

Pensions Roadshows

Part of the consultation with
members of the Baptist Ministers'
Pension Fund, members of the Baptist
Union Staff Pension Scheme, churches
and other employers

April & May
2011

Important note: These slides were prepared to support oral presentations by members of the Union's Pension Review Group at the Pensions Roadshows in April and May 2011. This version has been placed on the Union's website primarily to assist those who have attended the Roadshows in recalling the material covered. If you are viewing them in isolation from an oral presentation by a member of the Pension Review Group, please remember that they do not necessarily provide a complete picture and so they should be interpreted with caution.

You may find it helpful to view the video presentations on the Union's website which summarise the material covered in the Roadshows.

The Roadshow team

- Revd Ruth Bottoms - *Moderator of BUGB Trustees and of the Pension Review Group*
- Robert Ashurst - *Member of the Pension Review Group and Moderator of the two Pension Trustee boards*
- Other members of the Pension Review Group
- Members of BUGB staff

The Roadshow programme

- Pensions basics
- The Pension Review
- The proposed new arrangements
- Questions and answers
- Pension issues affecting churches
- Questions and answers

Pensions basics - potential sources of retirement income

Source	Will normally have	May have
State Basic pension	✓	
State Second Pension	Either or both	
Contracted-out pension		
Ministers' Pension Fund - basic	✓	
Ministers' Pension Fund - supplementary		✓
Pension from previous employment		✓
Spouse's pension		✓
Other		✓

Pensions basics - the Baptist Pension Schemes

Baptist Ministers' Pension Fund

- provides “Defined benefits”
- 2,454 members*
- assets of £130 million*
- over 1,000 participating “employers”

Baptist Union Staff Pension Scheme

- provides “Defined benefits”
- 172 members*
- assets of £6.2 million*
- 15 participating employers

* Membership figures and asset values as at 31 December 2010, including all those entitled to benefits

Pensions basics - types of pension scheme

Name	Defined benefit (DB)	Defined contribution (DC)
Alternative name	Final salary	Money purchase
What's promised?	Eventual level of benefit	Level of contributions
What can vary?	Level of contributions	Eventual level of benefit
Who benefits from good investment returns?	Employers	Members
Who suffers from poor investment returns?	Employers	Members
Security of member's benefits built up to date	May be vulnerable if the employers have financial problems	Not affected if the employers have financial problems

The pension review - background

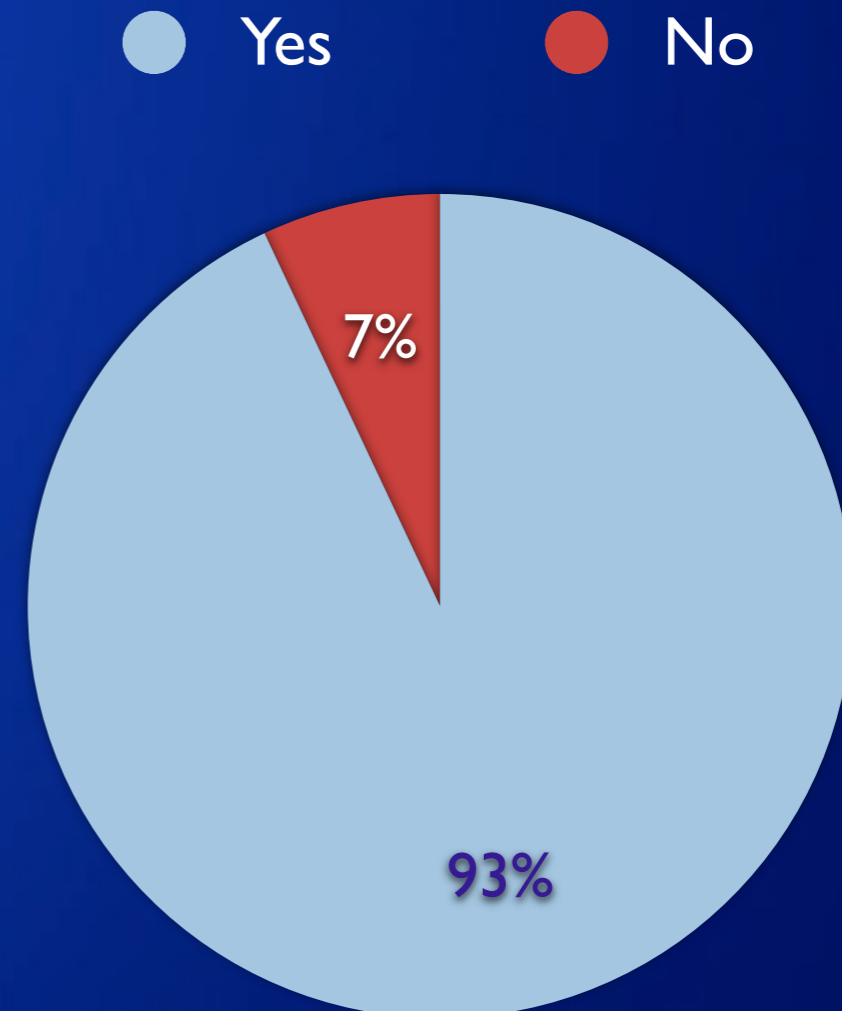
- Reasons for the review

- Contribution increases following actuarial valuations as at the end of 2007
- Increasing longevity
- Poor recent and prospective investment returns
- Increased risk to employers following changes to employer debt regulations

The pension review - background

Interim consultation Q2

“Are the Pension Review Group right to believe that they should not proceed with the current Fund as it is presently constituted, because of the risks involved and the almost inevitable consequence that contributions would continue to rise?”



The pension review - background

- Reasons for the review
- Review group's aim

To provide a pension for ministers and staff that:

- can be owned by the Baptist family
- shares the risks
- is at an appropriate level
- is affordable for churches and Union
- is affordable for ministers and staff
- is sustainable long term

The pension review - background

- Reasons for the review
- Review group's aim
- Challenges



- Conflicting objectives
- Funding position
- Cessation events

Summary of the proposals

One “trust-based” scheme, covering ministers, staff & non-ministerial staff of churches

A “defined contribution” (DC) scheme

Starting on 1 January 2012

Benefits accrued up to 31 December 2011 remain unchanged and will continue to be linked to MPI / salary while members remain in service

Details of the proposals I

One “trust-based” scheme, covering ministers, staff & non-ministerial staff of churches

Why?

- Economies of scale in
 - governance
 - administration
 - investment charges
- harmonisation of provision for ministers and staff
- help churches cope with “auto-enrolment”

How?

- Close both schemes to future DB accruals
- Add separate DC sections to BMPF
- Rename BMPF as the Baptist Pension Scheme

Details of the proposals 2

One “trust-based” scheme, covering ministers, staff & non-ministerial staff of churches

Section	Eligibility for membership
Ministers	Baptist ministers (plus ministerial students who are remunerated while training in pastorate)
Staff	Nationally accredited church workers, staff of the Union, Associations and Colleges, staff of churches and their associated organisations
Basic	Any of the above, but especially those who have not previously been in any scheme
DB	All members of the BMPF (active, deferred pensioners and current beneficiaries)

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A “defined contribution” (DC) scheme

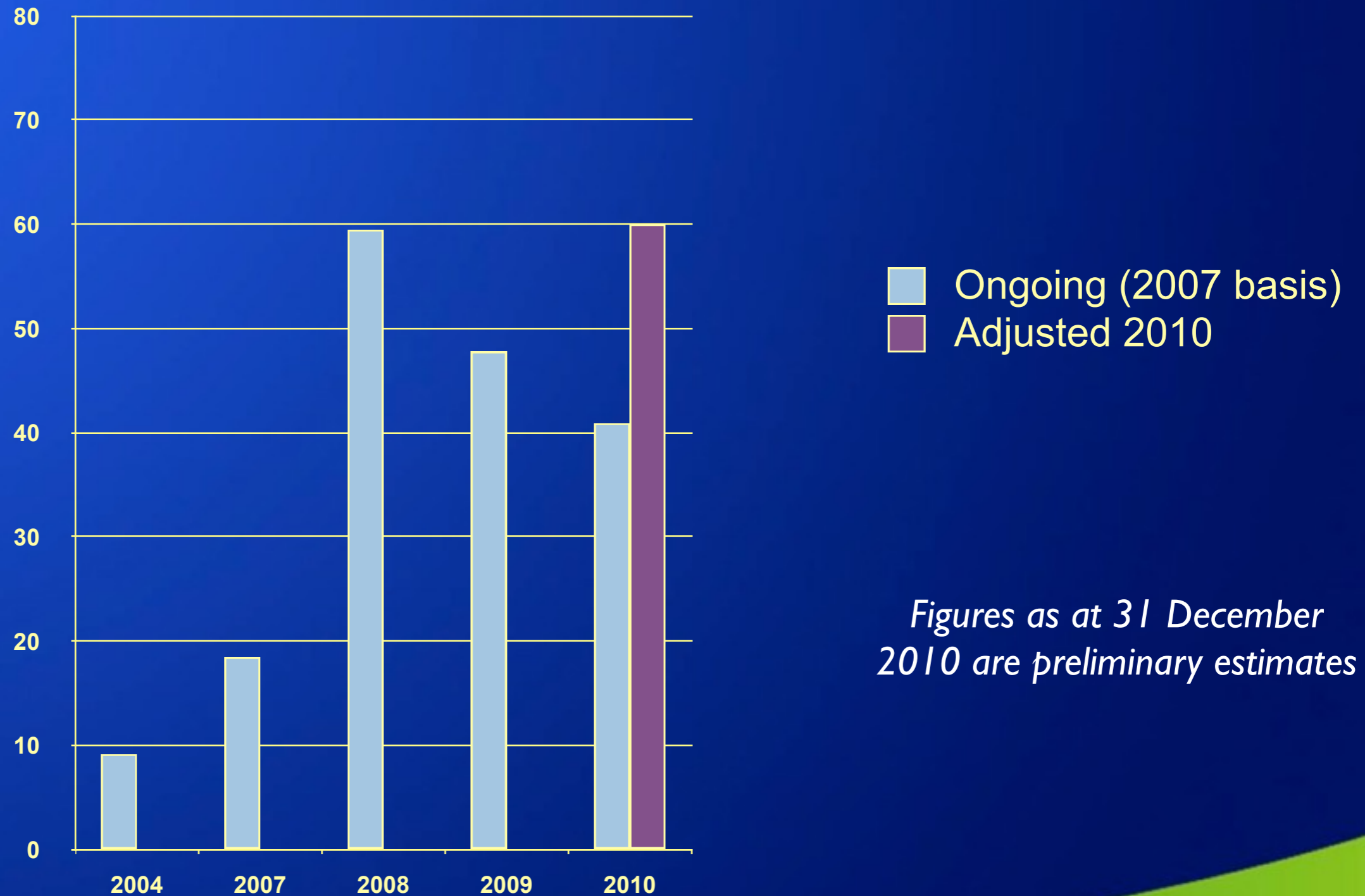
Why?

- Sustainability
- Financial viability
- Reduce employers’ risk

Contributions in respect of each member are invested in the funds chosen by that member and credited to the member’s account. At retirement, the member’s accumulated account is used to purchase an annuity

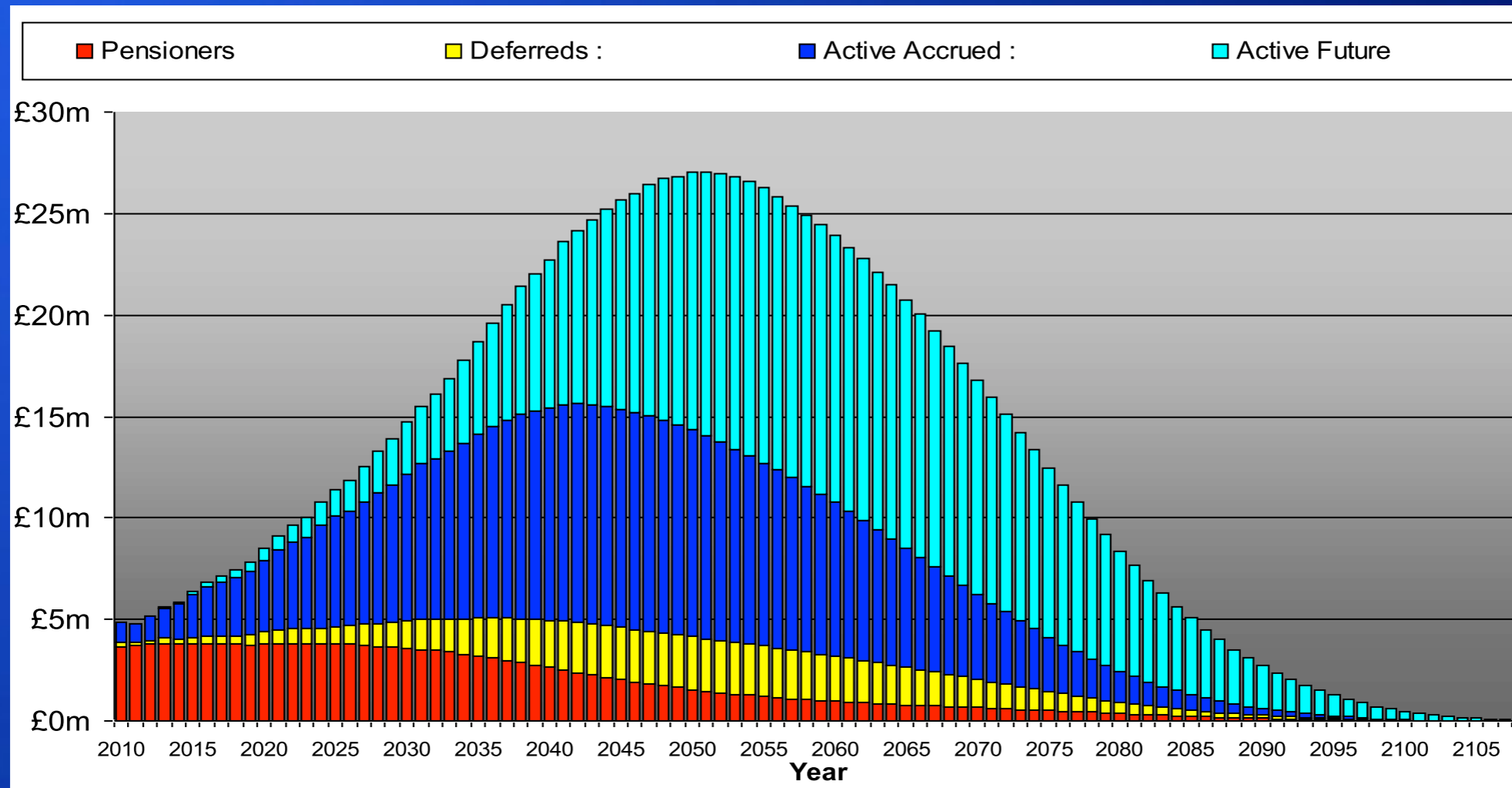
Financial position - funding

BMPF shortfalls (in £ millions)



*Figures as at 31 December
2010 are preliminary estimates*

Illustrative cash flow projections



Stopping DB provision for future service significantly changes the cash flows being guaranteed by the employers

Financial position - BMPF contribution rates

Payable by	Paying for	% of Pensionable Income		
		2007	Preliminary 2010	
Member	Current year's build up of pension	8	8	8
Employer		10.2	15	15
Employer	Shortfall	5.8 *	15	11.5
Total Employer		16	30	26.5
Total		24	38	34.5
Expected "recovery period"		14 years	15 years	20 years
* Shortfall contributions shown here are percentages of Minimum Pensionable Income				

Notes:

- Figures for 2010 are preliminary
- Discussions between pension trustees and employers have yet to take place

Details of the proposals 4

A “defined contribution” (DC) scheme

Other advantages

- Focusses available resources on meeting current deficiencies
- Fixed retirement age not an issue
- Greater flexibility to meet differing patterns of ministry
- Same type of provision as most private sector employees

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A “defined contribution” (DC) scheme

Key challenge: “Do DC well”

- involves
 - good design
 - good operation
 - good communication
- requires effective partnership between employers and pension trustees

Other challenges

- Negative perceptions
- Transfer of risk to members
- Provision of adequate “risk benefits”
- Education of members and employers
- “Real-time” administration

*Switches to DC have acquired a bad reputation because some employers have cut contributions radically at the same time - that is **not** our intention!*

Details of the proposals 6

A “defined contribution” (DC) scheme

Proposed contribution structure Ministers & staff sections

Payable by	Destination	% of Pensionable Income
Member	Member’s pension account	8
Employer	Member’s pension account	6
Employer	To pay for benefits on death or ill-health and for administration	4
Employer	To pay for 2010 shortfall	10 - 12 *
Total Employer		20 - 22 *
Total		28 - 30 *

Current rate retained, as risk for future service being transferred to members

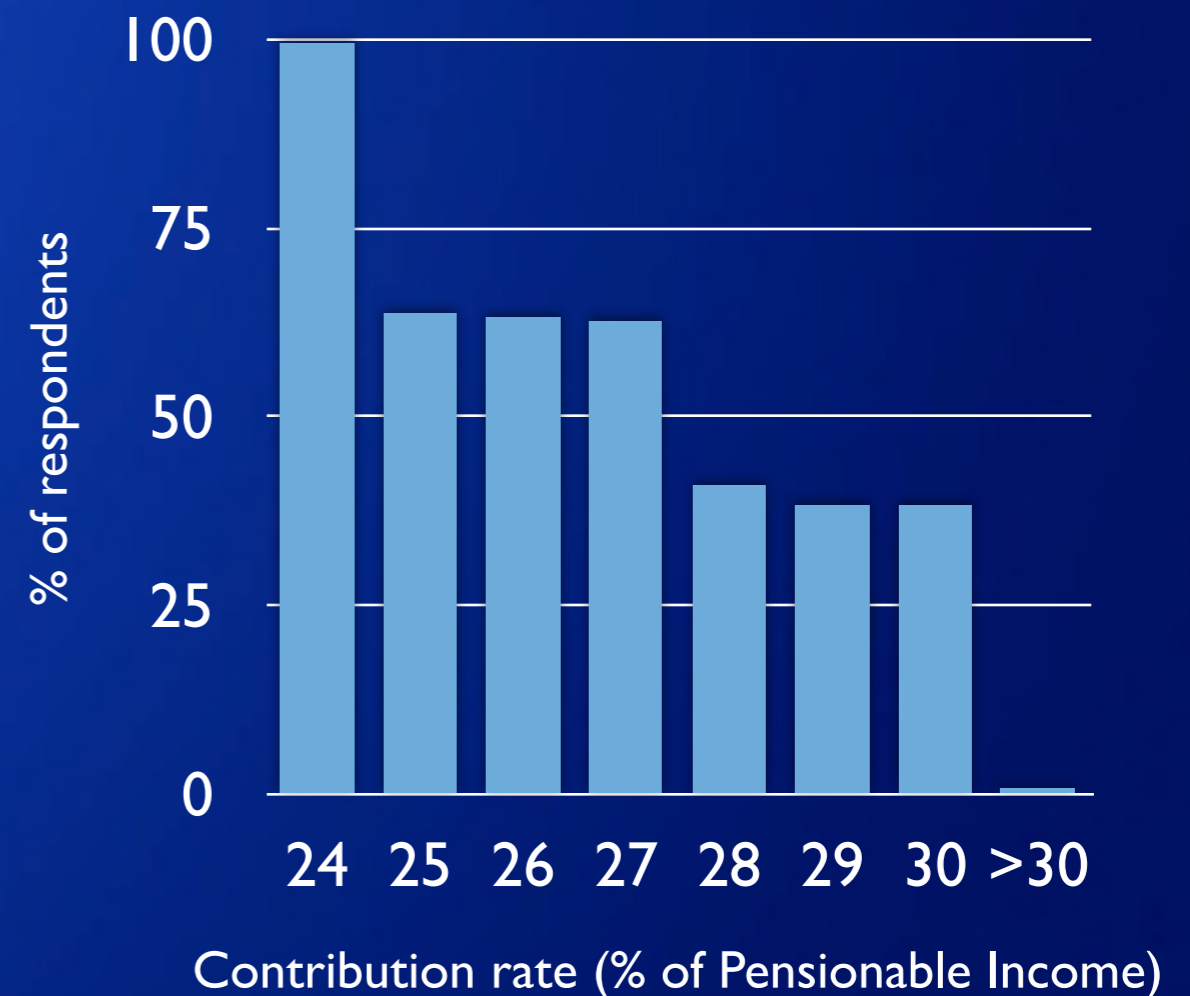
* Illustrative figure, subject to the outcome of the current actuarial valuations

Views on contribution rates

Interim consultation Q3

“Which of the following total contributions are you willing to accept?”

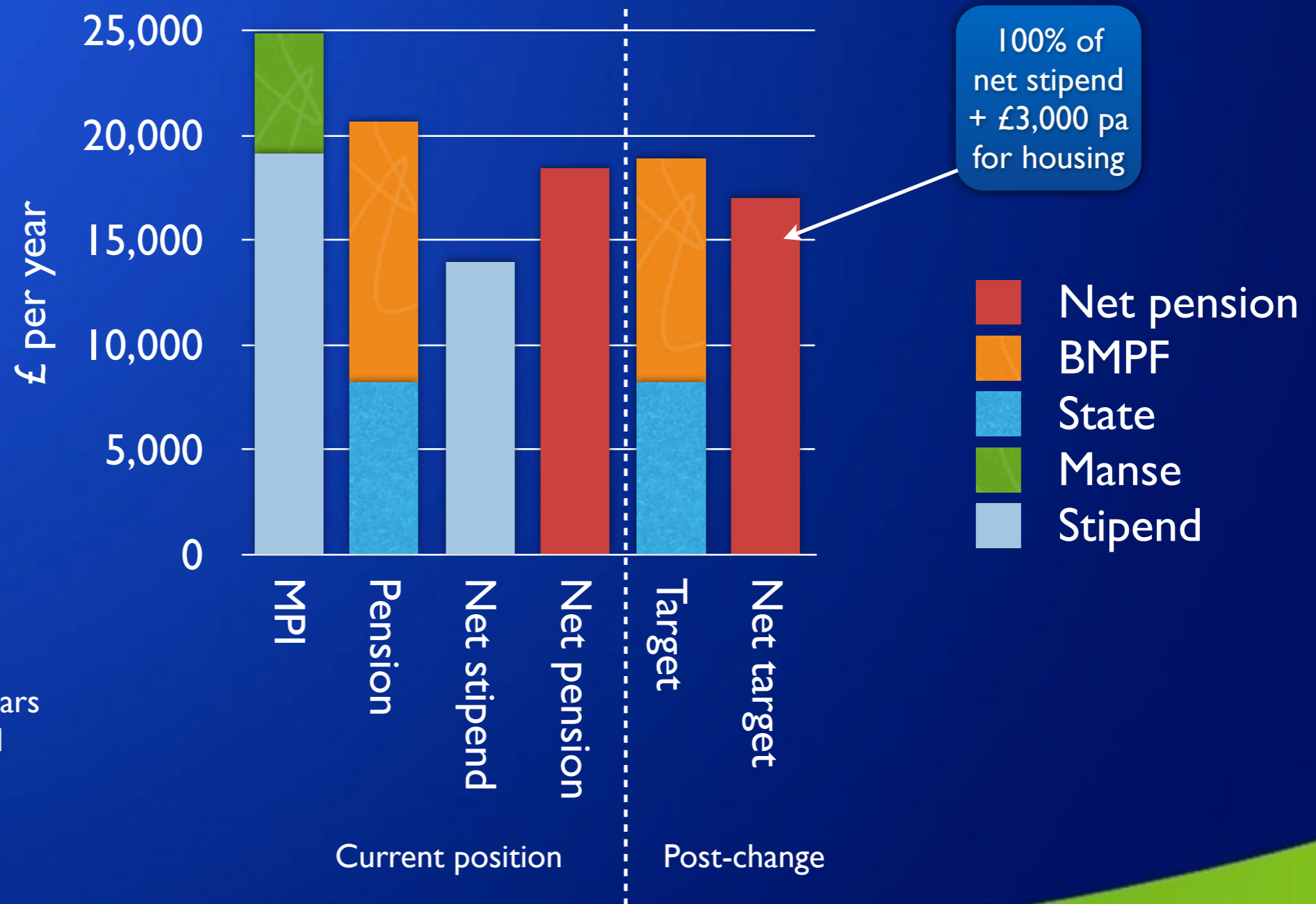
% of respondents willing to accept total contributions at various levels



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A “defined contribution” (DC) scheme

Illustration of target benefits



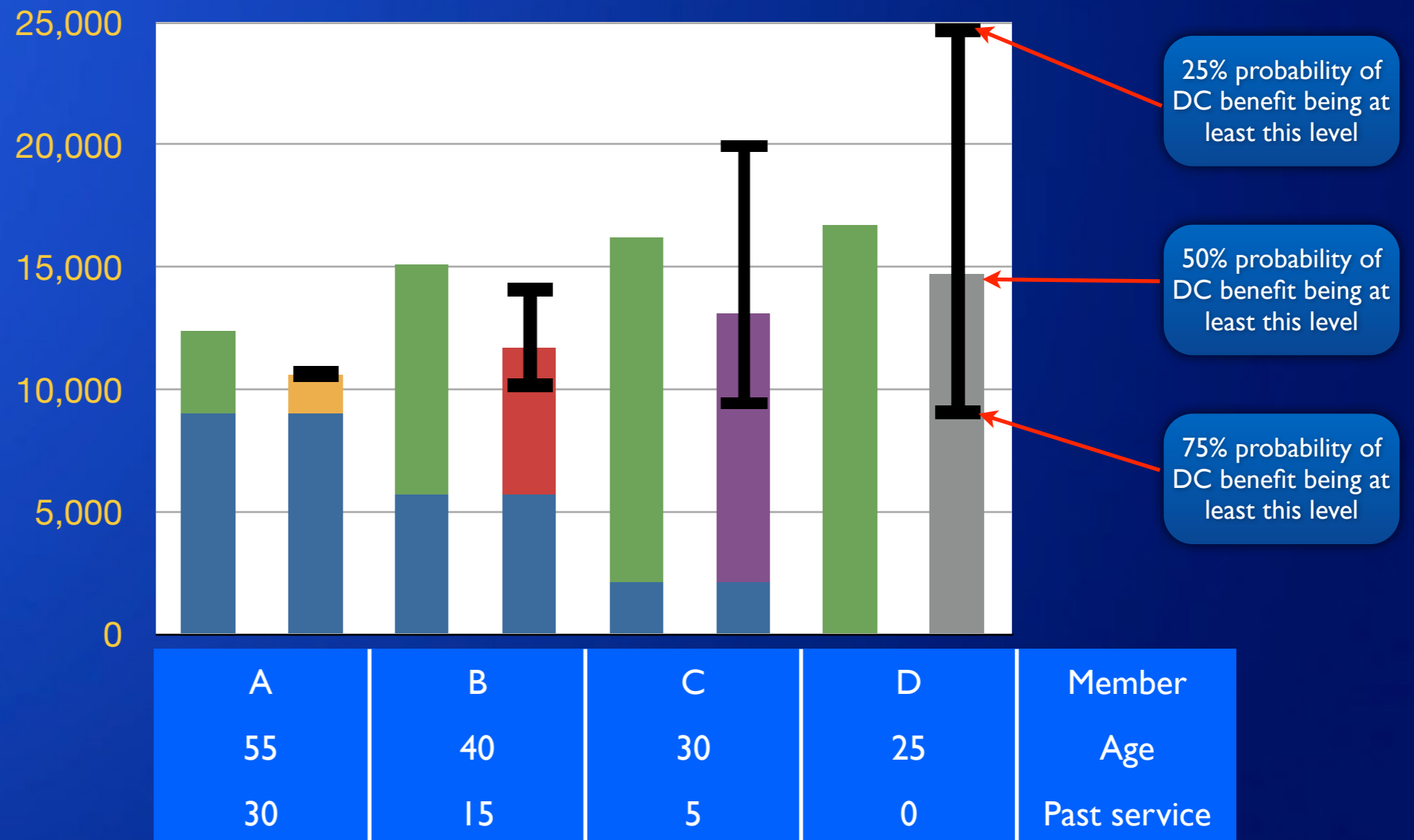
Notes:
 1. Figures based upon an hypothetical minister who retires at age 65 after 40 years service on Standard Stipend
 2. Figures in 2009 terms

Illustrative benefit projections

A "defined contribution" (DC) scheme

- Future DC - D
- Future DC - C
- Future DC - B
- Future DC - A
- Future DB
- Past service

£ per year



Notes:

1. Figures prepared by Lane, Clark & Peacock LLP and used by permission
2. Illustrative DC benefits are based upon contributions for retirement benefits equal to 14.25% of pensionable income and a typical investment policy

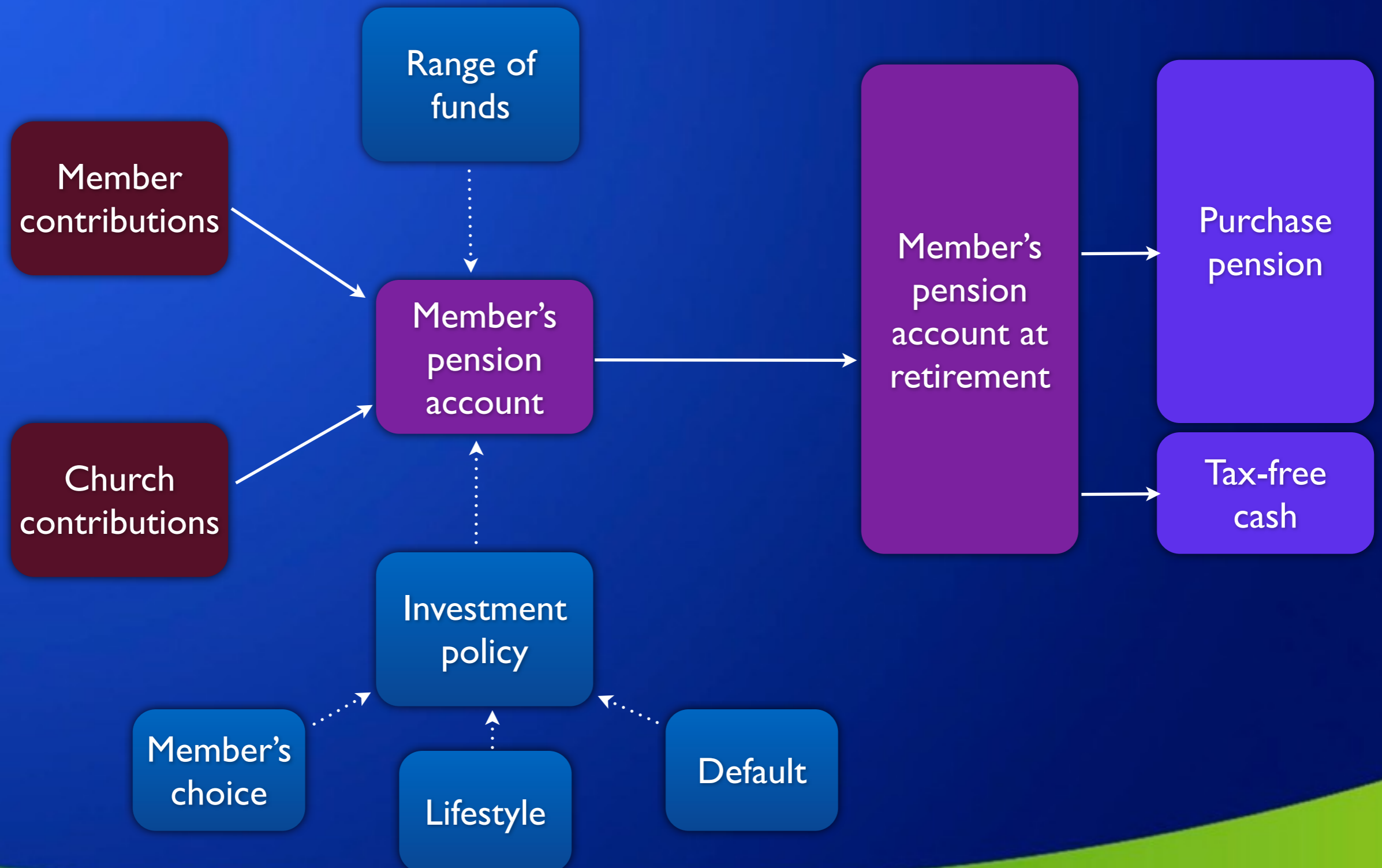
Details of the proposals 8

A “defined contribution” (DC) scheme

DB section

- based on service to 31 December 2011
- based on Final MPI
- service enhancements on death in service and some ill-health retirements still apply
- Supplementary Benefits based on contributions paid up to 31 December 2011

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A “defined contribution” (DC) scheme

DB section

- based on service to 31 December 2011
- based on Final MPI
- service enhancements on death in service and some ill-health retirements still apply
- Supplementary Benefits based on contributions paid up to 31 December 2011

Ministers & Staff sections

- DC pension purchased in open market
- Terms of DC pension chosen by member
- Death in service lump sums
- Insured income continuation scheme on serious ill-health

Summary of the proposals

One “trust-based” scheme, covering ministers, staff & non-ministerial staff of churches

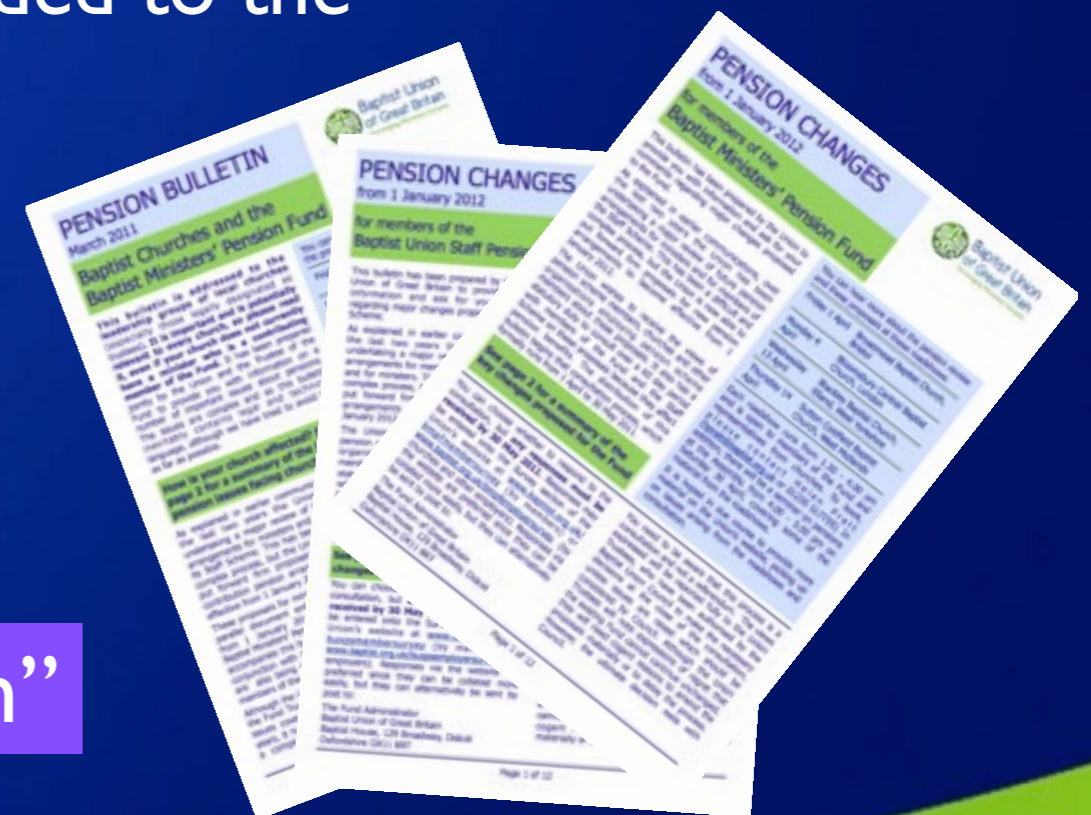
A “defined contribution” (DC) scheme

Starting on 1 January 2012

Both earliest and latest feasible date

Communication and consultation

- Consultation period from 1 April to 30 May
- Documents sent to current contributing members of the schemes, churches and other employers
- 5 pensions roadshows + Assembly seminar
- Additional material to be added to the website, including
 - video
 - worked examples
 - FAQs



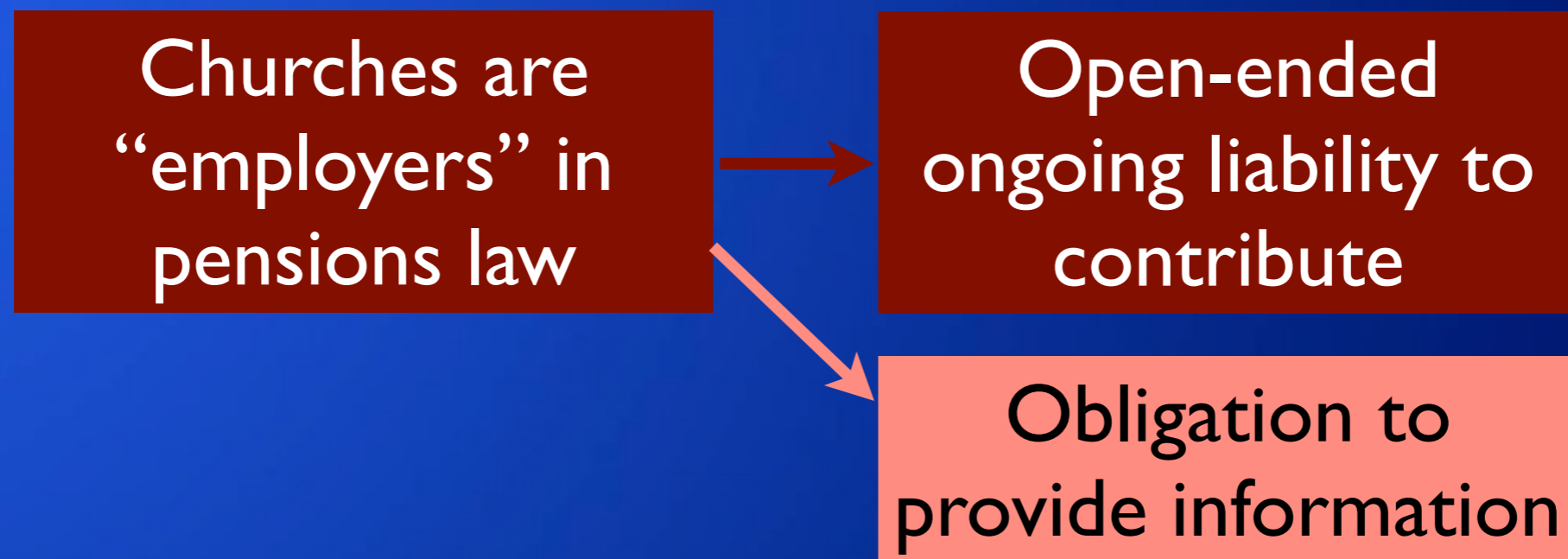
“a consultation, not a referendum”

Have we met our aims?

Aim	Assessment
can be owned by the Baptist family	Yes - harmonises staff and ministers, helps churches with auto-enrolment, aiming for a good DC scheme
shares the risks	Transfers risk for future service to members, but employers retain significant risks for past service
at an appropriate level	Will vary according to individual circumstances, but projections suggest reasonable outcomes
affordable for churches and Union	DC scheme affordable, but total employer contributions will rise in 2012
affordable for ministers and staff	Yes
sustainable long term	Yes

Questions?

Pension issues affecting churches



Churches as “employers”

- Confirmed by recent case law and Counsel’s opinion
- Applies to any church which has been responsible at any time since 1 September 2005 for paying a minister who was a contributing member of the Fund
- A church is obliged to pay deficiency contributions even if:
 - the church has no current minister
 - the church’s current minister is not a contributing member of the Fund
- Deficiency contributions expected to be 10 - 12% of Pensionable Income and to be payable for 20 years from 2012, but these figures may change
- In order to opt out of this obligation, a church would need to pay an “employer debt”

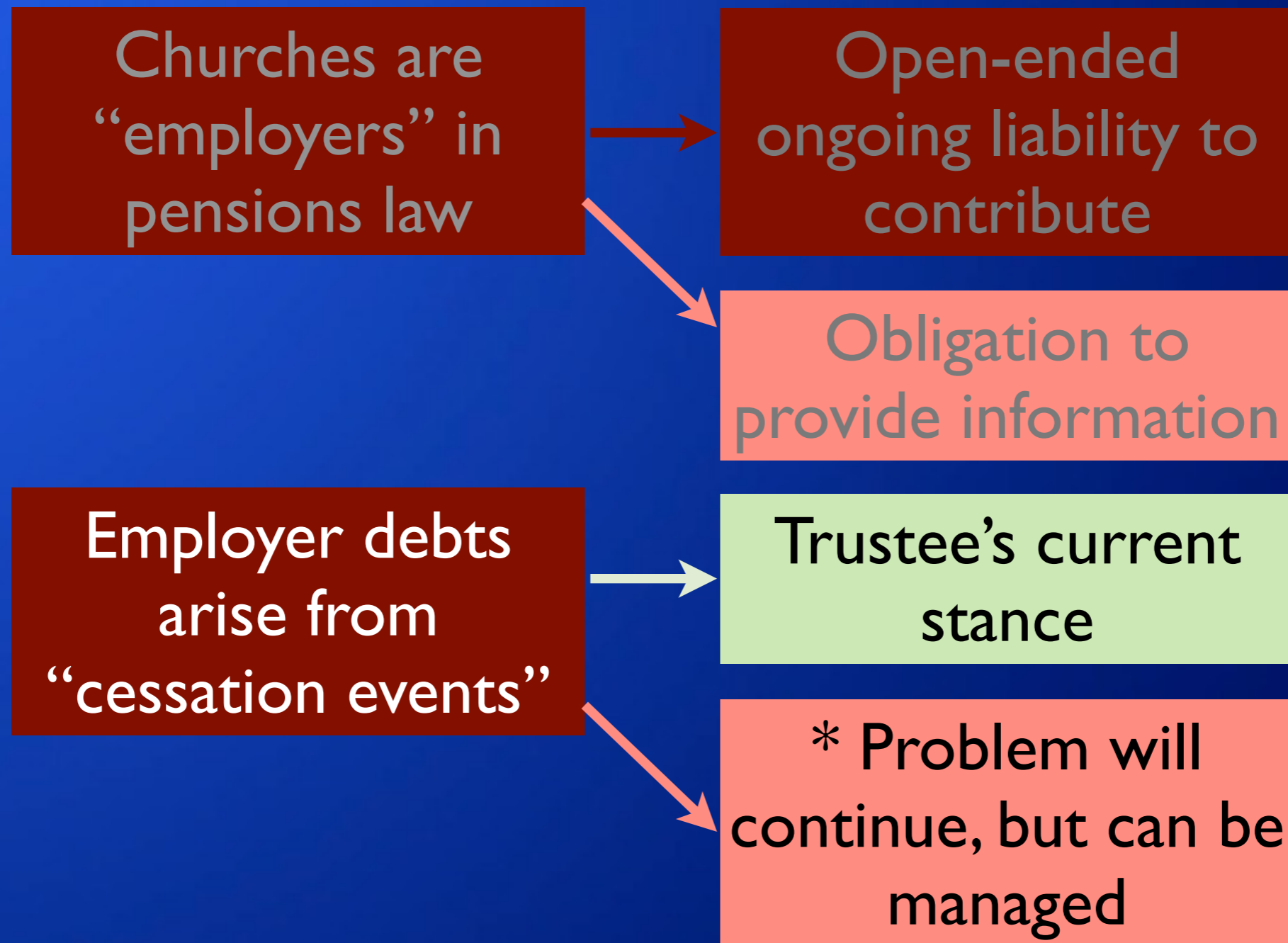
Provision of financial information

- As employers, churches are legally obliged to provide the Fund Trustee with financial information
- Charities are legally obliged to provide copies of their accounts on request

“As detailed in legislation, employers should provide trustees with the information they or their professional advisers reasonably require to assess and monitor covenant.”

Extract from: A short guide for employers
The employer covenant at a glance
© The Pensions Regulator June 2010

Pension issues affecting churches

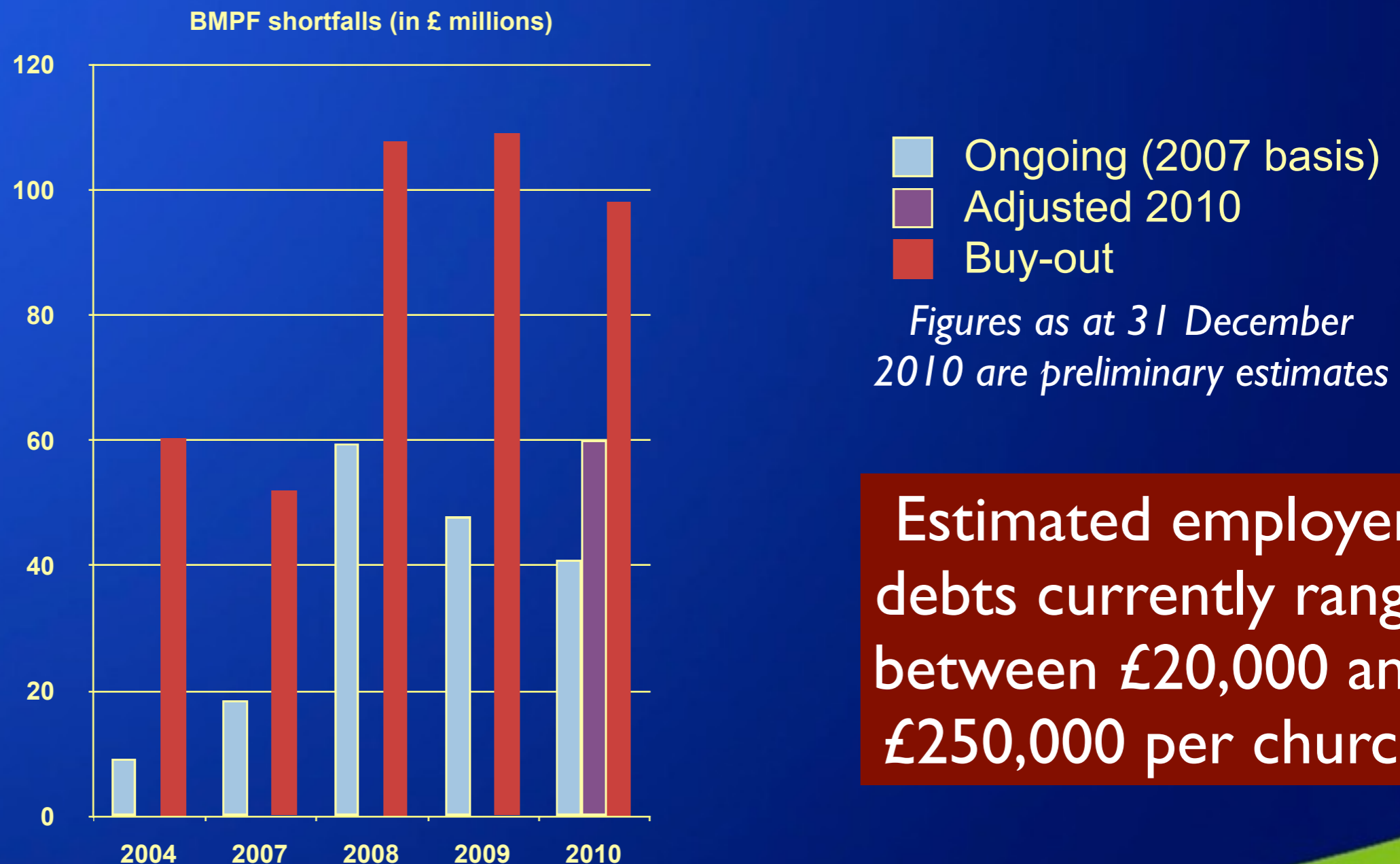


** unless employer debt regulations are changed*

“Cessation events” and “employer debts” - explanation

- Arise when an employer ceases to employ any active members of a scheme (and does not re-employ any within the next twelve months)
- Potentially arise on most occasions when a church goes into a pastoral vacancy, even if the church continues to pay contributions (also on incorporation and amalgamation)
- Effectively requires a valuation of the scheme at the date of that employer’s termination
- An employer debt is calculated as that employer’s share of the “buy-out deficit” (calculated pro-rata on the basis of liabilities)

“Cessation events” and “employer debts” - amounts



Estimated employer debts currently range between £20,000 and £250,000 per church

“Cessation events” and “employer debts” - to date

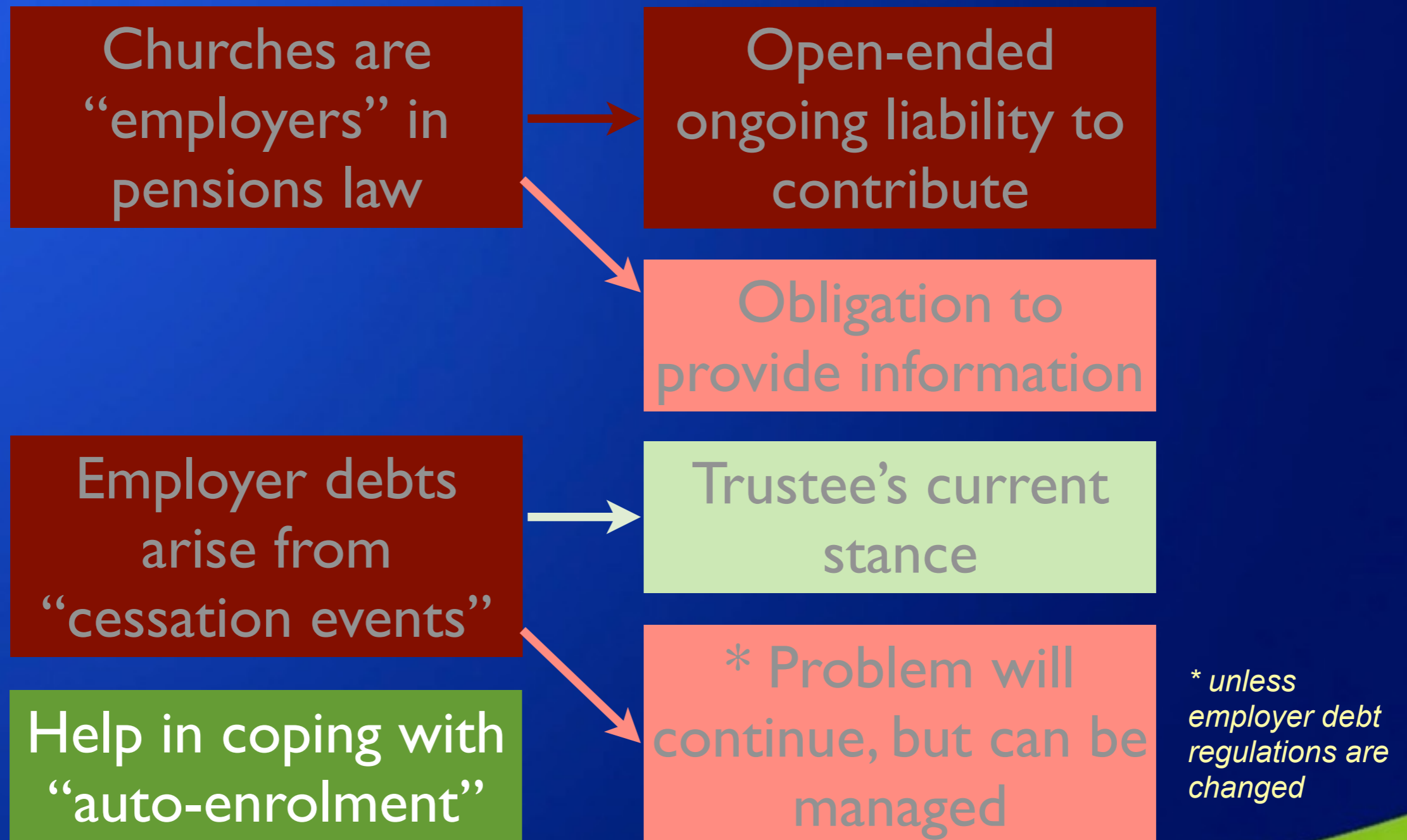
- Over 400 cessation events since 1 September 2005, but no employer debts levied so far
- Fund Trustee has taken legal advice and consulted with the DWP, the Pensions Regulator and the Pension Protection Fund
- Fund Trustee’s current policy
- That policy may change at any time

“Cessation events” and “employer debts” - avoiding them in future

IF your minister is leaving and you do not have another
“employee” in the Fund

- Obtain standard letter requesting a “period of grace”
- Send it to the Pensions Office within one month of your minister’s departure
- Within 12 months of your minister’s departure
 - appoint a paid “interim minister” member of the Fund
OR
 - appoint a new minister who is a contributing member of the Fund

Pension issues affecting churches



Churches and “auto-enrolment”

- New Government requirement which will affect churches from 2014 - 2016 onwards
- Applies to all eligible employees earning more than £7,475 per year (in 2011/12 terms)
- Employees earning less than this still have the option to join the pension arrangement
- Employees will be able to opt out of these arrangements for a limited period
- Churches will be able to “auto-enrol” ministers and staff into the relevant sections of the Scheme

Churches and “auto-enrolment”

Proposed contribution structure

Basic section

Payable by	Destination	% of Pensionable Income
Member	Member's pension account	5
Employer	Member's pension account	4
Employer	To pay for benefits on death and for administration	1
Total Employer		5
Total		10

Questions?