PENSION BULLETIN

March 2011

Baptist Union of Great Britain
Encouraging Missionary Disciples

Baptist Churches and the Baptist Ministers' Pension Fund

This bulletin is addressed to the leadership groups of local churches (especially those legally designated as trustees)**. It is important and is potentially relevant to every church, so please read it, even if your church does not currently have a minister who is a contributing member of the Fund.** It has been prepared jointly by the Baptist Union of Great Britain and the Trustee of the Fund to provide you with information on a number of important issues about pensions. The issues are complex and so this bulletin inevitably contains legal and technical language, although we have tried to avoid this as far as possible.

How is your church affected? See page 3 for a summary of the key pension issues facing churches

As explained in earlier communications, over the last two years the Union has been undertaking a major review of future pension arrangements for ministers and for members of its Staff Scheme. This has been a difficult and complex process, but the Union is now able to put forward firm proposals for new defined contribution pension arrangements to become effective from 1 January 2012.

These proposals for ministers are set out in the parallel document entitled "Pension Changes from 1 January 2012 for members of the Baptist Ministers' Pension Fund". That document accompanies this bulletin and should be read in conjunction with it. Copies of both documents are also being sent to all current contributing members of the Fund.

Although the Union's Pension Review Group and the Fund Trustee have been grappling with the issues covered in this bulletin for nearly two years, it has not been possible to communicate a complete picture until now. It was not thought helpful to provide partial and therefore potentially confusing information.

The pension issues covered in this bulletin potentially have very serious consequences for individual churches and for the Baptist family as a whole, as well as for ministers and staff who are members of either of the two schemes. The Union and the Fund Trustees are fully aware of those potential consequences. The measures described in these two documents are not being taken because they are regarded as desirable in themselves, but because all the alternatives are even less acceptable.

You can hear more about pension issues and the proposed changes at these roadshows:

Friday 1 April	Broadmead Baptist Church, Bristol
Monday 4 April	Bloomsbury Central Baptist Church, London
Wednesday 13 April	Blackley Baptist Church, Elland, West Yorkshire
Thursday 14 April	Sutton Coldfield Baptist Church, West Midlands
Monday 9 May	Stirling Baptist Church, Scotland

Each roadshow runs from 1.30 - 4.00 pm and is open to members of the Fund and of the Staff Scheme, and to representatives from churches. To book, please contact Helen Pratt (hpratt@baptist.org.uk or 01235 517735). In addition, there will be a seminar at the Assembly, from 4.00 - 5.00 pm on Saturday 30 April, covering pensions issues.

It is hoped in due course to provide more material on the Union's website, picking up on issues arising from the roadshows and consultation.

This page is intended to be empty

PENSION BULLETIN
March 2011

Baptist Churches and the Baptist Ministers' Pension Fund

The **key issues** facing churches are summarised below, but more information is shown in the later sections of the bulletin as indicated here

	Who is affected?	What is the issue?	What is being done about it?	See section
1	Any church which has been responsible at any time since 1 September 2005 for paying a minister while he or she was a contributing member of the Fund	The church is legally an "employer" for the purposes of government pensions legislation and regulations. This places an open-ended liability on the church for the financing of defined benefits under the Fund	There is no escape from liabilities already built up, but the proposed changes to the Fund will limit further liabilities of this type building up for service after 31 December 2011	2, 8
2	Any church which is an employer under issue 1	The current value of the Fund's assets is significantly less than the value of its liabilities. Additional contributions will be needed from churches to make up the shortfall	The Union and the Fund Trustees are in discussions, seeking to agree contribution arrangements which not only meet the Fund's needs, but are also affordable for churches	3, 6, 10
3	Any church which has had a "cessation event" (see page 3 for the definition of this) since 1 September 2005	Under government regulations, the church is liable to pay an "employer debt" to the Fund. The sums involved are potentially very large	Churches can now appoint an "interim minister", who is a member of the Fund, to prevent cessation events arising in the future when a minister leaves. The Fund Trustees have discussed with the Pension Regulator ways of avoiding the need to demand large lump sum debt payments from churches which have had cessation events	12 - 14
4	Any church (or associated organisation) which has a paid minister or paid staff	Under the government's "auto-enrolment" plans, all employers will soon be required to contribute to a pension arrangement for all their employees, except those on very low levels of pay and those who opt out	To assist churches, the Union's proposed new pension arrangements will be open to all the staff of churches and their associated organisations. They include a new section at the minimum level necessary to comply with the government requirements	4

What is an employer?

Ministers are normally regarded as "office holders" rather than employees. However, for the purposes of pensions law, ministers are regarded as employees and churches as their employers. This is explained further in section 8 of this bulletin. For convenience in this bulletin, the employers participating in the Fund are referred to as "churches", but this term includes both churches and other organisations which have members of the Fund on their staff

Key words

Council - the Baptist Union Council

Defined Benefit (DB) - a pension or lump sum calculated using a pre-determined formula, so that members know in advance how much benefit they can expect (eg a proportion of Final Minimum Pensionable Income). The contributions payable to finance those promised benefits vary, so the employer normally bears the risk

Defined Contribution (DC) - the level of contributions is fixed and the eventual benefit depends on the investment returns achieved on the member's pension account, and the terms on which the member's pension account can be converted to pension. The member bears the risk of poor returns or terms, but also benefits from good returns or terms

Fund - the Baptist Ministers' Pension Fund

Manse value - £6,000 per year from 1 January 2012, but reviewed at least once every three years

Minimum Pensionable Income - Standard Stipend + manse value

Participating employer - Any church (or other employer) which:

- has been responsible at any time since 1 September 2005 for paying a minister while he or she was a contributing member of the Fund
- has not since had a "genuine" cessation event and paid its employer debt

Pension Account - holds units in investment funds, bought with contributions by and on behalf of the member

Pensionable Income - annual stipend + manse value

Scheme - the Baptist Pension Scheme (the new name for the Fund)

Staff Scheme - the Baptist Union Staff Pension Scheme

Union - the Baptist Union of Great Britain

What is a cessation event?

A cessation event has arisen if after 1 September 2005:

- a church (or other employer) was responsible for paying one or more contributing members of the Fund
- the last or only such contributing member of the Fund left that church, whether by moving on, retiring or death
- the church did not immediately appoint another contributing member of the Fund
- no "period of grace" notice has been sent to the Pensions Office within one month of the member leaving

Sending a "period of grace" notice means that no cessation event arises if another contributing member of the Fund (including an interim minister member) is appointed by that church within 12 months of the departure of the earlier member. However, this period of grace must be requested within a month of the earlier member leaving.

The Fund Trustee currently distinguishes between "genuine" cessation events (where a church has ceased to have a minister, is closing or otherwise ceasing to exist) and "non-genuine" cessation events (where a church has since started participating again in the Fund, or may do so in respect of a future minister)

1 Responding to the consultation

There is a statutory obligation to consult with pension scheme members over a 60 day period about major changes in a scheme and this period in respect of the Fund is to run from 1 April to 30 May 2011. Although there is only a legal obligation to **notify** "employers", rather than to consult with them, both the Union and the Fund Trustee regard it as desirable to open the consultation to churches and other organisations with members in the Fund.

The consultation with churches relates to the proposals for new pension arrangements from 1 January 2012. **The other issues covered in this bulletin are matters of fact, not proposals, and so are not open to consultation**. However, it is appreciated that churches may wish to comment on these issues.

You can choose whether to respond to the consultation, but **any responses must be received by 30 May 2011**. Responses may be entered onto the Survey section of the Union's website at www.baptist.org.uk/bmpfmembersurvey (by Fund members) or www.baptist.org.uk/bmpfemployersurvey (by churches and other employers). Responses via the website are preferred since they can be collated more easily, but they can alternatively be sent by post to:

The Fund Administrator
Baptist Union of Great Britain
Baptist House, 129 Broadway, Didcot
Oxfordshire OX11 8RT

You need to be aware that this process is a consultation and not a referendum. The views expressed will be reported fully to the Union Trustees, who have been authorised by the Baptist Union Council to make the necessary decisions at the close of the consultation, unless issues are raised which should be considered by Council. Although the Union Trustees will note expressions of regret that the existing Fund cannot continue unchanged, they will need cogent reasons to amend the proposals materially or to delay the process. However, under the rules of the Fund, the ultimate decision rests with Council.

If you have any queries about the process or the content of this bulletin, please submit them to bmpfqueries@baptist.org.uk. However, if you do not have access to e-mail, please contact Philip Putman, Head of Finance & Administration, at Baptist House.

Following the consultation, decisions on future pension arrangements will be reported on the Union's website, and through the Baptist Times, as soon as they have been finalised. Decisions on the level of contributions from 1 January 2012 will be made as the current actuarial valuation of the Fund progresses and will be reported in the same way. More detailed communications to members, churches and other employers will follow in due course.

2 Future pension provision for ministers

It is proposed that at the end of 2011 ministers will stop building up benefits under the current defined benefit pension arrangements. From 1 January 2012, they will build up a defined contribution pension. Information about this new arrangement is set out in the parallel document for Fund members.

The same changes are also being proposed for members of the Staff Scheme. Background to these changes and the reasons for them are explained later in this bulletin and in the parallel bulletin.

3 Changes in contributions

Since 1 January 2009, the contributions normally payable to the Fund have been:

Payable by	Purpose	% of Minimum Pensionable Income	
Member	To finance benefits being earned currently		8
Church	To finance benefits being earned currently	10.2	
Church	To pay for 2007 shortfall	5.8	
Total Church			16
Total			24

Note: The full 24% contribution on any Pensionable Income in excess of Minimum Pensionable Income is currently applied to purchase Supplementary Benefits

The proposed contribution structure under the new arrangements, which would be effective from 1 January 2012, is as follows:

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

* Illustrative figure, subject to the outcome of the 2010 actuarial valuation

It is therefore expected that church contributions will need to increase by 4 - 6 % of Pensionable Income. The reasons for this are explained in the item on the Fund's health check on page 8.

These shortfall contributions will be reviewed at least once every three years, at successive actuarial valuations, and may in future increase or decrease, depending on the Fund's financial progress. Although it is currently expected that the shortfall contributions will be payable for about 20 years, this period may change and, in particular, may have to be extended if the Fund does not make satisfactory financial progress.

Please note that the contributions to pay for the 2010 shortfall are due from ALL churches which are participating employers (see definition on page 4)**. This applies even if:**

- **the church has no current minister**
- **the church's current minister is not a contributing member of the Fund**

Where there is no current contributing member of the Fund, the shortfall contribution is calculated as the relevant percentage of Minimum Pensionable Income.

The only way a church can opt out of responsibility for these shortfall contributions is by formally ceasing to participate in the Fund. If a church ceases to participate, it will have to pay an employer debt to the Fund. This debt may run into tens or even hundreds of thousands of pounds.

4 Pension provision for church staff

An increasing number of churches now have paid staff, in addition to their minister, either working for the church or for an associated organisation, such as a pre-school. However, the numbers of staff and levels of pay mean that only a few churches have fallen within the statutory requirement to provide access to a "stakeholder pension scheme". As a result, most church staff do not currently have any pension provision made for them.

New government "auto-enrolment" requirements will change this situation over the coming years. All employers will be required to contribute to a pension arrangement for all eligible employees earning more than £7,475 per year (in 2011/12 terms), with employees earning less than this still having options to join the pension arrangement. However, employees will be able to opt out of these arrangements.

These requirements are being phased in, starting with the largest employers, and won't affect small employers, such as churches, until between 2014 and 2016.

The government has established the National Employment Savings Trust (NEST) as a central scheme which will be available to all employees. However, it is thought preferable for employers which have access to their own scheme of a good standard to enrol their employees automatically into that scheme.

Accordingly, the proposals for changes to the Fund (to be re-named The Baptist Pension Scheme) include the opportunity for the staff of churches and their associated organisations to join either:

- the Staff section, which will be very similar to the Ministers section (with churches contributing 10% of Pensionable Salary and members 8%); or
- the Basic section, which will be at the minimum level necessary to satisfy the new statutory "auto-enrolment" requirements (with churches and members contributing 5% of Pensionable Salary each)

Using either section should provide churches with a simple way of meeting these new statutory requirements.

As both the Staff and Basic sections of the new Scheme will operate on a defined contribution basis, no additional pension liabilities fall on churches from using either of these sections for their staff.

5 Next steps

Consultation - Contributing members of the Fund, churches and other employers are encouraged to attend a pension roadshow and to participate in the consultation process, as explained in section 1 of this bulletin.

Contributions - Whatever the outcome of the consultation process, churches should expect that revised contribution arrangements will come into effect from 1 January 2012. These contribution arrangements will take account of the result of the actuarial valuation as at 31 December 2010, which is currently in progress, and it is hoped that they will also allow for revised future pension arrangements.

It is recognised that churches need to know these figures as early as possible for budgeting purposes, but final ratification of revised contribution arrangements is by decision of Council at its meeting in November 2011.

Accounting information - churches which have not already responded to the Fund Trustee's request for accounting information (see page 10) should provide that information as soon as possible.

Departure of a minister - Where a church has just one contributing member of the Fund and that member leaves (including by retirement and death), the church should ensure that, **within one month of the minister's departure**, it requests a 12 month period of grace from the Fund Trustee. It should then appoint a paid interim minister within that 12 month period, unless it is able to appoint a new minister who is a contributing member of the Fund

Cessation events - the Fund Trustee is proceeding with the identification of both "genuine" and "non-genuine" cessation events that have happened in the past and will be communicating directly with the churches affected.

6 The Fund's health check

Once every three years, a full actuarial valuation of the Fund takes place, providing a check on the Fund's financial health. Interim check-ups are carried out each year between those full valuations.

In these health checks, the actuaries compare the value of the Fund's assets with the value of its liabilities (the payments it is due to make over time for benefits already built up). The results can be summarised through two key statistics:

Funding level - the value of the Fund's assets expressed as a percentage of the value of its liabilities for benefits already built up - the target is a funding level of 100% or more

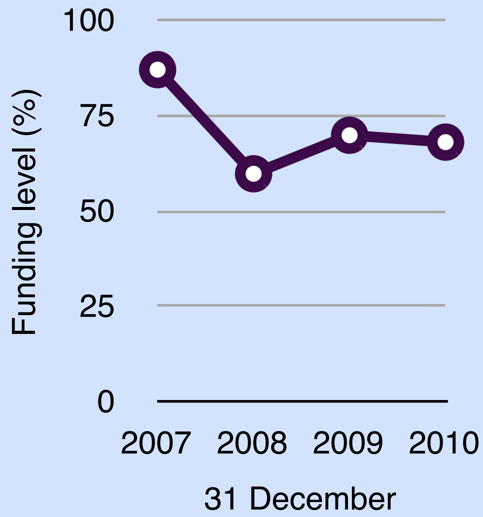
Shortfall - the monetary value of any gap between the value of the Fund's assets and the value of its liabilities for benefits already built up

Note: The value of the liabilities can be calculated in different ways. For the charts on this page, the Fund is assumed to be ongoing. Other measures generally result in higher liabilities.

In addition, the actuaries calculate the contributions likely to be required to pay for benefits currently being built up, and the additional amount needed to make up any shortfall.

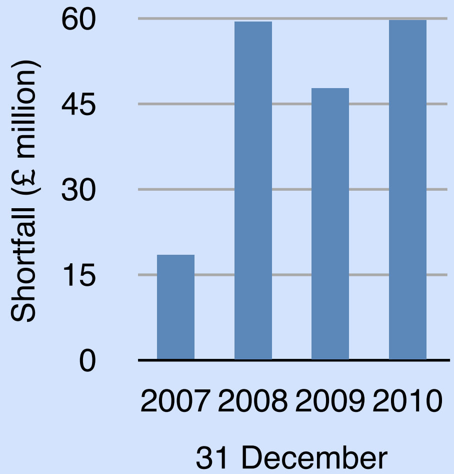
A full valuation of the Fund was carried out as at 31 December 2007 and the next full valuation is currently in progress, although some preliminary figures from that are already available. The first chart shows the funding level at the last valuation and at the end of each year since then.

Note: Figures shown as at 31 December 2010 are only preliminary and are subject to change



This shows how the financial turmoil of 2008 seriously damaged the financial strength of the Fund. Although equity markets had recovered to some extent by the end of 2010, low long-term interest rates had pushed up the value of the Fund's liabilities, so the funding level is still much lower than it was at the end of 2007.

The second chart shows the resulting shortfalls in the Fund.



The contributions needed to pay for this shortfall in the Fund might be 10 - 12% of Pensionable Income, payable for 20 years or more. In comparison, contributions of 5.8% of Minimum Pensionable Income are currently being paid towards the shortfall.

The remaining sections of this bulletin explain the issues and their background in more detail.

7 Background

The Fund was established in much its present form in 1985, building on former superannuation and annuity schemes. Pension provision in the Union has always been an expression of our covenant relationships together and a desire to see our ministers and staff adequately provided for in retirement. Even so, until now, where a church had a minister in the Fund, it has been thought that the only responsibilities of a church have been:

- to notify the Fund of the minister's stipend
- to deduct the minister's contributions from his or her stipend
- to pay those contributions, together with the church's contributions, to the Fund

When a minister has moved on from a church, leaving a pastoral vacancy, the church has been encouraged to continue to pay a reduced level of contributions to the Fund, and many have chosen to do so.

Ministers are normally regarded as "office holders" rather than employees, although we have lived for a while with the understanding that HMRC treats ministers as employees for tax purposes. Similarly, churches are referred to as "employers" in the Rules of the Fund, but this was not generally seen as having any wider significance.

However, over the last two years, a number of factors have prompted a re-appraisal of the significance and implications of this status of churches as "employers" for pension purposes. These factors included:

- discussions with the Pensions Regulator in 2009 about the results of the actuarial valuation of the Fund as at 31 December 2007
- the increased focus which the statutory regime governing pension scheme funding has placed on the role and responsibilities of employers
- the review process which has been undertaken by the Union

As a result, the Fund Trustee appointed Burges Salmon as legal advisers with specialist pensions expertise and both the Fund Trustee and the Union have had extensive discussions with them on this issue. In addition, with the help of Burges Salmon, the Fund Trustee and the Union have recently consulted with Paul Newman QC, who is a leading Counsel specialising in pension matters.

8 The status of churches under the Fund

It is clear from the advice provided by both Burges Salmon and Counsel that, for the purposes of Government pensions legislation and regulations, churches have to be treated as employers participating in the Fund. This would be the case even if churches were not described as employers in the Fund Rules.

Any doubt on this issue arising from the status of ministers as office holders was removed by a recent judgment in the High Court, which clarified that the person or body responsible for paying an office holder is their employer for the purposes of pensions legislation.

Under UK pensions legislation, being treated as an employer participating in a defined benefit pension scheme, such as the Fund, carries with it a number of implications, as follows:

The liability of participating churches towards the Fund is not limited to the level of contributions specified in the Fund Rules. Instead, all the employers (which are mainly churches) are together responsible for meeting the balance of cost (after allowing for the contributions paid by members) of financing the benefits promised through the Fund

Participating churches therefore have an ongoing obligation to pay contributions to the Fund. This obligation potentially lasts for many years. It continues until the Fund has paid out all the benefits due from it, unless the church ceases to participate in the Fund (as discussed below) or ceases to exist. The obligation is not affected by whether a church still has a minister who is a member of the Fund.

Participating churches are under a statutory obligation to provide on request the Fund Trustee with information required to assist the Trustee in assessing the strength of the "employers' covenant" (which is essentially the employers' ability to meet their financial

obligations to the Fund). It will be recalled that in the summer of 2010, the Fund Trustee requested summary accounting information from churches for this purpose. Although many churches have provided the information requested, responses are still awaited from a large number of churches.

The statutory "employer debt regulations" apply. This means that if a church ceases to have any "employees" who are contributing members of the Fund, it is no longer treated as a participating employer and a "cessation event" occurs.

When this happens, an "employer debt" becomes due to the Fund from the departing employer. This debt is calculated as the departing employer's share of the shortfall between the value of the Fund's assets and the value of its liabilities. For this purpose, the liabilities have to be calculated as the amount required to purchase annuities from an insurance company equal to the benefits due from the Fund. This results in a very high figure for the Fund's liabilities and hence for any employer debts. The issue of employer debts is covered in more detail in sections 12 - 14 below.

9 How has this situation arisen?

Both the Union and the Fund Trustee recognise that these implications will be very unwelcome to churches, but these are matters of UK law over which neither the Union nor the Fund Trustee has any discretion or control.

Over the years, successive UK governments have placed increasing obligations on employers participating in defined benefit pension schemes. In particular, a change in the "employer debt regulations" in 2005 made it impossible for employers to withdraw from a defined benefit pension scheme without being liable to pay an employer debt designed to ensure that the scheme can meet its benefit promises in full. This change was introduced in response to a small number of cases of abuse in the corporate sector, but it applies to all defined benefit schemes.

The well-meaning objective of the change in regulations was to ensure security for members' benefits. However, this change had a radical and retrospective impact on the pension promises made by employers, converting these into absolute guarantees. Indeed, for churches and other charities, it can seem to have the effect of making defined benefit pension provision a higher priority than the pursuit of their charitable objectives.

Due to the particular circumstances of Baptist churches, the significance of this change for the Fund was not clear at the time. However, once this change in regulations had taken place, there was no escape for churches from the obligations listed in section 8 above.

The change in regulations greatly increased the perceived risk to employers from running defined benefit pension schemes. This has been one of the key factors contributing to the well-publicised trend in recent years for employers to cease providing defined benefit pension arrangements.

Indeed, the need to limit the risk which the Fund represents to participating churches was an important element in the Union's pension review process, resulting in proposals to move to defined contribution (DC) pension arrangements for the future.

Under the proposed new DC arrangements, each church's liability for future pension provision is only to pay contributions at a specified level.

However, the liabilities described in section 8 above still exist in respect of benefits promised up 31 December 2011.

These liabilities must be met by the current participating employers.

10 The Fund's financial position

The obligations on churches set out in section 8 above would not be a major immediate concern if the Fund was in a satisfactory financial position, with assets sufficient to cover its liabilities for benefits built up to date. Unfortunately, like most defined benefit pension schemes in the UK, the value of the Fund's assets is considerably less than the value of its liabilities, as explained in the item on the Fund's health check in section 6.

A shortfall of assets against liabilities in a defined benefit pension scheme has to be filled, as pension law does not allow benefits already earned to be reduced (unless all members agree or all the employers are insolvent and the scheme is being wound up). Even if it were possible to reduce benefits, neither the Union nor the Fund Trustee would wish to do so. However, the shortfall can only be met from two sources - better investment returns than those expected and/or higher contributions.

Preliminary figures from the 2010 actuarial valuation suggest that if the Fund were to continue in its present form, the total contributions required would probably increase to more than 35% of Pensionable Income. This reflects not only the need to meet the shortfall, but also the increased cost of benefits currently being built up.

The likelihood of such an outcome, coupled with the risk of further contribution increases in future, confirmed the need to move away from the current defined benefit arrangement to a defined contribution scheme for future pension provision.

Even with this change, it is expected that at the start of 2012 total contributions will have to increase to 28 - 30% of Pensionable Income (see section 3 above). In the interim consultation at the end of 2009, a significant proportion of those responding expressed a willingness to have total contributions of up to 30%, but the Pension Review Group recognise that these higher contributions will be a major challenge for many churches.

The proposed members' contribution rate is unchanged at 8% of Pensionable Income, as the Pension Review Group did not think it fair to increase this rate while also transferring risk to members.

11 Ceasing to participate in the Fund

The shortfall contributions represent an indefinite, long-term call on the finances of churches. This is clearly most unwelcome and some churches may wish to pursue the alternative of ceasing to participate in the Fund. However, this is not a step to be taken lightly, as it would give rise to an employer debt, payable as an immediate lump sum. As explained further below, such employer debts may run into tens or even hundreds of thousands of pounds. There are also significant costs involved in calculating the debt and those costs fall upon the departing church.

An employer debt also arises when a church ceases to exist, for example as a result of closure or insolvency. A change in an church from unincorporated to incorporated status, or an amalgamation of churches, also potentially gives rise to a cessation event and an employer debt. As a result such changes should be approached cautiously.

However, the government have recently introduced an "easement" process which in some circumstances **may** help to avoid these adverse consequences in future incorporations and amalgamations. This easement is only available for future incorporations and amalgamations and is only valid if all the tests laid down by government are satisfied before the event takes place. Accordingly, any churches contemplating such a step must contact the Fund Trustee well in advance in order to start the easement process.

12 Cessation events and employer debts

The employer debt regulations (see section 8 above) have a particularly unfortunate effect on the Fund and its participating employers, of which there are more than 1,000. The great majority of these are churches which have just one contributing member, their minister, in the Fund at any one time. When that minister in due course moves on, the church is normally without a minister for a period which may range from a few months to several years. This generates a cessation event unless action is taken to prevent this.

When a cessation event happens, the regulations require that the whole Fund is re-valued by the actuary and the departing employer needs to pay into the Fund their share of any pension deficit shown by the valuation, plus the cost of the valuation.

The change in regulations that came into force in September 2005 moved the yardstick prescribed by law for this valuation. The previous yardstick was satisfied by the Fund, but the new one is the very stringent "buy out" basis (i.e an estimate of the amount that would be required to purchase annuities from an insurance company to cover all benefits earned up to that date). Very few pension schemes have sufficient assets to satisfy this yardstick, so employer debts arise.

The calculation of a church's share of the deficit takes account of the relevant service of every member who has served at that church and who still has an entitlement under the Fund. This applies whether that member is still working as a minister, is in some other occupation, is drawing their pension, or their spouse is still drawing a dependant's pension. If it is not possible to connect part of an individual member's pensionable service to a particular current participating employer, this produces an "orphan liability" which is then shared across all the current participating employers.

Preliminary figures as at 31 December 2010 suggest that the estimated "buy-out" deficit for the Fund as a whole was some £100 million. This is a little lower than the estimated figure of some £110 million at the end of 2009.

This represents an average of more than £80,000 for each participating employer, but the individual figures vary greatly about this average. Illustrative calculations as at 31 December 2009 for a range of scenarios produced a debt of about £20,000 for a church which had only had a minister for five years. However, a church with a long history of ministers in the Fund could have a debt in excess of £200,000.

13 Cessation events to date

The full practical effect on the Fund of the employer debt regulations was not realised until relatively recently. However, the change in regulations has meant that cessation events have been occurring regularly in the Fund since 2 September 2005 as a result of normal denominational life and over 400 such events have so far been identified.

The Fund Trustee is legally obliged to apply the regulations strictly, unless there are good legal reasons not to do so. However, a strict application of the regulations would have led to over 400 churches being required to pay lump sums well beyond their immediate financial resources, with disastrous results for those churches and for the denomination as a whole.

The Fund Trustee's primary concern has to be the security of benefits already built up under the Fund and these employer debt regulations are intended to reinforce that security. However, in the view of the Fund Trustee their strict application under the Fund would have the opposite effect, potentially undermining benefit security.

The Fund Trustee recognises that:

- The employer debt regulations in their current form are inappropriate to the unique circumstances of the Fund, particularly as many of the cessation events which have occurred are not "genuine" cessation events (where the departing church has no further involvement with the Fund). Instead, they are merely "temporary interruptions in participation" (as the churches in question return to participation in the Fund if a new minister who is a contributing member of the Fund commences ministry, and in many cases they have continued to pay contributions to the Fund during the pastoral vacancy)
- Most churches do not have significant liquid assets available from which to make a lump sum debt payment, but they do have income from which to make regular shortfall payments to the Fund over time
- Having taken legal advice, it is necessary to have regard to a number of issues, including the overriding concern about security of accrued benefits, the importance of the goodwill of churches and church members to that security, the availability of information on ministers' service with individual churches, the cost of making employer debt calculations, and the feasibility of enforcing such debts

Accordingly, the Fund Trustee has made a detailed submission to the Pensions Regulator and to the Pension Protection Fund. This explained the Fund's problem with past cessation events and proposed an approach which seeks to reconcile the Fund Trustee's potentially conflicting obligations of applying the regulations and protecting the security of benefits under the Fund.

14 The Fund Trustee's current policy

Having consulted with the Pensions Regulator and the Pension Protection Fund, the Fund Trustee's current policy in respect of cessation events which have taken place to date is as follows:

- To distinguish between "genuine" and "non-genuine" cessation events. "Non-genuine" cessation events are where a church has since started participating again in the Fund, or may do so in respect of a future minister. "Genuine" cessation events are those where a church has ceased to have a minister, is closing or otherwise ceasing to exist.
- To suspend the processing of employer debts in respect of non-genuine cessation events, provided the Fund Trustee remains satisfied about the arrangements made and the cooperation of churches in respect of:
  - the payment of shortfall contributions (including the ongoing commitment to pay them); and
  - the collection of information about each church's past ministers who were contributing members of the Fund
- To focus available administrative resources on the processing and collection of employer debts in respect of genuine cessation events

It is very important to understand that in trust law the Fund Trustee cannot restrict the way in which its discretion is exercised in future and that it must not restrict its ability to enforce any employer debts, including those arising from "non-genuine" cessation events. As a result, the policy set out above may change at any time.

15 Other mitigating actions

In addition, the Fund Trustee and the Union have cooperated in seeking various means of mitigating the future impact of these regulations on the Fund and its participating employers.

First, a joint approach was made to the Department for Work and Pensions (DWP), requesting amendment of the regulations to allow for a longer "period of grace" between ministers to elapse without triggering a cessation event. This approach was made in the spring of 2010 and seems to have found a sympathetic response within DWP, but revised regulations on this point are unlikely to come into force until 2012 at the earliest.

Secondly, the Fund Rules were amended in the autumn of 2010 to introduce the concept of "interim minister members", who can be appointed in order to prevent a pastoral vacancy causing a cessation event. Using this facility, in conjunction with requests for the 12 month period of grace, should make it possible to prevent cessation events arising from the ordinary movement of ministers between churches.

However, to prevent a cessation event arising, it is essential under the regulations that churches request the period of grace from the Fund Trustee within one month of the departure of their minister. A standard form of words for this request is available from regional ministers or from the pensions office at Baptist House.

16 Accounting implications

Under current UK accounting standards, the Fund is treated as a multi-employer scheme in which "the employer's contributions are affected by a surplus or deficit in the scheme but the employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis."

In order to follow the standards, church accounts should show as expenditure the contributions paid to the Fund. The notes to the accounts should refer to the existence of a shortfall in the Fund and the liability of the church to pay contributions towards the shortfall. Suggested wording for this note is available from the downloads section of the Union's website, under the item for charity accounts with income over £250,000.

17 Important notes

This bulletin has been prepared jointly by the Union and the Fund Trustee, in order to provide churches with some understanding of a very complex series of issues. It is a broad summary, based on their current understanding of the complex interaction of the official documents (ie pensions legislation, statutory regulations and the rules of the Fund and the new Scheme). To obtain the full picture, it is necessary to look at those official documents. The rules of the new Scheme will become available later in the year. In the event of any inconsistency between this bulletin and the official documents, the provisions of the official documents shall prevail.

Any questions regarding the content of this note should be directed in the first instance to Philip Putman, Head of Finance & Administration, at Baptist House.