INITIAL LETTER TO MEMBERS OF THE
Bhs PENSION SCHEME:
CONFIRMING CVA PROPOSAL and
EXPLAINING HOW THE PENSION PROTECTION
FUND WORKS

March 2016

Dear

The Bhs Pension Scheme (the Scheme)

The purpose of this letter is to let you know that BHS Limited (the Company) has proposed a Company Voluntary Arrangement (CVA). This is a type of business restructuring process that, if supported by the Company’s creditors, will allow the Company to reduce or compromise certain of the amounts it owes to those creditors and to continue trading. The CVA will, however, mean that no further contributions will be paid to the Scheme.

As a result of the CVA and the significant shortfall in the funding of the Scheme, the Scheme will not be able to provide full benefits to members. Further details about the level of benefits that will be paid in future are detailed in the rest of this letter and the enclosed Member Announcement.

The Trustees very much regret that it has not been possible to find a long-term funding solution for the Scheme with the Company and they wish to reassure members that they have explored all possible options in this respect before the Company proposed the CVA.

As a CVA is a form of insolvency process, the remainder of this letter is aimed at letting you know what will now happen to the Scheme (this will apply whether or not the CVA is implemented).

Firstly, let me reassure you that if you were above the Scheme’s Normal Pension Age on 3 March 2016, or if you retired on the grounds of ill-health, or you are receiving a spouse’s or dependant’s pension, your Scheme pension payments are not expected to reduce from their current level as a result of the insolvency process.
If you were below the Scheme’s Normal Pension Age on 3 March 2016, then your Scheme pension payments from this date will be reduced to broadly 90% of your current pension.

This letter and supporting material provides more information on these changes.

The Pension Protection Fund (PPF) has now formally confirmed that the CVA event of BHS Limited is a qualifying insolvency event for the purposes of the Scheme’s entry into the PPF. The result of this is that a PPF assessment period commenced from 3 March 2016 for all Members.

**What happens next?**

The Scheme may now become part of the Pension Protection Fund (PPF). The PPF was set up to provide Compensation if your employer, or former employer becomes insolvent and your pension scheme does not have sufficient assets to pay your pension to at least the level of PPF Compensation. Details of PPF Compensation levels are explained in this Member Announcement and in the attached booklet. Further information on the PPF and example cases were also provided in the recently issued Pension News dated December 2015.

As mentioned above the Scheme has now entered what is called the PPF ‘assessment period’. This determines, amongst other things, the value of the assets in the Scheme and whether these assets are sufficient to pay pensions to all Scheme members of at least PPF Compensation levels.

If there are sufficient assets, the Scheme will buy benefits from an insurance company to continue to pay your pension at a level the Scheme can afford, which may be at or above the PPF Compensation level. If there are insufficient assets, the Scheme will transfer to the PPF and you will receive PPF Compensation. Either way, you will still receive benefits that are no less than PPF Compensation levels.

**What do you need to do?**

You don’t need to do anything at this time, but we would encourage you to read the enclosed booklet, ‘What is the Pension Protection Fund … and what do we do?’ alongside the attached Member Announcement.

These explain the ‘assessment period’ and the levels of Compensation that the PPF pays to its members.

**Data Protection**

The PPF assessment process involves passing personal data about Scheme members to the PPF to help with the Scheme review. Additionally, data is supplied for statutory reasons and, depending on whether the PPF assumes responsibility for the Scheme, data may be needed to pay Compensation to members. In order to carry this out, the PPF may need to pass data to appropriate third parties. If you are concerned about this, please contact the Trustees using the contact details provided in the attached announcement.
Further queries or concerns

The PPF has a comprehensive website which has a separate section for members of pension schemes. The address of this website is:

http://www.pensionprotectionfund.org.uk/Pages/SchemeMembers.aspx

Please contact us if you have any more questions or concerns about your pension. Full contact details for the PPF, the Scheme’s Trustees and Members’ Contact Point are included in Section 4 of the enclosed Member Announcement.

We will keep you regularly updated so you know what is happening while the Scheme remains in the PPF ‘assessment period’.

Yours sincerely

Chris Martin, ITS Limited
Chairman of the Trustees of the Bhs Pension Scheme

Enclosure - Member Announcement
- ‘What is the Pension Protection Fund ... and what do we do?’
MEMBER ANNOUNCEMENT
Bhs Pension Scheme

The date of this Member Announcement is March 2016.

In this Member Announcement, the Bhs Pension Scheme will be known as the “Scheme”.

This Member Announcement covers the following:

- **Section 1** - Pension Protection Fund FAQs
- **Section 2** - Members who were receiving a pension at 3 March 2016
- **Section 3** - Members who were **not** receiving a pension at 3 March 2016
- **Section 4** - Contact details

Please retain all the details in this Member Announcement in a safe place.

**Note**

This Member Announcement provides a summary of some of the changes to members’ benefit entitlements that will occur once the Scheme has entered a Pension Protection Fund assessment period. It is a summary guide only and does not seek to set out all of the implications or provide a definitive statement of what members will receive. The Rules of the Scheme and the law relating to the Pension Protection Fund will govern the benefits or Compensation that you will receive.
1.1 What is the Pension Protection Fund (PPF)?
The PPF was set up in April 2005 to protect you if your employer or former employer enters an insolvency process and the Scheme can no longer afford to pay your promised pension. The PPF’s purpose is to provide benefits to members of eligible schemes where the scheme has insufficient assets, to provide pension benefits at PPF Compensation levels, details of which are set out in Sections 2 and 3 of this Member Announcement.

1.2 What is the PPF assessment period?
This is a process that a scheme goes through during which specialist advisers, appointed by the scheme’s trustees, will carry out a number of important checks to ensure that all the information the scheme holds is accurate and up to date, so that members are paid the right benefits. The assessment period allows the PPF to establish the ‘funding level’ of the scheme; this is explained below. At the end of the assessment period, the PPF can determine whether or not it is required to take responsibility for the Scheme and for the payment of PPF Compensation to members.

1.3 What is PPF Compensation?
Benefits payable by the PPF are generally referred to as Compensation. PPF Compensation is the amount payable to you in place of the pension that you would have received from the Scheme.

1.4 What is the PPF Compensation Cap?
The Compensation Cap is a statutory limit that applies to the amount of Compensation the PPF can pay to certain members. These conditions apply if you are under the Scheme’s Normal Pension Age (NPA) at the assessment date on 3 March 2016 – which is the date your employer entered an insolvency process. The level of the Compensation Cap will vary depending on your age at the assessment date (if your pension is in payment at the assessment date) or on your retirement age (if later). If you are under your Scheme’s NPA and are in receipt of a pension affected by the Compensation Cap at the assessment date, you will be contacted to outline the impact on your pension payments.

1.5 What is Normal Pension Age (NPA)?
This is the age specified in the rules of your scheme as the earliest age at which a member may receive his/her pension without reduction and without requiring the consent of the employer or the Trustees, disregarding any special provision for early payment on the grounds of ill-health or otherwise. NPA for the Bhs Pension Scheme is currently operated as age 60 for all pensionable service. The Trustees are awaiting final legal advice on this issue and if there are any changes that affect you, you will be notified.

1.6 Who is responsible for the Scheme during the assessment period?
The Scheme has three Trustees who, together, are responsible for running the Scheme. On entering an assessment period, the PPF will normally recommend to existing trustees the appointment of a specialist trustee to work alongside them in discharging their duties during the assessment period. Independent Trustee Services Limited is currently one of the independent trustees of the Scheme and Chris Martin of Independent Trustee Services Limited is the Chairman of the Scheme’s Trustee Board, as well as being on the PPF’s specialist trustee panel. Therefore no change to the Scheme’s Trustee Board is currently required.
The Scheme’s Trustees will continue to be supported by professional advisors.

The Trustees have engaged Barnett Waddingham LLP to assist the in-house pensions administration team. Members will appreciate that the administration of the Scheme will be somewhat busier than normal in the forthcoming months and Barnett Waddingham will be able to add much needed resource and assistance following entry to the PPF assessment period, as they have many years of experience working with schemes in a PPF assessment period.

All future correspondence with and from members will now be dealt with by Barnett Waddingham and relevant contact details are given in Section 4. Members are asked to understand that during this current period there may be delays in dealing with their queries.

1.7 How does the PPF determine if it will take responsibility for the Scheme?
During the assessment period, the Scheme’s funding level (see 1.9 below) is calculated as at the day before the assessment date. If the ‘funding level’ is found to be below 100 per cent of the PPF level of benefits, then the PPF will accept responsibility for the Scheme.

1.8 What is the assessment date?
The assessment date is the day the Scheme started its assessment period, which is the date your employer/former employer became insolvent – in the case of the Bhs Pension Scheme, this is 3 March 2016.

1.9 What is the funding level of a pension scheme?
An actuary is appointed to value the liabilities of the Scheme; this is the value of all of the benefits payable to members now and in the future, based on PPF benefit levels. This value is then compared to the assets of the Scheme, which is all the money held and invested on behalf of the Scheme. The comparison of these two amounts is called the scheme ‘funding level’. For example, if the value of the Scheme’s liabilities is £100m and the value of the Scheme’s assets is £80m, then the scheme’s funding level is 80 per cent. As this is below 100 per cent in this example, the PPF would accept responsibility for the Scheme.
This section provides information and answers to frequently asked questions for those members who were being paid a pension from the Scheme at the PPF assessment date of 3 March 2016

2.1 Will my pension stop being paid?
No. You will continue to receive your pension.

2.2 Will my pension be reduced?
Your pension may be reduced if you were below the Scheme’s Normal Pension Age (NPA) of 60 at the assessment date. If you were above age 60 at the assessment date, or if you retired early on ill-health grounds or you are receiving a spouse’s or dependant’s pension, your pension is not expected to reduce from its current level. NPA is explained in Section 1.5.

2.3 When will my pension be reduced?
If your pension needs to be reduced, you will receive advance notification of the reduction. As the change needs to be backdated to the assessment date, please be aware that initially there may be a further reduction to your pension to take account of any overpayment between the assessment date and date your pension is actually reduced. You will be notified of any such changes.

2.4 How will my pension be reduced?
If you are over age 60 at the assessment date or if you retired early due to ill health or if you are receiving a spouse’s or dependant’s pension you will be paid 100 per cent of your pension currently in payment.
Otherwise, you will be paid 90 per cent of your pension currently in payment. Additionally, a cap on your pension may be applied. This cap is known as the Compensation Cap and is explained in Section 1.4. These conditions apply if you are under NPA at the assessment date.

2.5 I took a pension based on my Additional Voluntary Contributions (AVCs). Will my pension be affected?
The details of any adjustments to your pension will also be notified to you.

2.6 Will my pension continue to increase annually?
The pension you earned on or after 6 April 1997 will increase each year in line with the statutory basis (currently in line with increases in the Consumer Prices Index) up to a maximum of 2.5 per cent a year. No other part of your pension will increase. This may be less than the increases you currently receive from the Scheme.

Pension increases will be applied at each 1st January, which is different to the current increase date for the Scheme. The Scheme increases which were due to be applied in May 2016 will not now take place; instead, the first increase will be applied on 1st January following the start of the assessment period, so from 1st January 2017. Please note that the first increase will be applied on a proportionate basis from the assessment date to 1st January. You will be notified prior to each 1st January if your pension will increase and what your new pension will be.
2.7 I took early retirement; will my pension be affected?
As mentioned in section 2.2, this depends on your age at the assessment date. A review of your Scheme pension benefits will be undertaken during the assessment period and you will be notified if any adjustment is to be made to your pension.

2.8 I retired due to ill-health; will my pension be affected?
In most cases your pension will not be reduced. A review of your Scheme pension benefits will be undertaken and you will be notified if any adjustment is to be made to your pension.

2.9 I am receiving a spouse’s or dependant’s pension; will my pension be affected?
No. You will continue to receive your pension and it will not be reduced.

2.10 What benefits are payable on my death?
During the assessment period, lump sum death benefits are no longer payable. Generally, a spouse’s or dependant’s pension will be payable equal to 50 per cent of the pension you are being paid at the date of your death. This will be different to the basis that applies under the Scheme.

2.11 Will I be paid on the same day of the month?
The PPF pays benefits on the first of each month. This is also the current Scheme payment date so you should not see a difference. If you currently receive your pension on any other day of the month, during the assessment period your pay date will be changed to the first of the month. Before this happens you will be notified as to how this will be dealt with.

2.12 Can I transfer out my benefits to another pension arrangement?
Transfers are not permitted during the assessment period except to comply with a pension sharing order on divorce. Transfers are not permitted following any transfer to the PPF.
This section provides information and answers to frequently asked questions for those members who were not being paid a pension from the Scheme at the PPF assessment date of 3 March 2016

3.1 When will I receive my pension?
At the Scheme’s Normal Pension Age (NPA) which is explained in Section 1.5 of this document. From the assessment date, pension is re-valued each year in line with PPF Compensation limits and therefore in line with changes in the Consumer Prices Index. This annual increase will be subject to a cap of 5% for Compensation linked to pensionable service completed prior to 6 April 2009 and a cap of 2.5% in respect of pension linked to pensionable service completed on or after 6 April 2009.

3.2 Will my pension be reduced?
Yes, if you were below Scheme Normal Pension Age (NPA) of 60 at the assessment date. The adjustment to your pension will reflect PPF Compensation levels and will be applied at the time you start to take your pension.

3.3 How will my pension be reduced?
The adjustment to your pension will reflect PPF Compensation levels. Generally, this means you will be paid 90 per cent of the pension you earned in the Scheme. Additionally, a cap on your pension is applied; this is known as the Compensation Cap. The Compensation Cap is explained in Section 1.4 of this Member Announcement. Additionally if you choose to give up part of your benefits and receive a tax free cash sum when you take your benefits, your pension will be reduced.

3.4 When will my pension be reduced?
At the time your pension comes into payment.

3.5 Can I still take a tax free cash sum when I retire?
Yes this option will still be available. If you choose to give up part of your benefits and receive a tax free cash sum when you take your benefits, your pension will be reduced.

3.6 Can I take my benefits early?
You will be able to take your benefits early provided you have reached age 55, (but also see below). You should contact the Trustees in writing to make your application via the Member Contact details shown in Section 4. If you decide to take your benefits early, your pension will be reduced further to reflect the fact that your pension will be paid for a longer period of time.

Under the rules of the Scheme you had the right to retire from age 50 provided you had left BHS service and you will retain that entitlement. If you wish to retire before age 55, more details will be provided on application to the Trustees.

3.7 Do I have the option to take my benefits at a later age than my Scheme’s NPA?
You may be able to retire at a later age than your Scheme's NPA. If you defer taking your pension, it will receive an actuarial adjustment (or uplift) to reflect the period it is postponed.
3.8 Will my pension increase annually in payment?
Your pension may increase annually. That part of your pension earned in relation to service completed on or after 6 April 1997 will increase each year in line with the statutory basis (currently in line with the Consumer Prices Index) up to a maximum of 2.5 per cent. No other part of your pension will increase.

Pension increases will be applied at each 1st January, which is different to the current increase date for the Scheme. The first increase will be applied on 1st January following the date you take your pension benefits. Please note that your first increase will be applied on a proportionate basis from your retirement date to 1st January.

3.9 I paid Additional Voluntary Contributions (AVCs). What happens to these?
Your money purchase AVCs will remain invested and will still be used to secure you additional benefits at your retirement.

Any non-money purchase AVCs will be used to secure you additional benefits at PPF levels of Compensation. You will be notified if this affects you.

3.10 What benefits are payable on my death?
Once the assessment period starts, lump sum death benefits or refunds of contributions are no longer payable. A spouse’s or dependant’s pension will be payable equal to 50 per cent of the PPF Compensation you are entitled to at the date of your death. This may be less than the benefit that the Scheme would have paid.

3.11 Can I transfer out my benefits to another pension arrangement?
Transfers are not permitted during the assessment period, except to comply with a pension sharing order on divorce. Transfers are not permitted following any transfer to the PPF.
TRUSTEES
For any general queries or concerns about the Scheme, you can contact the Trustees at:

Independent Trustee Services Limited
4th Floor
The St Botolph Building
138 Houndsditch
London
EC3A 7AW

Jacqui Butterworth
0207 173 2675
bhs@itslimited.org.uk

or

Joyce Brown
0207 173 2689
bhs@itslimited.org.uk

The Scheme website will continue to be open to access and download a range of Scheme documents and member communications at www.bhspensions.com

MEMBER CONTACT POINT
For all future pension benefit queries or changes in your personal information, you should contact the Barnett Waddingham team:

Member helpline: 0333 555 0805
Member email: BHSMembers@Barnett-Waddingham.co.uk

The helpline will be operational from 09:00 to 17:00 Monday to Friday, with a voicemail activated outside of these hours.

Postal enquiries:

Barnett Waddingham LLP
Silver Springs House
2 Topaz Way
Birmingham Road
Bromsgrove
B61 0GD
PENSION PROTECTION FUND
You can also contact the PPF in writing at:
The Contact Centre
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon
CR0 2NA

Further contact details for the PPF are as follows:
Tel: 0330 123 2222
Text phone: 0845 600 2542 / Fax: 020 8633 4910
Email: ppfmembers@ppf.gsi.gov.uk
Website: www.pensionprotectionfund.org.uk

Please note that the PPF will be able to assist you if you have general queries about the PPF. However, as the PPF does not hold Scheme membership details, it is unable to comment on your individual details or your personal circumstances.