Answers to frequently asked questions

The Baptist Pension Scheme

This is a selection of the issues raised in the autumn 2011 pension roadshows.

The answers to the questions below are provided to help explain the new pension arrangements. If you have any concerns, you should seek independent financial advice, as neither the Baptist Union, the Pensions Office nor the Trustee of the Baptist Pension Scheme are able to advise you.

These answers should be read in conjunction with the letters and member booklets that members have already received. It must be emphasised that these answers do not take the place of the formal Rules of the Scheme, which will be available for inspection on request from the Pensions Office at Baptist House. In the event of any conflict between this document and the Rules, the Rules will prevail. Your legal rights are governed by the Rules.

Joining the DC Plan

What are the implications of opting out of the Scheme, rather than joining the DC Plan?

If you are currently a member of the Ministers’ Fund or the Staff Scheme and you choose to opt out, instead of joining the new DC Plan, you will become a deferred pensioner of your current arrangement. As such, you will not earn any pension within the Scheme for your future service and you will lose a number of potentially important protections, as follows:

- The link to Final Minimum Pensionable Income (Ministers) or Final Pensionable Salary (Staff) for your benefits built up by the end of 2011. If your pay increases are greater than deferred pension increases (which are based on price inflation, but subject to a limit) you would benefit from retaining the link to pay. In particular, as a deferred pensioner you would probably be more vulnerable to periods of higher price inflation than if the link to pay were retained
- Potentially valuable spouse’s / children's pensions on death in service, which would be based on your full period of potential service to age 65 - if you died as a deferred pensioner, no spouse's or children's pension would be payable
- Continued cover for a lump sum on death in service, which is 4 x Pensionable Income, plus the value of your pension account - the only benefit payable on death as a deferred pensioner is a lump sum equal to your transfer value from the Scheme
- Cover from the Income Protection Policy (as described in the new Scheme literature) / potential entitlement to ill-health pension - if a deferred pensioner retires early (whether due to ill-health or otherwise), the pension can be paid immediately, but will be reduced for early payment. The only concession to ill-health for a deferred pensioner is that the pension can be drawn before the minimum age of 55 which otherwise applies

The two latter benefits in the list above should be capable of being replaced by insurance on a personal basis, but the cost of doing so is likely to be significantly greater than under the Scheme's group arrangements. In addition, insurers may well want detailed medical information, which is not normally required under the group arrangements.

In view of the points set out above, you are strongly recommended to take independent financial advice before opting out. If you decide to opt out and you are the only Scheme member serving with your employer, you should inform your employer as soon as possible, as they will need to take urgent action to avoid potentially serious financial consequences for them.

I am due to retire soon, so is it worth me joining the DC Plan?

If you do not join the DC Plan, you will lose the benefit of cover for benefits on death in service between the end of 2011 and your retirement, and the other protections referred to above. In addition, depending on your circumstances, you may be able to take the value of your pension account as a tax-free lump sum on retirement, so you will benefit from your employer's contributions to your pension account and from the tax relief on your own contributions.

Current members of the Staff Scheme may need to transfer their pension account back from the DC Plan to the Staff Scheme immediately before retirement in order to be able to take the whole of their account as a tax-free lump sum.

Contributions

Why hasn't the new DC Plan been set up on a "salary sacrifice" basis?

This issue was considered by the Pension Review Group, who were advised that each church or other employer would need to set up a separate salary sacrifice* arrangement with HMRC, so it could not be done centrally. In view of the administrative work this would involve, it was decided that establishing salary sacrifice arrangements was not a priority when there was so much to be done in setting up the DC Plan. However, the issue will be kept under review.

A salary sacrifice arrangement is where each employee's pay is reduced by the amount of their own pension contributions, which are instead paid by the employer. Pensionable Income is still taken to be pay before the reduction. The attraction of such an arrangement is that both the employee and employer generally save National Insurance contributions on the employee's pension contributions.

How much can I pay in Additional Voluntary Contributions?

For most members, the limit is the amount you can afford, as HMRC's limit in order to qualify for full tax relief on total member contributions to all registered pension arrangements is 100% of taxable earnings in a particular tax year (or £3,600 per year if higher). Members who have no earnings, or a low level of earnings (for example, because they are are on leave of absence or out of pastorate) should consult the Pensions Office about their contributions.

There is also a limit, known as the Annual Allowance, on the annual increase in the value of pension benefits. This limit is £50,000 for "pension input periods" ending during the 2011/12 tax year, with any excess over and above this limit being subject to a tax charge at the members' marginal rate. This is described in more detail (including important caveats) in the new DC Plan booklet – page 13. If you are considering paying a large sum in AVCs, please consult the Pensions Office at Baptist House. You may also wish to take independent financial advice.

Investment

Who appointed Legal & General (L & G) to run the DC Plan and why?

The Scheme Trustee is responsible for choosing the DC provider, drawing upon advice from the specialist DC team at Lane, Clark & Peacock, who are actuaries to the Scheme. L & G were chosen after a thorough selection process, which started by considering all the main potential providers and included interviewing four organisations and a visit to L & G's administration offices.

L & G are a major provider of index-tracking investment funds for UK investors, especially for DC pensions. However, they also allow access to funds run by other investment management organisations and some of those are being made available within the DC Plan.

What would happen if L & G were to run into financial difficulties?

The funds which the DC Plan uses are not invested in L & G itself, but in a very widely diversified range of investments of different kinds. These investments do not form part of L & G's business assets and so would not be available to any of its creditors in the event of problems. The Scheme Trustee would be able to move the assets within the DC Plan to another provider if it was necessary.

Financial stability was one of the criteria used in the selection process, and this will continue to be monitored by the Scheme Trustee, which will seek help from its advisers, as well as by the statutory regulatory authorities.

The Baptist Ministers' Pension Fund and the Baptist Union Staff Pension Scheme both currently operate ethical investment policies, so why doesn't the default option in the DC Plan use ethical funds?

Ethical investment funds typically:

- have higher charges than non-ethical funds, because of the extra costs of ethical screening; and
- have more volatile returns than non-ethical funds, and so are seen to be higher risk.

The Scheme Trustee has received legal advice that, in a DC Plan where investment returns directly affect members' benefits, it is not appropriate to invest members' pension accounts in ethical funds (which cost more and are seen to be higher risk than non-ethical funds) unless members specifically choose those funds for themselves.

The position in the Ministers' Fund and the Staff Scheme is different, because they are defined benefit schemes and so members' benefits are not directly affected by investment returns. Instead, it is employers' contributions which are affected by investment returns, and the employers have decided corporately, through BUGB, that they wish to use an ethical investment approach. This will continue in respect of the DB Plan within the Scheme and also in the Staff Scheme.

What is the difference between the Ethical 1 and Ethical 2 Lifestyle options?

In Ethical 1 only the global equity fund is invested on an ethical basis, and this option continues to use the same (non-ethical) diversified growth funds as the Default Lifestyle. Ethical 2 does not use diversified growth funds, but instead uses a mix of bond funds and ethical equity funds.

In addition, the ethical criteria used in the equity funds in Ethical 2 are more stringent than the criteria used in the equity fund in Ethical 1. The tables below compare the criteria within these two options with each other and with the current BUGB policy used in the Ministers' Fund and the Staff Scheme.

The first table shows the areas in which investment is excluded, and the second the areas where investment will be directed towards companies which do the "right" things and away from companies which do the "wrong" things. Please note that:

- Within the ethical funds, where an activity is not shown as "excluded", it does not mean that the fund will definitely invest in that activity, but only that it is permitted to do so
- A fund that is described as "non-ethical" (such as the default lifestyle) does not focus on investing in the areas excluded by ethical funds. The term "non-ethical" simply means that no account is taken of ethical criteria in selecting investments.

Excluded activities	BUGB	FTSE4Good (Ethical 1)	Stewardship (Ethical 2)
Gambling	Excluded		Excluded
Pornography	Excluded		Excluded
Tobacco	Excluded	Excluded	Excluded
Alcohol	Excluded		Excluded
Armaments	Excluded	Excluded	Excluded
Nuclear weapons, power & uranium		Excluded	Excluded
Disregard for animal welfare			Excluded

Positive / negative criteria applied?	BUGB	FTSE4Good (Ethical 1)	Stewardship (Ethical 2)
Community and human rights	Yes	Yes	Yes
Employment practices	Yes	Yes	Yes
Environment / climate change	Yes	Yes	Yes
Stakeholder relations		Yes	Yes
Anti-corruption controls		Yes	Yes
Other issues			Yes

Ethical investment is a complex issue and you can find more details about the criteria used in Ethical 1 and Ethical 2 using the following links:
Ethical 1 - [link to FTSE4Good website]
Ethical 2 - [link to F & C Stewardship website]

Drawing benefits

Will it be possible to use "draw down" from my pension account when I want to retire?

In common with most DC occupational pension schemes, the Scheme Trustee does not currently intend to offer a draw down* facility from members' pension accounts, as doing so would add considerable administrative complexity. However, it will be possible immediately before you plan to draw benefits to transfer your pension account out to a personal pension, from which you may be able to use draw down. You can take such a transfer and still leave your defined benefits within the Scheme if you wish.

Please note that draw down is normally only regarded as appropriate for those with quite large accumulated pension accounts and you should consider taking independent financial advice before following this route.

* Draw down is a facility which allows an individual to draw an income from their pension account while it remains invested, rather than using the pension account to purchase an annuity.

Income Protection Insurance Plan

Who is responsible for notifying the Pensions Office of a member's absence due to illness or incapacity?

It is the responsibility of the member's employer to notify the Pensions Office and this notification must be provided after 4 weeks of absence due illness or incapacity, even if it is not expected that the member will be absent for 26 weeks, after which the benefit becomes payable. It is intended to revise the standard Terms of Settlement for ministers to include reference to this responsibility.

Why do the insurers require such early notification of potential cases?

The main reasons why the insurers need to be notified at an early stage of a member's absence are:

- To enable them to assess whether early intervention (for example, by facilitating tests or treatment) will help the member return to work. If this is possible, it is clearly beneficial to both the member and the insurer
- To ensure that all necessary tests and examinations have been carried out and relevant medical reports received (which can take a long time) before the member has been absent for 26 weeks, so that there is no unnecessary delay in paying benefits