UK Pension Update – June 2015

(For members of the Baptist Pension Scheme with Defined Contribution pension accrual, who were also previously members of the Baptist Union Staff Pension Scheme)

Changes to your pension from 6 April 2015 - New options and increased flexibility

In April 2015 the government introduced some important changes to pensions which are designed to give members of UK Defined Contribution (DC) pension schemes more freedom around how and when they take their retirement savings.

This letter explains how the new flexibilities affect **you and your savings** in the DC Section of the Baptist Pension Scheme ("the Scheme") provided via Legal & General and highlights:

a) the new options that are available for drawing your DC pension benefits
b) some changes (including a reduction in charges) to the Scheme investment options.

These new flexibilities do not apply to defined benefit (DB) pensions, such as were available under the Baptist Union Staff Pension Scheme until 31st December 2011. However, the flexibilities in the DC section may affect how you decide to take your combined pension benefits.

Summary of key changes

1. Accessing your money

Provided you are aged 55 or over, you now have four options for taking your DC savings from the Scheme

a) You can transfer your DC benefits back into the BUSPS. If you do so the value of your DC benefits will form part of your overall BUSPS benefits at retirement, 25% of which can be taken (under current legislation) as tax free cash.

b) Alternatively, you can draw your DC benefits through the Baptist Pension Scheme, in which case the following three options are available to you:
   - Buy a pension (annuity) that provides a guaranteed, regular, income for life
   - Take all of your savings as a one off cash lump sum
   - Transfer your DC savings to another pension provider and retain flexibility to manage your savings and take your money as and when you need it

2. Changes to the Scheme investment options and charges

a) The Default Lifestyle option will be changed to reflect the expectation that under the new options for accessing retirement savings, fewer people will opt to purchase a pension
b) Additional Ethical Lifestyle options will be added, to accommodate the alternative ways of taking your money
c) Charges have been reduced for deferred members

You will need to review these changes and decide if you need to make any changes to your investment choices as a result.

New choices – how do you want to take your money?

You must be aged 55 or over before you can access your pension savings. Legal & General are currently updating their process to provide the following options:

1. You can transfer your DC benefits back into the BUSPS. If you do so the value of your DC benefits will form part of your overall BUSPS benefits at retirement, 25% of which can be taken (under current legislation) as tax free cash. (If your DC fund is worth more than 25% of your combined DB and DC benefits then you will be able to transfer enough of the DC fund to maximise your tax-free cash and deal with the balance under one of the options below.)

2. If instead, you decide draw your DC benefits through the Baptist Pension Scheme you can:

   a) Buy a pension for life (an annuity)

   You can choose to take part of your savings (normally up to 25% of the value of the combined DB and DC benefits) as a tax-free cash sum. Alternatively, or if your DC savings are more than 25%, you can buy a pension for life (also called an annuity) with the balance.

   b) Take all of your DC savings as a one-off cash sum

   Once Legal & General's systems have been updated, you'll have the option to take all your DC savings as a one-off cash sum, even if this is bigger than 25%. (The excess over 25% is subject to income tax as explained in Appendix 1).

   c) Transfer your DC savings to another pension provider

   If you would prefer to take your cash in stages or to take a flexible income from your DC Savings, you will need to transfer your benefits to an external pension arrangement which offers these options, such as Legal & General's Master Trust arrangement.

The new flexibilities mean that you can access your retirement savings from age 55, even if you want to stay employed with an employer within the Baptist family. However, the Trustee of the Scheme will have discretion over whether to allow you to be re-admitted to active membership of the Scheme (or to continue in active membership) so that contributions carry on being paid into your Personal DC Account after you have accessed your retirement savings or transferred them to another pension scheme. Please note that if you are permitted to continue in active membership of the Scheme after accessing your DC savings, the amount you can keep contributing to the Scheme and any other DC pension arrangements whilst still getting the current tax relief is likely to be restricted by a special annual allowance set out in the tax legislation (currently £10,000).

What do you need to consider if you are planning to take your retirement savings?

Choosing what to do with your retirement savings is a big decision and it's important that you fully understand the implications. There are a number of aspects to consider, including:

- Checking the value of your pension pot (which you can do via Legal & General)
- Understanding your options from age 55
- Planning how long your pension pot must last
- Working out how much money you will have in retirement
- Understanding the tax implications of the different options
- Shopping around for the best deal.

Please note this letter does not cover the considerations which apply to DB benefits. These are very different from those which apply to DC benefits.

You can find out more about your options from the government's free guidance service Pensionwise, at https://www.pensionwise.gov.uk/ or by calling 030 0330 1001 between 8am and 10pm, Monday to Sunday.

Please note also, that this letter and the Pensionwise service only provide you with information, not advice. If you are unsure about what to do with your benefits, you should seek independent financial advice. A list of local independent financial advisers can be obtained at www.unbiased.co.uk

Further information is provided in Appendices 1 and 3 of this letter and you can also obtain more information from Legal & General at http://www.legalandgeneral.com/workplacebenefits/employees/ or via their Help Centre (Telephone: 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).

Changes to investment options

It is expected that the new flexibilities will result in fewer people purchasing annuities and so the Scheme's current default investment option may no longer be appropriate for the majority of DC members. We therefore intend to make a number of changes to the Default investment option with effect from July 2015 and these are outlined in **Appendix 2**.

If you are happy with the proposed changes, or if you have "self-selected" an individual fund or the Ethical Lifestyle option, you do not need to take any action.

If you do not want your investment in the Default option to change or if you want to invest in none of the alternative lifestyle options we are offering, you should switch your investments via Legal & General's website by the end of July 2015. Legal & General will provide further detail on their website about available options and fees during June 2015.

Reduced administration charges for deferred members

As part of the negotiation with Legal & General we have secured a reduction in charges for deferred members. Until recently, if a member left employment, the charges paid would be 0.28% higher per year because the cost of administering their DC pot would no longer be subsidised by their employer.

From April 2015, this charge will reduce to 0.23% for all deferred members, including those who have already left employment. The combined investment and administration charge in the Default fund will therefore be 0.55% per year for deferred members. This is well below the maximum charge set by the Government of 0.75%.

The future of the DC section of the BPS

We hope you will agree that these are very positive changes. We are pleased to say that these are just the first steps in an on-going review that looks to improve the structure of the Scheme. We expect to be able to give you more information on further improvements to the Scheme over the next six to nine months.

Chris Maggs

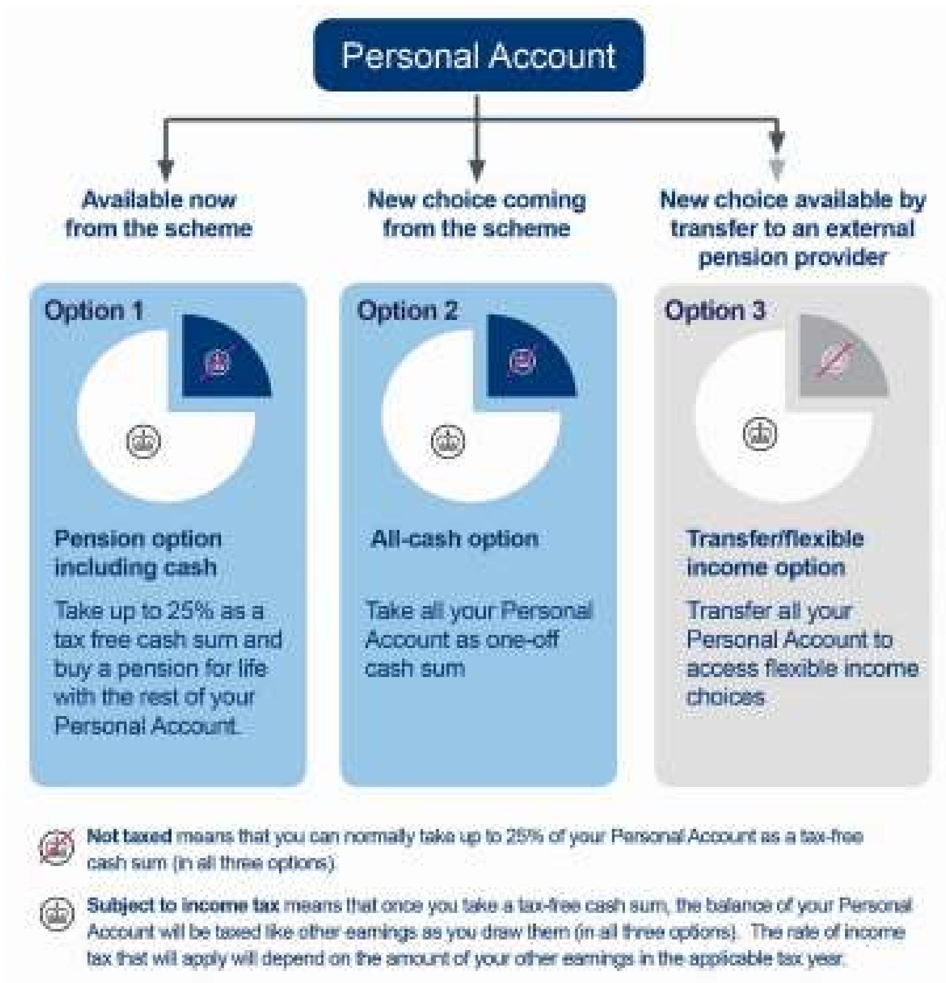
Moderator of the Trustee of the Scheme

APPENDIX 1 - The new choices

You will soon have more choice about how to take your retirement savings from your DC Personal Account.

You can transfer your DC benefits back into the BUSPS. If you do so the value of your DC benefits will form part of your overall BUSPs benefits at retirement, 25% of which can be taken (under current legislation) as tax free cash.

If instead, you decide draw your DC benefits through the Baptist Pension Scheme then the options are shown in greater detail below:



1. **Pension option including cash** – Take up to 25% as a tax-free cash sum and buy a pension for life with the rest of your retirement savings.

This option may be suitable, if you:

- **have a large pot of DC savings**
- **want a guaranteed pension for life**
- **don’t want to be managing your pot and investments in retirement**

The details	The tax
If you want to receive a regular pension income for life, you can still use your retirement savings to buy a pension (also called an annuity). You can do this with all your retirement savings or choose to take up to 25% as a one-off cash sum at the point of retirement and use the balance to buy the pension. . There are different types of pension that are available. When you are close to your target retirement age, Legal & General will write to you and give you more information to help you to decide the right one that meets your needs. For example, you can buy a pension that increases in line with inflation or one that pays a level amount each year. You can also buy a pension that will pay an income to your spouse or civil partner in the event of your death. If you decide to take an annuity you should shop around for the best deal from different providers.	Your one-off cash sum under this option (25% of the total value) will normally be tax-free. Your pension income will be taxed as earned income, at rates that take into account your other taxable income in the applicable tax year.

2. **All-cash option** – Take all your retirement savings in your Personal Account as a one-off cash sum

This option may be suitable, if you:

- **have only a small pot of DC savings**
- **need your money now for a specific purpose**
- **have other pension savings (especially a DB pension)**

The details	The tax
You can choose to take all your Personal Account as a one-off cash sum. If your retirement savings in the Scheme are £10,000 or less, this is called taking a "Small Lump Sum" payment. If your retirement savings are more than £10,000, this is called taking an "Uncrystallised Funds Pension Lump Sum" or an UFPLS. If you take an UFPLS you will have a special £10,000 p.a. tax relief restriction on any future contributions that you make to your new Personal Account, or any DC contributions to any other pension arrangement.	If you take the all-cash option, normally 25% will be tax-free. The rest will be taxed as earned income in the applicable tax year. **Warning**: This could mean that some of your all-cash lump sum could be taxed at a higher rate of income tax than applies to your other earnings at that time. Please also note that the Scheme will deduct income tax

This tax relief restriction does not apply if you take a "Small Lump Sum" payment when any future contributions will continue to be subject to the standard annual allowance tax restriction (currently £40,000 p.a.). You will find more information below. Taking a large one-off cash sum may affect your entitlement, if any, to means-tested State benefits.	from the taxable part of the cash sum through the PAYE system. If your cash sum counts as taking an UFPLS or a Small Lump Sum, the Scheme may be required to deduct income tax using a PAYE special tax code and you would have to arrange any tax adjustment due to you directly with HMRC.

3. **Transfer/Flexible income option** - Transfer all your retirement savings to access flexible income choices

This option may be suitable, if you:

- **have a large pot of DC savings**
- **you want the maximum freedom to manage your pension in retirement**
- **you have income tax or inheritance tax concerns**

The details	**The tax**
Once Legal & General has launched the new choices, you can choose to transfer your Personal Account retirement savings, either to another of their products or to an external pension provider (e.g. a personal pension) that allows you to take cash in stages or that offers flexible income options like a Flexi-Access Drawdown (FAD) Account. You need to consider both the rate at which you draw funds and the tax that might apply so that you have sufficient income later in life.	If you want to spread the withdrawal of your DC savings following transfer to a pension provider, you can still normally arrange to take 25% as a tax-free cash sum. An option is to designate the remaining 75% as a FAD, future income would then be withdrawn as and when required, but would be taxed as earned income when drawn.

Note about the Annual Allowance

There is a limit on total DC pension contributions and build-up of defined benefit pension benefits (the Annual Allowance) beyond which a special tax charge can be triggered. The Annual Allowance for all pension savings is currently £40,000 p.a. and where this (together with unused Annual Allowance from some past years) is exceeded, an Annual Allowance tax charge applies.

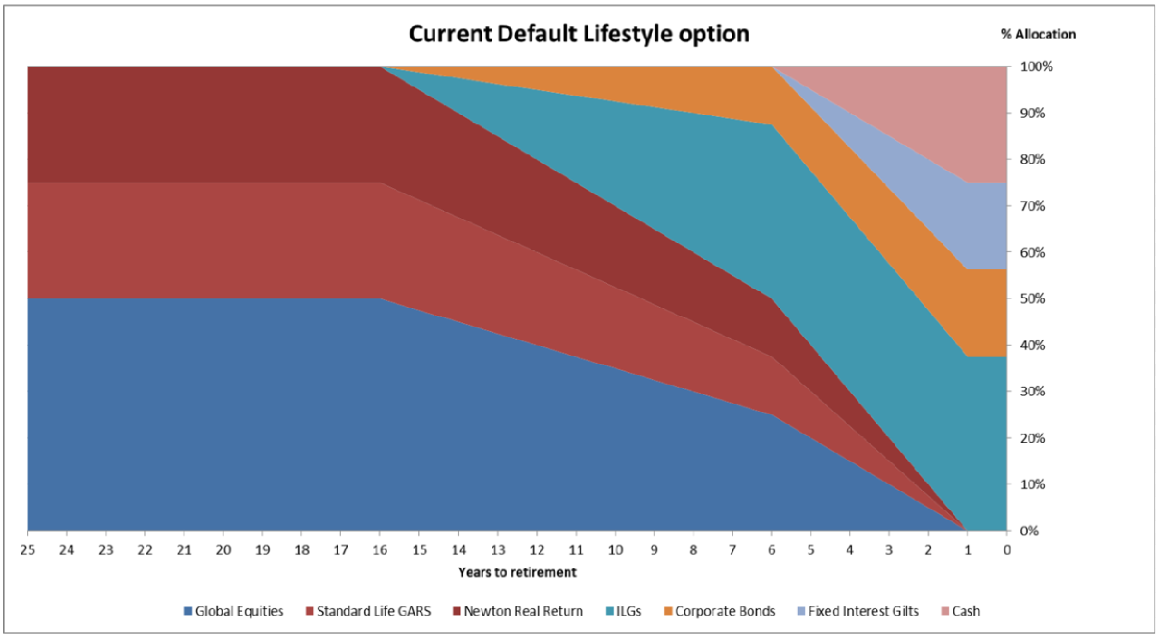
If you choose to take the all-cash option and it counts as taking an UFPLS, your future opportunity to make, or have further DC pension savings made for you, into any scheme without triggering the Annual Allowance tax charge will reduce. Your Annual Allowance will remain at its current level of £40,000 p.a. but only £10,000 p.a. of that amount may be used for future DC contributions. However, if your all-cash option counts as taking a Small Lump Sum, then this £10,000 p.a. restriction will not apply to you.

APPENDIX 2 – Changes to Investment Options

- The new Default Lifestyle option

The existing Default Lifestyle strategy targets a mix of investments at retirement that is suitable for a member who will take 25% of their fund as tax free cash and uses the rest to buy an annuity. It gradually "de-risks" your investments as you come up to retirement, switching from equities into funds which are generally regarded as less volatile, the intention being to reduce uncertainty about the amount of pension you will be able to buy at retirement.

The way it de-risks as you approach retirement is shown in the chart below.

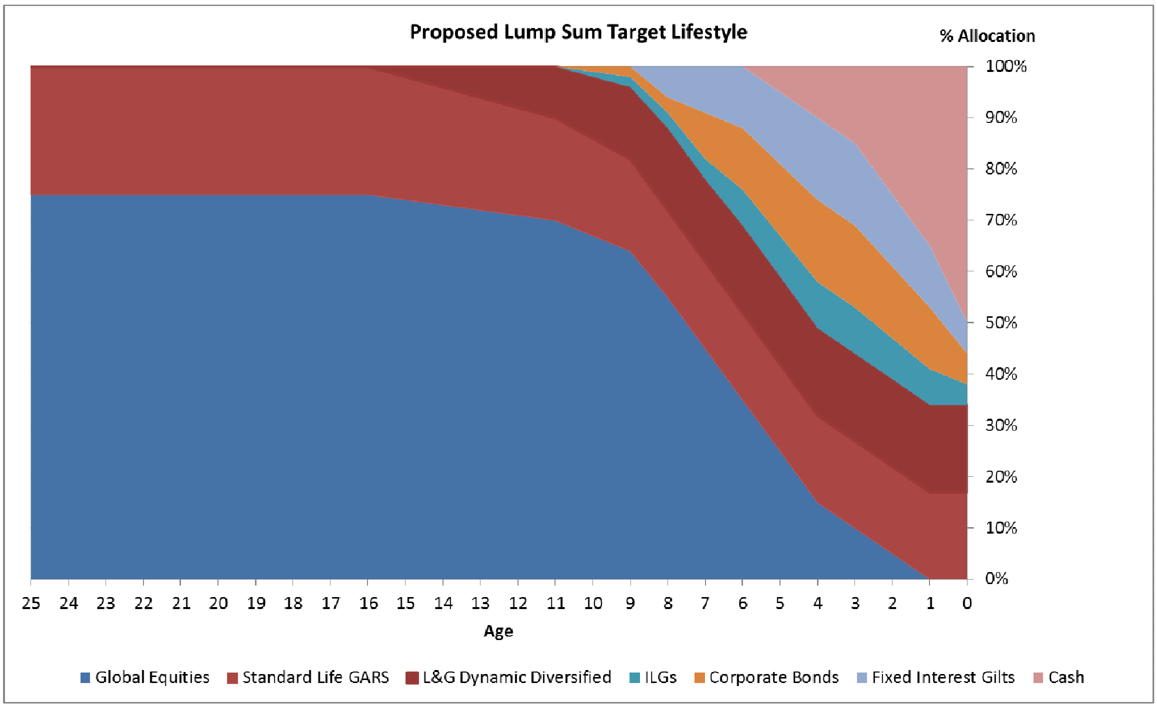


However, it is expected that the new flexibilities will result in fewer people purchasing annuities and so the Scheme's current default investment option may no longer be appropriate for the majority of DC members.

We are therefore making a number of changes to the default investment option from July 2015.

This new Default Lifestyle strategy has a lower overall level of charges and targets a mix of investments at retirement that is suitable for a member who will take their entire fund as a lump sum (irrespective of how that is taxed).

The way it de-risks as you approach retirement is shown in the chart below.



We have also decided to make some changes to the Default funds:

- replace the Newton Real Return Fund with Legal & General's Dynamic Diversified Fund because of the latter's significantly lower charges; and
- reduce the overall allocation to diversified growth funds in the longer term part of the Lifestyle option. This has also reduced the overall charges applied to your investments.

As a result there may be greater volatility in fund performance during the early years of membership, but over the full investment period until you take your benefits, the overall risk profile will remain broadly the same.

The investment charges members pay for the funds in the Default currently range from 0.52% per year in the longer term portfolio to 0.10% (close to retirement). As a result of the changes we are implementing, these charges will reduce overall to 0.32% per year during all phases.

You can find more details of the current investment options on the Scheme website at http://www.baptistpensions.org.uk/content/pages/documents/1377764999.pdf (this booklet will be updated with the new options soon)

- The Ethical Lifestyle options

  In addition to the existing Ethical Lifestyle options, we will be introducing new options so you will be able to select a different end phase close to retirement, which may be appropriate if you think you are unlikely to buy an annuity.

- The Self-Select range of options

We will not be making any changes to the self-select range of funds other than replacing the Newton Real Return Fund (charges of 0.91% per year) with the Legal & General Dynamic Diversified Fund (charges of 0.53% per year).

The Trustee will continue to keep the investment options under review and will make further changes to them based on experience and any future changes to legislation.

Appendix 3 - Help and further information

Professional advice

Remember that no-one involved in running the Scheme can give you individual financial advice. You should also note that it is your responsibility to account for any tax due in your self-assessment tax return. If you are planning or making decisions about your retirement savings, you should therefore consider taking professional financial and/or tax advice (you may find the www.unbiased.co.uk a useful place to find an adviser).

Scheme information

You can access more information about your Personal Account by visiting http://www.legalandgeneral.com/workplacebenefits/employees/

Important Notice

This update only provides an indicative summary of the new options and increased flexibility that will be available to members of the Scheme and the tax position which may be relevant to your Personal Account retirement savings. It is not a definitive statement of the law, or the tax position as it may apply to you and should not be interpreted as individual financial advice. Nothing in this update confers any entitlement additional to that conferred by the rules of the Scheme. The Trustee intends to keep the increased flexibility under review and reserves the right to make changes to the options that will be available to members of the Scheme in the future.