BAPTISTS TOGETHER
BAPTIST PENSION SCHEME

# PENSIONWATCH

**OCTOBER 2013**

BAPTIST PENSION SCHEME NEWSLETTER - FOR CHURCHES AND OTHER EMPLOYERS

# Welcome to PENSIONWATCH

I am delighted to present this newsletter on behalf of the Trustee of the Baptist Pension Scheme and the Baptist Union of Great Britain.

First let me take this opportunity to thank you all for your continued support and help with providing members of the Scheme with their pensions. We recognise that the last few years have been challenging and we are grateful for your patience while we seek to produce the best available outcome both for you as employers and for the Scheme members.

This newsletter has been designed to provide all the churches and other employers involved in the Baptist Pension Scheme with information on the DC and DB Plans within the Scheme, as well as any pensions news that we feel is relevant and useful to you. We have also taken this opportunity to introduce you to new members of the Pensions Team at Baptist House, as well as requesting information from you to help with various aspects of running the Scheme.

Running a pension scheme continues to present significant challenges, particularly in the current financial climate and pensions continue to be expensive to provide. Steps have been taken to help reduce the risks to employers, including the closure of the DB Plan (formerly the Baptist Ministers' Pension Fund) to future accrual of benefits and to new members, and the setting up of the DC Plan. However there is still much more to be done to get the Scheme into the position that we all want and we will continue, along with your help, to push towards this goal.

We intend to provide you with a newsletter on an annual basis and we hope that you find it helpful and interesting.

We are keen to get any feedback or comments from you, including any ideas you may have for content in future issues. Please let us have your comments and ideas using the contact details on page 12.

*Robert Ashurst*

**Robert Ashurst**
Moderator of the Trustee of the Scheme

## The Pensions Office

Pensions are a significant issue for all of us in the Baptist family and as a result we are pleased to welcome two new members to the Baptist Pensions team, Mark Hynes as the new Pensions Liaison Officer and Naomi Wing as a Trainee Pensions Administrator. They will work alongside Stuart Glen (Senior Pensions Administrator) and Hilary Mason (Pensions Administrator) to provide help and guidance on all your pensions queries. The contact details for the Pensions Office are provided at the end of this newsletter.

A new Baptist Pensions website is due to be launched in November this year, to provide useful information for both Scheme members and employers. You will be able to find this at http://baptistpensions.org.uk.

# PENSION NEWS

## Auto-enrolment

As has been widely advertised by the Government, all employers will soon need to provide a pension for all their employees (except those on very low levels of pay, or outside certain age bands) through automatically enrolling them into a pension scheme. The scheme that is provided for employees must meet certain minimum requirements, mainly regarding the level of contributions that are paid by both the employee and the employer. It is essential that you know the requirements involved in automatically enrolling your minister and any employees and these can be found at the following website www.thepensionsregulator.gov.uk/automatic-enrolment.

You also need to know the date from which you are legally required to enrol your employees automatically into a pension scheme, and information on this can be found at www.thepensionsregulator.gov.uk/employers/what-is-my-staging-date. For most churches and other employers in the Baptist family, this date will not be before 1 June 2015, but that will soon come round and you need to be prepared well in advance. You can of course choose to offer your employees pension scheme membership in advance of the auto-enrolment date if you wish.

BUGB and the Pension Trustee are committed to helping churches cope with the challenge posed by auto-enrolment, and so the Scheme's DC Plan has been designed to meet the current requirements. For any of your employees who are not currently members of the DC Plan, the Trustee has introduced a Basic Section into the Plan. This Basic Section is designed to more than meet the current minimum auto-enrolment requirements, offering pension saving at lower contribution levels for both members and employers than the other sections of the DC Plan.

As part of auto-enrolment, each employer will need to certify that the pension scheme they are using for their employees meets the current requirements. As described above the DC Plan meets these requirements. To help with certification, a template certificate will be available on the Baptist Pensions website for you to print off and complete. For information on enrolling members into the DC Plan or certifying the Scheme for auto-enrolment, please contact the Pensions Office or visit the new Baptist Pensions website.

## Changes to pension taxation

UK tax legislation now limits the value of pension benefits that anyone can build up each year without incurring an upfront tax charge. Whilst we do not expect this to affect most members of the Scheme, if they were to build up pension benefits in a year worth more than this "annual allowance", then a tax charge may be payable. The Government reduced the annual allowance from £255,000 to £50,000 with effect from 6 April 2011. The Government has recently stated its intention to reduce the annual allowance further to £40,000 from 6 April 2014.

In addition, there is a limit on the total amount of pensions saving members may make across all UK tax-privileged pension arrangements throughout their life without incurring additional tax charges – this is called the "Lifetime Allowance" or LTA. For the 2011/12 tax year the LTA was £1.8m, reducing to £1.5m from 6 April 2012 and reducing again to £1.25m from 6 April 2014. This "Lifetime Allowance" may be relevant to any employees who were previously in well-paid jobs with generous pension provision.

This only provides a very high level summary of the new tax regime, which is very complicated for the few people who may be affected. Please remember that neither the Pensions Team nor you as employers can give tax advice about any member's pension position, so anyone who thinks they may be affected should seek assistance from an appropriately qualified tax/financial adviser.

# PENSION NEWS

## Pension Liberation

Some companies are singling out pension savers and claiming that they can help them cash in on their pension early. Pension loans or cash incentives are being used, alongside misleading information, to entice savers. This activity is known as "pension liberation fraud".

The Pensions Regulator has launched an awareness campaign against pension liberation schemes, amidst reports that they have become much more prevalent over recent years. In the last four years an estimated £400m has been transferred to these schemes, involving thousands of individuals. Typically those individuals, who have been seeking early access to their pension savings, have instead ended up losing much of their savings in substantial commission payments and exceptionally large tax charges, due as a result of the payments being unauthorised. Accordingly, employees approached by anyone suggesting that they can access their pension savings early should ignore them or seek financial advice from a reputable adviser.

If you would like more information on pension liberation fraud, the Pension's Regulator's website, www.thepensionsregulator.gov.uk, has some useful documents that set out the dangers involved.

## State pension changes

The Government has recently unveiled its long-awaited plan to create a single-tier state pension for those reaching their State Pension Age ("SPA") from April 2016. The single-tier pension will be set above the basic level of means-tested support, and is currently expected to be £144 per week in today's earnings terms (assuming a full National Insurance Contribution history of 35 years).

For most scheme members the age at which they can take their state pension is also changing. The SPA for women is rising gradually to reach age 65 in November 2018, which brings it in line with the male SPA. This will then be rising to age 66 for both men and women in 2020, with the ultimate aim of the SPA increasing thereafter in line with how long the population in general are living.

## New UK accounting standards

A new accounting standard called FRS102 and an updated version of Charities SORP (statement of recognised practice) will apply from 2015. Our understanding is that the churches and other employers applying these requirements will be expected to include a liability in their balance sheet, based on the value of the future deficit contributions to the DB Plan within the Scheme. Further information will become available as the deadline for using the standard approaches, following the conclusion of the current consultation on the updated SORP.

# DC (DEFINED CONTRIBUTION) PLAN

The DC Plan within the Baptist Pension Scheme provides defined contribution pensions for service from 1 January 2012. It is divided into the Ministers section, the Staff section and the Basic section (which came into operation from 1 January 2013).

The DC Plan has been running successfully for nearly two years now and we currently have around 1,200 contributing members, including 14 in the Basic section.

The importance of saving for retirement has never been greater. As described on page 3, the Government are emphasising this with the requirement for all employers to automatically enrol their employees into a pension scheme that meets certain quality requirements. The DC Plan meets these requirements.

As sponsoring employers of the Scheme it is important that you have read and fully understand the Employer Information sheet, available on the new Pensions website. In particular please note the following:

- Contributions are collected by direct debit and it is essential that you ensure there are sufficient funds available in the account for deduction each month, otherwise this will lead to a delay in the contributions being invested and a potential loss to the member.
- For income protection claims, under the Ministers' section or the Staff section, if your minister or staff member is away from work on sick leave for four weeks continuously, please let the Pensions Office know, and keep them informed if the sick leave continues beyond four weeks. This is a requirement of the insurance company that is providing the Income Protection cover. Failure to inform them about such absence could delay the payment of benefits if a claim needs to be made after 26 weeks of absence.
- To allow us to calculate the level of pension contributions payable in 2014, please ensure that the Declaration Of Pensionable Income issued directly to members is completed, signed on behalf of the employer and returned to us by 30 November 2013.

# DB (DEFINED BENEFIT) PLAN

This section of the newsletter is only relevant to churches or other employers that had members contributing to the Baptist Ministers' Pension Fund at any time between 1 September 2005 and 31 December 2011.

The DB Plan is the part of the Baptist Pension Scheme that was formerly known as the Baptist Ministers' Pension Fund. It provides the defined benefits built up within the Ministers' Fund for service up to 31 December 2011. As of 31 December 2012 there were 1,092 DB Plan members contributing to the DC Plan, but the DB Plan also included 471 deferred pensioners (members who have stopped contributing to the Scheme, but aren't yet drawing their benefits) and 892 retired members, spouses and children receiving payments from the Plan.

A very unusual feature of the DB Plan is that it has 1,350 "participating employers", as each church or other employer that had a member in the old Ministers' Pension Fund at any time between 1 September 2005 and 31 December 2011 is included in that count. Under UK pensions law, responsibility for financing the DB Plan rests with the participating employers. We appreciate that the nature of this responsibility was not generally understood until recently, and indeed the status of ministers as "office holders" means that the legal position has only recently been clarified. However, this responsibility arises under law and is not something over which the Pension Trustee and BUGB have any control.

BUGB is designated as the "principal employer" under the Scheme, which means that it acts on behalf of all the participating employers on issues where the Pension Trustee is required to consult with the employers, as it would clearly be impracticable to consult with all the individual churches and other organisations involved. Being principal employer does not mean that BUGB is underwriting the DB Plan's overall financial position on its own, and indeed it does not have the resources to do so.

The financial position of the DB Plan is therefore of great importance to all the participating employers and more information on this is set out in the following sections.

# INVESTMENT UPDATE

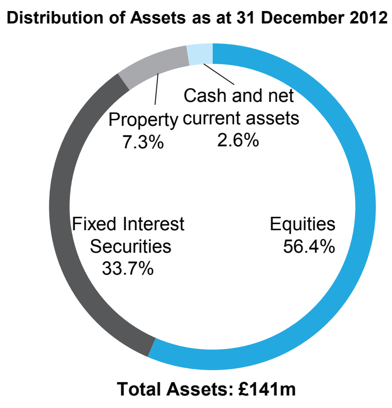
## One of the most important and interesting jobs that we do as Trustee of the Scheme is to decide how to invest the DB Plan's assets.

Before deciding how to invest, the law requires us to take advice from qualified investment consultants. The law also requires us to delegate day to day investment decisions to fund managers who are authorised by regulatory authorities. This is designed to ensure that we are guided by experts when taking decisions about the investments.

Although the DB Plan is now closed to new members and to further accrual of benefits, payments from the DB Plan to its members will continue to be made over a very long timeframe, and therefore the long-term investment returns we can achieve will have a very important impact on the finances of the DB Plan. If the assets do not get the returns that we hope for, then we will need to agree with BUGB what increased contributions are needed from the churches and other employers. When we consider the level of risk to take in our investment strategy, we need to take account of the churches' and other employers' ability to make additional contributions in future if needed.

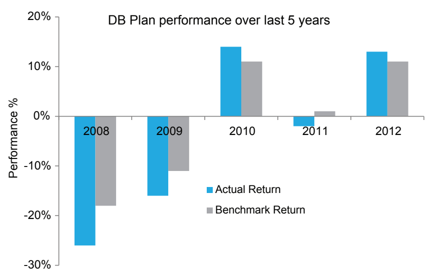
**We continue to keep a close eye on developments in investment markets and we keep our investment strategy under regular review.**

We invest part of the DB Plan assets in bonds, which can be used to provide a broad match to the pension payments from the DB Plan, and are therefore a relatively low risk investment. However, the returns are expected to be lower than from many other investments. Equities are expected to produce good investment returns over the long term, but investing in these is more risky than investing in bonds, as equity returns do not match the pension payments from the Scheme. The Trustee also has an ethical investment policy, agreed with BUGB, in place. Choosing the right investment strategy is therefore a difficult balance, and one which we closely monitor. The DB Plan's asset allocation as at 31 December 2012 can be seen in the chart below.




Since the end of last year we have invested some of the Scheme's money in assets which help to improve the match between the bonds we hold and the DB Plan's pension payments. We have also set up a structure to move assets from equities into lower risk bonds at times when equities have performed well. The intention is to use this structure to reduce the investment risks over the course of time, but without requiring unaffordable increases in contributions.

We compare the returns achieved on the assets in which we invest against a "benchmark", or target level of return. I am pleased to tell you that over the year to 31 December 2012 the overall return on our assets was 13% and both the DB Plan investment managers exceeded their benchmarks. However, one year is a short time in the life of the DB Plan and we attach greater significance to returns over periods of three to five years. The chart below shows the performance of the DB Plan over the last five years.



# ACTUARIAL VALUATION

At least once every three years, we must make a full assessment of the financial position of the DB Plan to check what needs to be done so that it is able to pay all benefits when they are due.

This assessment, which is called an actuarial valuation, helps the Pension Trustee and BUGB agree the level of deficit contributions that churches and other employers will pay over the following three year period to meet any shortfall in the DB Plan's finances.

Our latest full actuarial valuation had an effective date of 31 December 2010, and the next one will be as at 31 December 2013, which is fast approaching. Although initial results of the 2013 valuation will emerge during the spring of 2014, the processes we have to go through mean that final results will not be available until later in the year. It is expected that any change in deficiency contributions as a result of the valuation would be introduced with effect from 1 January 2015.

As well as the full actuarial valuation, we are also required to obtain annual "snapshots" in between valuation years. In addition, we are now able to track the progress of the DB Plan's financial position on an approximate basis day by day.

## Results of the most recent actuarial valuations

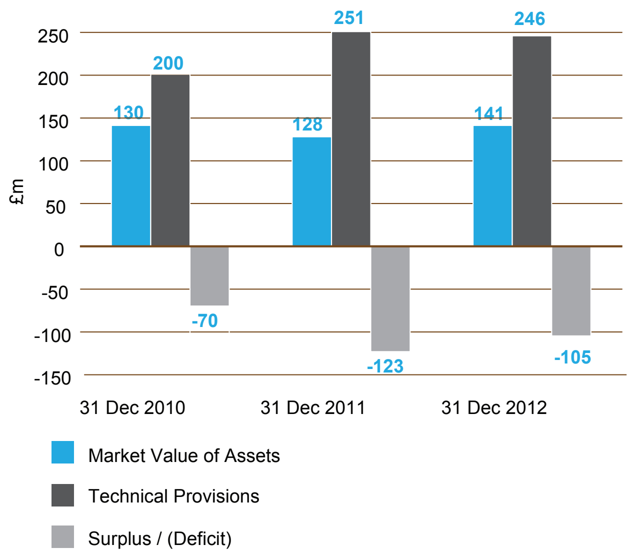
The last full actuarial valuation at 31 December 2010 showed a deficit in the Scheme of £70m. The Scheme Actuary has provided us with annual "snapshots" and the results of these can be seen in the chart opposite.

As reported to you last year, the position deteriorated over 2011 mainly due to a fall in the returns on British Government bonds ("gilts"). Lower future returns means a higher target level of assets and a bigger deficit.

The chart shows the deficit reduced slightly over the year to 31 December 2012, the main reasons being:

- a small increase in the returns available on gilts over the year leading to a small decrease to the target level of assets; and
- higher than anticipated investment returns achieved on the Plan's assets over the year.

The Trustee realises that the funding position of the DB Plan will fluctuate over time as financial and investment market conditions change. At the time of writing, financial conditions have improved during 2013, but it is the position as at 31 December 2013, the next full valuation date, which will determine the extent of any changes needed to employer contributions.



## Deficit Contributions

The last formal valuation at 31 December 2010 revealed a funding shortfall in the DB Plan of broadly £70m. To bridge this shortfall, the Trustee of the Scheme agreed with BUGB that all participating employers (as defined above) would pay deficit contributions to the DB Plan. As noted above, these contributions will be reviewed based on the next valuation as at 31 December 2013, with any changes expected to apply from 1 January 2015.

We recognise that deficit contributions are a significant burden and that some of you feel that you are paying a disproportionate amount. At the time of the last valuation, we did not have sufficient information to adopt anything other than a "one size fits all" approach to deficit contributions. However, since then much work has been undertaken towards enabling us to identify the liabilities attributable to each individual employer, and the Pension Trustee and BUGB are considering alternative methodologies for calculating the deficit contributions payable in future. Any new methodology could potentially lead to some churches or other employers paying more or less in deficit contributions than they currently do, but any change would have the intention of making the distribution fairer.

# CESSATION EVENTS

Under pensions law, a church or other organisation that is a participating employer under the DB Plan will trigger a "cessation event" if it ceases to have any active members contributing to the DC Plan within the Scheme. If the DB Plan is in deficit (when measured against a prescribed yardstick) at that time, as it currently is, the participating employer becomes liable for an "employer debt". This means that it has a legal obligation to pay its share of the deficit based on the service of members in the Plan with that employer.

The amount of an employer debt depends on that participating employer's history of having members in the old Ministers' Pension Fund, but it will normally be tens or even hundreds of thousands of pounds. Hence, cessation events and their associated employer debts are to be avoided unless the employer is clear that it has the resources to meet the debt and wishes to pay it off.

Many of the participating employers in the DB Plan have only one member, their minister, in the Scheme, so a cessation event can easily arise when a minister moves on from a church, retires, or dies. Fortunately, the law allows a cessation event to be avoided where a church is going into a pastoral vacancy and expects to call another minister, but it is necessary for the church to contact the Pensions Office about this as soon as their minister leaves, preferably in advance of him or her leaving, and no later than one month after leaving.

Unfortunately, it did not become clear that cessation events were being triggered under the old Minister's Pension Fund until a large number had already taken place. After consultation with the Pensions Regulator, the Pension Trustee's current policy is not to pursue the employer debt in those cases where a participating employer has taken on (or is likely to take on) another contributing member of the Scheme. Such employers are required to pay regular deficit contributions as if they had not had a cessation event. However, it should be noted that the Pension Trustee can change this policy at any time.

If you have triggered a cessation event and owe a debt, then the Pensions Office will be in contact with you to give you more information on the process and to tell you the size of the debt. Where a church or other participating employer is closing, it is essential to contact the Pensions Office to check whether a debt is due before any assets are disbursed.

Please be aware that changing the legal structure of a church or other participating employer, for example to a Charitable Incorporated Organisation or through an amalgamation, could potentially trigger a cessation event and give rise to an employer debt. If you are considering such a step, it is imperative that you or your legal adviser contact the Pensions Office at an early stage, as a specific process has to be followed if a cessation event is to be avoided.

If you have any questions on cessation events please contact Mark Hynes, Pensions Liaison Officer at:

mhynes@baptist.org.uk or

Mobile – 07879 690918

# REQUEST FOR **INFORMATION**

Each year the Pension Trustee must obtain basic information from current employers within the Scheme. This information is used to assess how likely it is that the participating employers in the DB Plan are able to support the Plan and enable members to get the pension at retirement that they have been promised. This is known as assessing the “employers’ covenant”.  If the Pension Trustee is able to demonstrate that the Scheme has a strong employer covenant, it can have a positive effect on the funding and affordability of the DB Plan.

We need to obtain extra information from you to enable us to show the strength of our employer covenant, ultimately helping you in the long run.

Therefore please could you submit a copy of your latest church or organisation accounts to the Pensions Office.

# ACTION **POINTS**

## What you need to do next

This newsletter not only provides you with information, it also helps you to keep up to date with the actions that you should taking as an employer to ensure you are fulfilling your role properly. Set out below is a summary of actions that you should be looking to take over the coming months on a number of different pension related issues.

- Submit your latest church or organisation accounts to the Pensions Office
- Sign and return the Declaration Of Pensionable Income by 30 November 2013
- Establish from the Pensions Regulator’s website the latest date by which you need to meet the auto-enrolment requirements and start to plan accordingly
- If a member of the Ministers or Staff Sections of the DC Plan in your service is off sick for four weeks, notify the Pensions Office immediately
- If your minister or another member of staff leaves, retires or dies and you don’t have any other staff members contributing to the DC Plan, contact the Pensions Office immediately
- If you are considering changing the legal structure of your church or organisation, contact the Pensions Office at an early stage in your planning.

# CONTACT US

If you have any questions about the Plan or for general information about the Plan then please contact the Baptist Pensions Team on:

Baptist Pensions Office
Baptist House
PO Box 44
129 Broadway
Didcot
OX11 8RT

01235 517748

pensions@baptist.org.uk