that the 50:50 surplus sharing arrangements should be reviewed? If so, why, and what should replace it?

Chris Kitchen: The NUM believes that it needs to be reviewed in light of what the experience has been since privatisation. We commissioned a report that showed that a reasonable return for Government for the amount of risk that they have taken on, which has reduced over the period, would be 10% of any future surpluses. Taking on board that the Government have already had more than what was expected in the Binder Hamlyn report, the remainder of the investment reserve fund and the guarantor's fund should be used and distributed to increase members' pensions by, as Chris Cheetham said, the £14 it would yield on average.

Q31 **Ben Bradley:** Thanks to the panel for the answers so far. I have a question for Chris Kitchen. The NUM has said that Government have a low level of risk as guarantor, as has been discussed throughout the meeting today. Is that still the case, given the financial pressures of Covid and all the challenges that are going on at the minute? I wonder whether there is a comparator with the 2008 crash, as to how the scheme coped during that period and how you think it will fare going forward. Is that still a low level of risk?

Chris Kitchen: Just like the financial crisis, Covid has increased the level of risk. Given that we went through the financial crisis and the scheme did not require any new money from Government, there is no more risk from Covid-19. Over the longer term, the scheme will benefit. It is also worth noting that pensioners are dying day by day and, therefore, get no further benefit from the scheme, whereas, ultimately, at the end of the scheme, whatever remains will return to Government. As we all know, Government will be here for eternity.

Q32 **Ben Bradley:** As I understand it, the idea of the scheme is that, by the time the last pensioner dies, there should not be anything left. Is that likely, or do you think that is not going to be the case?

Chris Kitchen: I do not think that is going to be the case. The NUM-commissioned report produced a figure in the hundreds of millions that it expected to be left at the end. Even though the number of members is reducing, you still need to keep a reserve of cash for any eventuality, so it is likely that this scheme will end up with excess funds that will go back to the Government when there are no longer any members or beneficiaries to the scheme.

Chris Cheetham: The return on the scheme's assets in calendar year 2020 was 6.2%. Notwithstanding the market meltdown in March, the scheme still delivered a very decent return, and that is a comment on the investment strategy. It is also, in part, a function of the point that I was making earlier, which is that the trustees work very hard on the management of cash flows. We were in the fortunate position of not being forced to sell equity assets to pay benefits when equity markets fell very sharply, so the scheme has benefited fully from the significant

recovery that we have subsequently seen. Even in a very difficult year like last year, the scheme still delivered a 6.2% return.

Q33 **Ben Bradley:** That is helpful. In terms of the benefits of the guarantee, it says on the MPS website that pensions are 33% higher in real terms as a result of the guarantee. How does that equate with the 70:30 split? Are pensioners now better off as a result of that 33% improvement in the value of the scheme, or would they have been better off with a smaller scheme and a 70:30 split? Do you know what the figures are around that?

Allen Young: The members would have benefited, without doubt, from a 70:30 split compared to a 50:50 split. Is that the question you are asking?

Q34 **Ben Bradley:** Of course, but the point I am making is on the comparison. If the MPS is saying that the scheme is 33% better off and pensions are 33% higher as a result of the guarantee, how does that equate in financial terms versus a 33% smaller scheme but a 70:30 split, which is what potentially would have been the alternative?

Dan Whincup: It is not possible to say with any degree of certainty what the financial outcome would have been for members if the scheme had not had a guarantee. To be clear, the choice that trustees had in 1994 was a guarantee and 50:50, or to run the scheme without a guarantee. It is fair to say that, if they had to run the scheme without a guarantee, the investment strategy may have differed and there is a chance that members' pensions would have been lower than they are today. In terms of what has been delivered, £84 a week is the average pension, of which £19 is bonus pension from the share of surplus.

Q35 **Ben Bradley:** I take it from your other responses, Allen, that you do not feel pensioners are better off as a result of the guarantee in that equation.

Allen Young: Pensioners have benefited from the guarantee, but it has come at a cost. Although they have benefited, they should have, in fairness, benefited more from the guarantee.

Q36 **Ben Bradley:** Chris Cheetham, going forward, do you know what the value would be of moving now to a 70:30 split? What would that mean for each member in terms of increased pensions?

Chris Cheetham: It would depend on the surpluses that were generated. Dan will correct me if I have these numbers wrong, but members, since 1994, have received about £3 billion in bonuses. Let us suppose, for the sake of argument, that the split had been 75:25 rather than 50:50, which is not far off the Watson Wyatt number I talked about earlier. Members would have had another £1.5 billion, so that is one way of thinking about the metrics. Going forward, if we changed the surplus share in the favour of members, they would get a bigger proportion of any future surpluses, as and when they arose.

Q37 **Ben Bradley:** I guess the question is on individuals' benefit. Having read some of the correspondence to the Select Committee previously, it seemed to suggest that changing the surplus now would equate to only about £25 a year in increased payments to individual miners. Is that something you would recognise, or is it more significant than that?

Chris Cheetham: A good point to make here is that the big money is the money that has been paid out to the Government already. It would be quite difficult to replace that with future surpluses, so it will not be easy, going forward, to generate surpluses at valuations that will lead to member bonuses equating, for example, to the £14 a week that we talked about earlier.

Clearly, the trustees would be delighted to see any increase in the share of surplus going to members, and it would be a very good outcome if that were the result from this inquiry. But an even better outcome for members would be to transfer some money across from, for example, the investment reserve, because that would have an immediate impact on pensions and would be a certain impact, whereas a change in the surplus share, although very favourable, would lead to an uncertain impact, because we would not know how much members would benefit by until we got to the valuation in 2023 and then in 2026, and so on.

Q38 **Ben Bradley:** This may be guesswork, but why do you think this is the only scheme like this, where Government have taken over and intervened in this way? Why have they never got their fingers into other schemes?

Chris Kitchen: That is a question I was going to raise, because we have looked into the British Rail scheme and the replacement schemes when the electricity industry and British Gas were privatised. British Telecom was given a Crown guarantee, and it does not have to pay out anything from the funds of the scheme. This is a unique situation in respect of how this scheme was guaranteed, and guaranteed at a cost.

Nobody is saying that the guarantee is not beneficial to the members. We are saying that it may not be value for money for the members, given the amount that we have had to pay for it already. As Chris Cheetham and Allen Young have already explained, maybe this is a good time to reset and look at what has happened over the last 25 years, and for the Government to accept that they have had enough money out of it and that what remains in the scheme should be distributed to members of the scheme going forward, to increase their pensions for what little bit of life they have left. The Government can rely on taking what is left at the end, when there are no longer any beneficiaries and the scheme is wound up.

Q39 **Stephanie Peacock:** I want to make a couple of comments in summary and draw out the points you made in answer to that last question. We have heard this morning that the trustees were faced with a fait accompli—take it or leave it—and would have preferred a 70:30 split, albeit that would have had a tangible benefit. Where the money lies now, because of the significant figures that the Government have taken out,

we are never going to get back that £4 billion, soon to be £6 billion. We recognise that asking the Treasury is going to fall on deaf ears.

Looking forward, from what I can tell, there are two main options as to how we can try to remedy this for miners in the scheme. There is the issue of unfairness around the surplus sharing arrangement, and people feel strongly about that. That has been illustrated this morning, with the average and median pension figures that we have heard. The average miner is £84 but the median is £60 or much lower, so there is a lot of anger around that surplus sharing arrangement. If we are going to look at this issue of how we increase the average pension, it is the issue around the reserve fund and what the Government could do there. Is that right?

Allen Young: It is both, but the most imminent thing is that we get back some of the money that is already there, because we are losing, on average, 7,000 members a year. If we have to wait for a valuation that is going to take another three or four years, we have then lost 21,000 to 28,000 members, so maybe the most important and pressing thing at this moment is for the Government to hand over some of the cash that is in excess of what they expected, in the region of £2.3 billion, to increase members' pensions now.

Q40 **Stephanie Peacock:** I suppose that is the final point: the scheme is in a very different situation now than it was back in 1994, with, sadly, a lot fewer members, and we are losing members every year, so this is something that we cannot wait for.

Allen Young: We would be delighted to get into future discussions with the Government as soon as possible with regard to the surplus sharing arrangements.

Q41 **Stephanie Peacock:** The sad fact is that we are losing members, but that also means the risk for the Government falls as well, which should, hopefully, focus minds in terms of them taking some action, one way or another, to help miners who are still alive and claiming their pension, and who have paid into the scheme.

Allen Young: Yes.

Chair: Thank you to my colleagues for their questions. This has been a very useful session today. These are often quite complicated issues, so it has been beneficial to the Committee to hear directly from you. There are a number of interesting issues that we will take forward on the structure of the scheme, the surplus share, the clear request for some form of capital injection from surplus funds in the scheme, the protection of pension bonuses, and the sustainability of the scheme in the context of the reduction, sadly, in the number of members in the scheme.

As a Committee, we have issued a formal call for evidence, so there will be an opportunity for other stakeholders, as well as pension scheme members, to submit their thoughts and reflections in written evidence, which they can do on our website. We will make sure that is published

online and, if our witnesses today can circulate that information to relevant people, we would be grateful. We intend to ask Ministers some further questions on this when we return from the Easter recess, to see how we can take this forward.

Thank you to Stephanie Peacock and Ben Bradley for joining the Committee today, and to the MPs across the House who wrote to us in the first instance to ask us to undertake the hearing today. Thank you to: Chris Kitchen, general secretary of the NUM; Chris Cheetham, chair of trustees at the Mineworkers' Pension Scheme; Allen Young, pensioner-elected trustee at the Mineworkers' Pension Scheme; and Dan Whincup, head of pension strategy at Coal Pension Trustees Ltd, for your time and contributions today.