



# PENSIONWATCH

APRIL 2015

BAPTIST PENSION SCHEME - NEWSLETTER FOR MEMBERS

# Welcome to PENSIONWATCH

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

Pensions continue to be a significant issue for all of us in the Baptist family, and we recognise that it's a subject that many people struggle to understand. To try to help you, in this newsletter we provide you with information about the Scheme and its financial position (including the Summary Funding Statement which we are required by law to send to you).

We also update you on recent developments in your Scheme and in the pensions world generally. Some of the important changes this year are:

- The day-to-day administration of the DB Plan has been outsourced to LCP, the firm that also advises the Trustee on investment and actuarial issues. LCP are taking over from Stuart Glen and Hilary Mason in the Baptist Pensions Office, and I would like to take this opportunity to thank Stuart and Hilary for their dedication and hard work over many years. LCP have been dealing with member queries since 1st October 2014. More information about this change and LCP's contact details are on page 5.
- The Trustee and the Baptist Union of Great Britain have recently agreed the results of the actuarial valuation of the DB Plan as at 31 December 2013. It has taken longer than expected to finalise the position and hence to produce this newsletter, due to uncertainties created by Government changes to some pension regulations. Prior to those changes and despite some unpleasant fluctuations over the 3 years since the previous formal valuation, the Scheme's financial position at the end of 2013 was broadly in line with the recovery plan agreed following the 2010 valuation. These changes in regulations affect Supplementary Benefits (as explained on page 9 below) and have generated additional liabilities for the DB Plan. As a result, the valuation showed a funding deficit of £84m. In order to meet the increased

deficit, the Trustee and BUGB have agreed that the standard rate of deficiency contributions from churches and other employers involved in the DB Plan will increase from 11% of Pensionable Income / Minimum Pensionable Income to be based on a 12% rate from 1 January 2016. However, some churches and other employers that were only involved in the DB Plan for a short period will have their contributions based on a rate less than 12%. You can find more details on page 10.

- For the DB Plan, the Trustee has taken further steps to reduce the risk within the Scheme's investment strategy. You can find more details of this on page 6.
- Pensions have been in the news a great deal in recent months, following the Government's announcement earlier this year that it plans to offer individuals greater flexibility in how they draw their pension money. More details of the changes are on page 8.
- As mentioned above, technical change in pensions regulations this year mean that members who earned Supplementary Benefits in the DB Plan between 1997 and 2006 may receive additional increases on this part of their pension in future. If this affects you, we will be in touch with you separately later in the year.

You can find more information on the Scheme using our website <http://www.baptistpensions.org.uk>, which we hope you will find helpful.

Please do let us have your comments, and any ideas for future content for this annual newsletter, using the contact details on the final page.

*Robert Ashurst*

**Robert Ashurst**

**Moderator of the Trustee of the Scheme**

# DC PLAN

This section is relevant to members who are currently contributing to the DC Plan or have done so since it was introduced on 1 January 2012.

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 is administered and invested on our behalf by Legal & General. The DC Plan has been running successfully for over three years now and we currently have around 1,200 contributing members, including 40 in the Basic section.

Contributions from both you and your church / employer are invested in your Pension Account. When you come to retire, the value of that Pension Account, including the returns achieved on your investments, will provide your benefits.

As you may remember, your employer contributes a total of 10% of your Pensionable Income. From this, 6% of your Pensionable Income is credited to your Pension Account, along with your own contributions of 8% of Pensionable Income. The remaining part of the employer contribution (4% of Pensionable Income) is used to insure the lump sum benefit payable on death, to pay for the Income Protection Policy and to cover administration costs.

Please note that the Trustee and BUGB are currently reviewing some aspects of the design of the DC Plan in the light

of the Government's radical changes to pension provision, and this may lead to revisions to the contribution arrangements from the start of 2016.

Contributions received are invested in the investment fund(s) you have chosen. The choice of funds is your responsibility and the returns are not guaranteed.

Please note that ethical options are available. The Trustee regularly monitors the range of investment options and may change these if we consider it to be in the interests of the members of the DC Plan.

Further details of the available investment options and the performance of the funds in which your Pension Account is invested can be obtained from Legal & General or the Baptist Pension Scheme website.

The importance of saving for retirement has never been greater. The Government are emphasising this with the requirement for all employers to enrol their employees automatically into a pension scheme that meets certain quality requirements. The DC Plan meets these requirements, but you should consider whether your overall level of pension, including other sources, such as pension from the Scheme's DB Plan and your State Pension, will provide you with an adequate income in retirement.

There are tools available on the Legal & General website to help you estimate the income you may need in retirement and the amount of pension you may expect from the DC Plan. These tools can be found at:

<http://www.legalandgeneral.com/workplacebenefits/employees/>

If you can afford it, you can choose to pay a higher level of contributions to increase your benefits from the DC Plan. These will be added to your Pension Account in the DC Plan and invested in the same way as your other contributions.

To request any information on various aspects of the DC Plan, including the current value of your Pension Account, your investment options or any administrative queries, please go on to the secure Legal & General website where you can set up password protected access if you have not already done so.

Alternatively, you can call Legal & General on 0845 070 8686 and enter pin number 97 when prompted by the recorded message. The person who answers your call will then know you are a member of the Baptist Pension Scheme.

If you are considering making any changes to your pension arrangements, you should think about taking expert financial advice.

## DB PLAN

This section is only relevant to members who were in the Baptist Ministers' Pension Fund before 1 January 2012.

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 2013 there were 1,002 DB Plan members contributing to the DC Plan, but the DB Plan also included 494 deferred pensioners (members who have stopped contributing to the Scheme, but aren't yet drawing their benefits)

and 933 retired members, spouses and children receiving payments from the Plan.

A very unusual feature of the DB Plan is that it has more than 1,400 "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. The financial position of the DB Plan is therefore of great importance not only to members, but also to all the participating employers and more information on this is set out in the Summary Funding Statement later in this newsletter. A separate Summary Funding Statement will be provided to Scheme members who were formerly contributing members of the Baptist Union Staff Pension Scheme.

# ADMINISTRATION OF THE DB PLAN

The Trustee has recently appointed a specialist firm, Lane Clark & Peacock LLP (“LCP”), to manage the day-to-day administration of the DB Plan from 1 October 2014.

The Trustee has increasingly recognised that we need to upgrade significantly our administrative capabilities in respect of the Scheme, in response to developments over the last few years, such as the introduction of the Defined Contribution (DC) Plan and the need to analyse liabilities in respect of individual employers. This faced us with a choice between a major investment in new systems and personnel, or outsourcing our pensions administration work.

After careful consideration the Trustee decided that the time was right to outsource these arrangements and to appoint an organisation that specialises in this field. The objectives of this process include enhancing security by computerising our paper records and systems, improving our reporting and analysis capabilities, and providing a flexible and quality service to both employers and members.

As you will have seen from the recent announcement, the Trustee has recently appointed a specialist firm, Lane Clark & Peacock LLP (“LCP”), to manage the day-to-day administration of the DB Plan from 1 October 2014. This work was previously done by the Pensions Office at Baptist House. The Trustee is very grateful indeed for the dedication and hard work of the Pensions Office staff over the years.

It is important to reiterate that this change does not affect your benefits under the Scheme in any way. LCP will simply be taking over responsibility for the administration of these benefits and the payment of any pensions.

LCP should be your first point of contact if you have any questions about your pension in the DB Plan, and their contact details are below. LCP should also be notified of any changes to your personal details, such as your address.

Baptist Pension Scheme  
St Paul's House  
St Paul's Hill  
Winchester  
SO22 5AB  
T: +44 (0)1962 672930  
E: [team-baptistadmin@lcp.uk.com](mailto:team-baptistadmin@lcp.uk.com)

One of the advantages of appointing LCP is that you will be able to benefit from their investment in technology. This includes a website that will provide you with information about the Scheme and will enable you to access details of your own DB Plan pension online. Further details of this will be provided later this year. In the meantime, you are still able to access general information about the Scheme at <http://www.baptistpensions.org.uk>.

Please note that, if you have benefits in the DC Plan within the Scheme, it may be necessary to redirect your enquiry to Legal & General (L&G) who administer that part of the Scheme. The contact details for L&G are set out in the DC Plan section of this newsletter above.

# 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 Scheme’s assets.

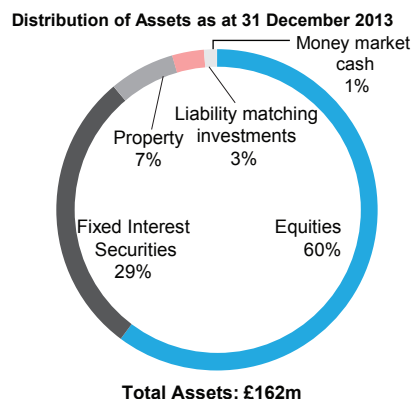
Before deciding how to invest, the law requires us to take advice from qualified investment consultants. The law also requires us to delegate day to day investment decisions to fund managers who are authorised by regulatory authorities. This is designed to ensure that we are guided by experts when taking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

Although the DB Plan is now closed to new members and existing members no longer build up any additional pensionable service, 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 plan for, then we will need to agree with the Baptist Union of Great Britain (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 invest part of the DB Plan assets

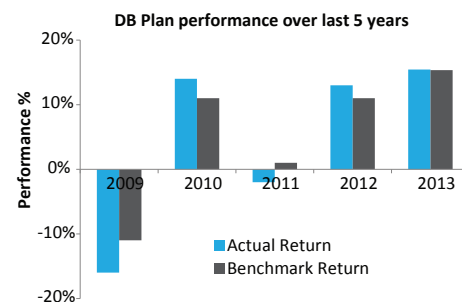
in bonds, which can be used to provide a broad match to the pension payments from the DB Plan, and are therefore a relatively low risk investment. However, the returns are expected to be lower than from many other investments. Equities and property are expected to produce good investment returns over the long term, but investing in these is more risky than investing in bonds, as equity and property 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 2013 can be seen in the chart below.



We continue to keep a close eye on developments in investment markets and we keep our investment strategy under regular review. Our overall goal is to maximise returns over the long-term, while managing both the shorter-term and longer-term investment risks. An example of the steps we have taken to achieve this is the recent appointment (over 2014) of investment managers specialising in lower volatility approaches to managing the return-seeking assets.

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 2013 the overall return on our assets was 15%, slightly exceeding the average of the managers’ targets. 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.



# YOUR TRUSTEES & ADVISERS

The Scheme is managed by a Trustee Company, Baptist Pension Trust Limited. The Trustee Company has twelve directors. Six directors are nominated by BUGB, and the other six are elected by Scheme members.

The Scheme member nominated trustee directors are elected through a ballot. When there is a vacancy, we issue correspondence asking for nominations and then, if there are more candidates than vacancies, provide ballot papers to those who are eligible to vote.

During 2014, Chris Mephram and Peter Morgan left the Trustee board and we are grateful for their faithful service over the years. Andrew Machin and Jon Spiller reached the end of their terms of office, but accepted nomination for a further term. From the start of 2015, we welcome Peter Dick as a newly-appointed member nominated director.

The Trustee board normally meet four times a year to manage the Scheme,

including looking at its administration and investments. There are also four meetings each year of our Investment Committee, which liaises with our investment managers and considers in detail the investment performance and strategy in respect of the assets of the DB Plan.

The Trustee is legally independent of BUGB and all the churches and other employers participating in the Scheme. It holds the Scheme's assets on behalf of members, so that those assets are kept separate from BUGB and the other employers, and by law can only be used to pay Scheme members' benefits and Scheme expenses.

We as directors of the Trustee have a responsibility to ensure that the

Scheme is run in accordance with its rules and the law, and have a duty to ensure that the interests of Scheme members and their dependants are properly taken into account.

Running a pension scheme is complicated, and the law requires us to take specialist advice. We have listed our current advisors below.

Richard Soldan, the Scheme Actuary, is now also a joint data controller in relation to the Scheme member personal data. Previously it was just the Trustees who were considered to be the data controllers and the Scheme Actuary was considered the data processor. If you want to know what this means, please see the ICO's website (<https://ico.org.uk/for-the-public>) for more information.

## CURRENT DIRECTORS

### Union-nominated

**Robert Ashurst (Moderator)**

**John Levick**

**Chris Maggs**

**Richard Nicholls**

**Roger Short**

**Graham Shrubsole**

### Member-nominated

**Peter Dick**

**Andrew Machin**

**Vivienne O'Brien**

**Martin Poole**

**Jon Spiller**

**Vacancy**

## CURRENT ADVISERS

### Scheme Actuary

**Richard Soldan, Lane Clark & Peacock LLP**

### Actuarial and investment advisers

**Lane Clark & Peacock LLP**

### Investment managers

**Legal & General Investment Management**

**Sarasin & Partners LLP**

**CB Richard Ellis Investors**

**Royal London Asset Management**

**F&C Asset Management plc**

**Ruffer LLP**

**GMO UK Ltd**

### Administrators

**Lane Clark & Peacock LLP (see note on page 5)**

### Auditor

**Wilkins Kennedy LLP**

# PENSION NEWS

## 2014 Budget

Pensions have been in the news a great deal in recent months, with increased flexibility available to individuals in general in how they draw their pension money from April 2015. This could involve people choosing to take their pension as a single lump sum. There has also been news about the abolition of a 55% tax charge on certain pension pots on death.

These are fundamental changes to pensions legislation, which give people plenty of options, although not all of the new options will be available automatically within the Baptist Pension Scheme. The Trustee is considering carefully the extent to which you will be able to use the new flexibilities when you take your money from the Scheme, and we will communicate with you soon to help you plan for the future.

One of the biggest changes is the removal of the requirement for members of defined contribution schemes to use at least 75% of their Pension Account to buy an annuity from an insurance company when they retire. This means it might be appropriate for us to change the investment options that are available to members of the DC Plan, and the Trustee is also considering this carefully.

## Pension liberation

Some companies are singling out pension savers and claiming that they can help them cash in 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”.

Unfortunately, the recent changes to pensions outlined in the section above, and the resulting news coverage, could lead to a further increase in pension liberation fraud.

Thousands of individuals have been targeted with cold calls and other aggressive sales tactics. Typically those individuals, who have been seeking early access to their pension savings, have instead ended up losing much of their savings

In particular, the current “lifestyle” strategy that is part of the default investment option is based on a typical member using 75% of their Pension Account to buy an annuity and taking the remaining 25% as tax-free cash. We are reviewing whether this default strategy remains appropriate in light of the changes announced by the Government. Again, we will let you know the outcome soon.

If you need to make a decision about your pension before we have had time to complete our review of the flexibilities and investment options to offer within the Scheme – for example, if you are approaching retirement in the next few months – then please bear in mind the increased flexibility that the Government has made available, and consider seeking expert financial advice before making your mind up.

You can find a list of independent financial advisors at:  
[www.unbiased.co.uk](http://www.unbiased.co.uk)

in substantial commission payments and exceptionally large tax charges, due as a result of the payments being unauthorised.

Accordingly, if you are approached by anyone suggesting that you can access your pension savings early, you 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](http://www.thepensionsregulator.gov.uk), has some useful documents that set out the dangers involved.



# PENSION NEWS

## Change to “Supplementary benefits”

As mentioned on page 2, the Government has recently made a technical change in pensions regulations which has required us to review one particular aspect of the Scheme’s operation. The effect is potentially to change the treatment of a part of certain DB Plan members’ benefits.

Prior to 1 January 2012, both member and employer contributions on earnings above minimum pensionable income purchased “Supplementary Benefits”. Transfer in and additional voluntary contributions (AVCs) also purchased Supplementary Benefits, but the changes described below do not apply to those purchased by AVCs.

Before April 2006, these Supplementary Benefits were granted in the form of an additional pension at retirement. For contributions paid after that date, Supplementary Benefits took the form of lump sums on retirement

rather than pensions. In both these cases, the amount of Supplementary Benefit granted for each £1 of contributions paid was calculated by reference to the member’s age and a table of factors.

The change in statutory treatment noted above means that Supplementary Benefit pensions that were granted from contributions (other than AVCs) made between April 1997 and April 2006 may in future need to be increased each year once in payment. Moreover, it may be necessary to backdate those increases, as if this requirement had always applied.

This change in the law affects the Scheme in spite of the fact that the terms on which these pensions were originally granted allowed only for occasional bonuses at the Trustee’s discretion, rather than for guaranteed increases every year. This means that

some members may be entitled to increases on more of their pension than they are currently expecting, and for some of those who have already retired there may be an uplift in their pension. In addition, some retired members may also benefit from a windfall payment representing past increases not paid to date. Whilst this would be good news for the affected members, the effect of this change in statutory regulations is likely to increase the Scheme’s liabilities.

Please note that working out any adjustments to the benefits of individual members affected by these changes will take some considerable time, as it is a complex process.

# SUMMARY FUNDING STATEMENT

The Trustee is pleased to be able to provide members with this year's Summary Funding Statement.

## What is the purpose of this statement?

We are sending you this statement to tell you about the Scheme's funding. The law requires us to send you a statement each year.

### **The statement relates to the DB Plan only.**

This statement has been produced by the Trustee of the Scheme with the aid of our professional advisors.

## How is the DB Plan assessed?

The Scheme's actuary investigates the financial position of the DB Plan by estimating the value of assets that the DB Plan needs to pay the benefits that have been earned to date, as they fall due, and then compares this against the value of the actual assets of the DB Plan. To make this estimate, the Trustee and BUGB, on behalf of the churches and other employers involved with the Scheme, have to agree on a number of assumptions about what will happen in the future. In particular: how long people will live; what inflation will be; and what returns will be earned on the Scheme's investments. The assumptions made will affect the value of assets which the actuary estimates is necessary to pay the benefits.

The Trustee must also take account of its assessment of the financial strength of the churches and other employers when agreeing on these assumptions. This is important because if the anticipated returns from investments do not materialise, then the Trustee

would need to rely on additional contributions from the churches and other employers, and so it needs to be satisfied that they could provide such contributions in future if required.

The main aim of this exercise is to determine the contributions to be paid into the DB Plan. If the assets held by the DB Plan are less than the calculated target level then deficit contributions are needed to fund the shortfall.

The actuary also estimates how much an insurance company would charge to take over responsibility for the payment of the DB Plan's benefits that have been earned to date. This is referred to as a "solvency" assessment and relates to the position if the churches and other employers were to become insolvent and unable to support the DB Plan (see further below). This will normally be a bigger number than the Trustee's target level of assets, since it needs to include margins for the insurer's expenses, profit, and a substantial margin for risk (because, unlike the Trustee, an insurance company could not request additional contributions from the churches and other employers in future if investment returns turn out not to be as high as assumed).

This investigation – called an actuarial valuation – takes place in full every three years, with the latest one having an effective date of 31 December 2013. We also obtain "snapshots" of the position in the years between full valuations, and in addition, we are able to track the progress of the DB Plan's

financial position on an approximate basis day by day.

## How much do the churches and other employers contribute to the DB Plan?

Following the 2010 actuarial valuation, it was agreed that employers would pay deficit contributions of 11% of Pensionable Income / Minimum Pensionable Income. It was projected that, if the actuarial assumptions were fulfilled in practice, these deficit contributions would be payable until the end of 2034. Preliminary results from the 2013 valuation suggested that it should be possible to maintain both the 11% contribution level and broadly the same projected end date for their payment.

However, the additional liabilities arising in respect of Supplementary Benefits increased the DB Plan's deficit under the 2013 actuarial valuation. In view of this, the Trustee and BUGB have agreed that standard deficit contributions from churches and other employers will increase from 11% of Pensionable Income / Minimum Pensionable Income to be based on a 12% rate from 1 January 2016. Churches and other employers that were only involved in the DB Plan for a short period will pay less than 12%. The projected end date for these contributions has only changed marginally to 30 June 2035. Contributions for 2015 remain at 11% to give employers time to budget for the increase.

## How has the position changed since 31 December 2012?

The “snapshot” as at 31 December 2013 is shown below. The position at 31 December 2012, which was shown in last year’s newsletter, is also given below.

	31 Dec 2013	31 Dec 2012
	£m	£m
Value of assets held in the Scheme	<b>161</b>	<b>141</b>
Target level of assets needed to pay benefits earned to date	<b>245</b>	<b>246</b>
Shortfall in assets	<b>84</b>	<b>105</b>
Estimated funding level	<b>66%</b>	<b>57%</b>

The position improved over 2013 mainly due to higher than anticipated investment returns achieved on the Scheme’s assets over the year, and the contributions paid towards reducing the deficit. These factors were offset to an extent by the changes to certain Supplementary Benefits, as described on page 9.

The Trustee realises that the funding position of the Scheme will fluctuate over time as financial and investment market conditions change.

So long as the churches and other employers pay the necessary contributions, then the existence of a shortfall will not prevent benefits continuing to be paid in full.

### Where can I get further information?

Should you require further information about the DB Plan you should contact the LCP administration team - contact details are shown at the end of the newsletter. If you are considering making any changes to your pension arrangements you should seek your own professional financial advice.

### Is there anything else I need to know?

As required by regulations, we confirm that the churches and other employers have not taken any money out of the Scheme in the last 12 months. In addition, there is neither the intention nor the scope for the churches and other employers to do so in the foreseeable future.

### When will I receive further updates?

We will send you the next newsletter in the final quarter of 2015. This will show how things changed during 2014. In common with many other UK pension schemes, the deficit has increased during the year.

## What would be the situation if the churches and other employers were unable to pay the necessary contributions?

The result on the solvency basis as at 31 December 2013 was a shortfall of assets of about £127m against the estimated cost of securing all benefits with an insurance company, which equates to a funding level of about 56%. This level of solvency funding is typical of many UK pension plans, and the shortfall on this basis would affect members only if the churches and other employers were to become insolvent.

In general, legislation requires employers to meet their pension liabilities.

Even if the worst came to the worst and the churches and other employers became insolvent with not enough money in the Scheme to pay for all the benefits, the Scheme may enter the Pension Protection Fund, which provides some compensation to pension scheme members in such circumstances.

# CONTACT US

If you have any questions about your benefits in the Scheme or for general information about the Scheme then please contact the LCP team on:



Baptist Pension Scheme  
St Paul's House  
St Paul's Hill  
Winchester  
SO22 5AB



+44 (0)1962 672930



[team-baptistadmin@lcp.uk.com](mailto:team-baptistadmin@lcp.uk.com)