BAPTISTS TOGETHER
BAPTIST PENSION SCHEME

PENSIONWATCH

MAY 2016

BAPTIST PENSION SCHEME – NEWSLETTER FOR MEMBERS

Welcome to PENSIONWATCH

The world of pensions never seems to stand still for long these days. Stock markets and economic forecasts are ebbing and flowing, new legislation and regulations struggle to catch up as politicians pull one way and then another, complications crop up from unexpected places. It sometimes feels like we are navigating the Pension Scheme through a storm. Nevertheless, much has been achieved over the period since our last Pensionwatch.

- We are grateful to Robert Ashurst for steering the Scheme through turbulent times for six years. I took over at the helm as Moderator of the Trustee Board in May 2015 and can only admire his commitment to the task. We are delighted to welcome three newly appointed Union Nominated directors to the Trustee Board. Neil Davis, Jenny Drake and Tony Pike all have extensive pensions experience and are all members of the Baptist family, closely involved in their local churches. The new appointments have allowed some of our longer serving trustees to step down and our appreciation goes to Graham Shrubsole and Richard Nicholls who have served the Scheme faithfully and with great dedication for seventeen and thirteen years respectively.
- Work has also been progressing on creating a clearer division of responsibilities between the Pension Trustee and BUGB as the Principal Employer of the Scheme. A new Pension Employer Group has been set up to help BUGB represent employer views and we are already engaging with them in several areas.
- The process of LCP taking over the administration of the DB Plan began back in October 2014 and has not been without its challenges. However, good progress has been made and we continue to work together towards a more efficient and cost-effective service. The introduction of an on-line employer hub in July 2015 was a prime example of this.
- 2015 saw big changes in the regulations affecting the DC Plan. We developed ways for members reaching retirement to access the new options from April 2015. We also restructured the default fund that the majority of our DC members are invested in so that it has lower charges and a more suitable switch of investments in the run up to retirement.

- The legal complications around Supplementary Benefits continue to present problems and we apologise that we have not yet been able to reach a final resolution. There is an update on page 10 on this and on a new legal issue regarding equalisation of benefits that has come to light.
- Last, and by no means least, we continue to focus a lot of our attention on the Scheme's funding position. An increase in deficiency contributions from the churches and other employers took effect from January 2016 following on from the actuarial valuation as at 31 December 2013. You will see on page 14 how things have developed since then. We are gearing up to a full review of our approach to funding the shortfall as part of our preparations for the next valuation at the end of this year.

It has been a busy year but we know that there is still plenty to do. Together, and with God's blessing, we trust that we will weather the storm.

Chris Maggs

Chris Maggs
Moderator of the Trustee of the Scheme

Chris is a member of the Institute of Actuaries and spent 23 years as a pensions consultant to organisations operating similar schemes to our own. He made a career change to pension trustee work at the beginning of 2013 and became a trustee of our Scheme early in 2014. He is a treasurer of a Baptist church in Solihull.

ABOUT YOUR SCHEME

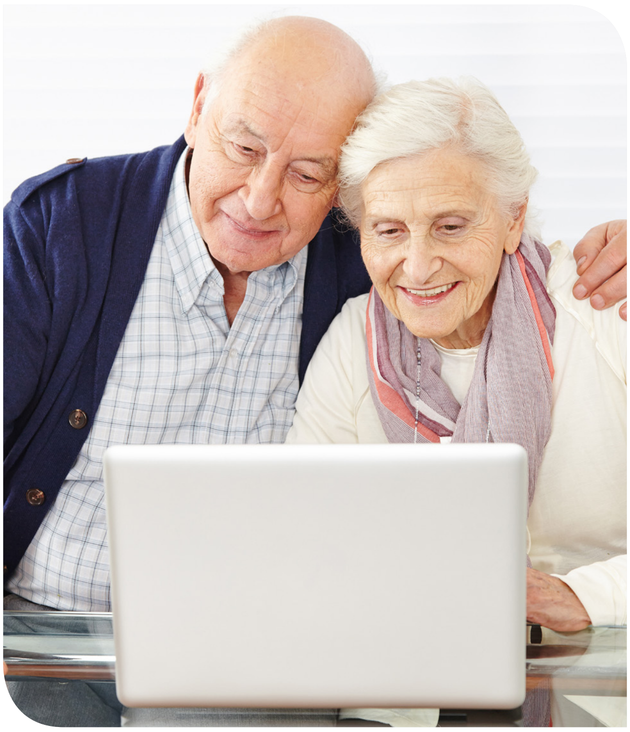
The Baptist Pension Scheme is split into two sections: the DB Plan and the DC Plan

DB PLAN

- Formerly known as the Baptist Ministers' Pension Fund
- More than 1,400 "participating employers", responsible under UK pensions law for financing the DB Plan
- The Summary Funding Statement later in this newsletter shows an update of the DB Plan's finances

How does the DB Plan work?

- Provides defined benefits for service up to 31 December 2011
- Pensions are linked to Pensionable Income at retirement or leaving service, if earlier



DC PLAN

- Provides defined contribution pensions for service from 1 January 2012
- Divided into the Ministers section, the Staff section and the Basic section
- Administered and invested on the Trustee's behalf by Legal & General

How does the DC Plan work?

- Contributions from both you and your church / employer are paid into your Pension Account.
- These contributions are invested in the investment fund(s) you have chosen (there is a default investment option if you do not make a choice). Ethical options are available.
- When you come to retire, the value of that Pension Account, including the returns achieved on your investments, will provide your benefits.
- Pension law changed in April 2015 to give you greater choice about how to take your retirement benefits. We wrote to you separately in June 2015 to explain these changes
- Your church/employer also makes additional contributions which pay for life and income protection cover and for the expenses of running the scheme

How is your Scheme managed?

- The Scheme is managed by a Trustee Company, Baptist Pension Trust Limited. The Trustee Company normally has twelve directors. Six directors are nominated by BUGB, and the other six are elected by members of the Scheme and the Baptist Union Staff Pension Scheme.
- The Trustee is legally independent of BUGB and all the 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.
- The day-to-day administration of the Scheme is outsourced to Legal & General (DC Plan) and LCP (DB Plan). If you would like more information about your benefits in the Scheme please use the contact details on the back page of this newsletter.
- Running a pension scheme is complicated, and the law requires us to take specialist advice. We have listed the current advisors on the back page.
- The table below shows the current Trustees, the changes to the Board in the last year and the attendance record of each Trustee at the quarterly Board meetings of the Scheme.

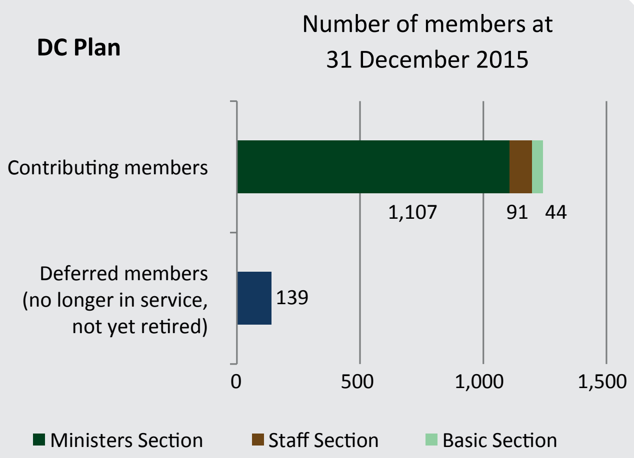
Am I saving enough?

Your employer contributes 6% of your Pensionable Income to your Pension Account, and you contribute 8%.

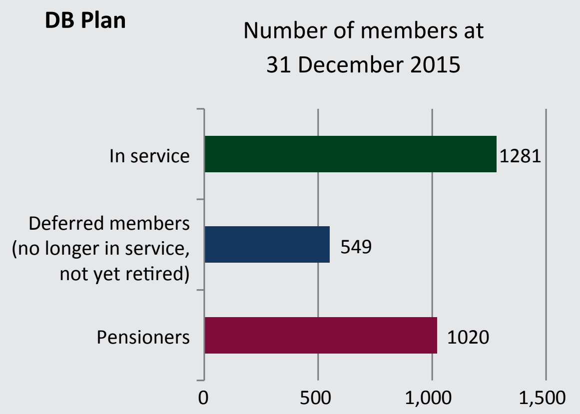
To be comfortable in retirement, most people need an annual income of between 50% and 80% of what they've been earning in the years before they retire. You should consider carefully whether your benefits in the DC Plan, together with the state pension and any pension you have in the DB Plan and other pension schemes will meet your needs in retirement. You can use the Legal & General website (details listed on the back page of this newsletter), to access the current value of your Pension Account, your investment options and some tools to help you estimate the income you may need in retirement and the amount of pension you may expect from the DC Plan.

	Attendance at Quarterly Board Meetings				
	March 15	May 15	Sept 15	Dec 15	Feb 16
Union Nominated Trustees					
Robert Ashurst (Moderator to May 2015)	✓	✓			
Chris Maggs (Moderator with effect from June 2015)	✓	✓	✓	✓	✓
Neil Davis					✓ First meeting (new appointment)
Jenny Drake					✓ First meeting (new appointment)
John Levick	✓	✓	✓	✗	✓
Richard Nicholls	✓	✓	✓	✓	✓ Last meeting (Stood down)
Tony Pike					✓ First meeting (new appointment)
Roger Short	✓	✓	✓	✓	✓
Graham Shrubsole	✓	✓	✓	✓ Last meeting (Stood down)	
Member Nominated Trustees					
Peter Dick	✓	✓	✗	✓	✓
Andrew Machin	✗	✓	✓	✓	✗
Vivienne O'Brien	✓	✓	✓	✗	✓
Martin Poole	✓	✓	✓	✓	✓
Jon Spiller	✓	✓	✓	✓	✗

AT A GLANCE



Level of contributions and choice of investments are your responsibility



1400+ "participating employers", responsible under UK pensions law for financing the Scheme

Note: Members with benefits in both the DB Plan and the DC Plan are included twice

The following figures summarise the figures in the draft 2015 Scheme accounts

Income and expenditure	DC Plan	DB Plan
Assets at 31.12.2014	£16.1m	£182.4m
Contributions from employers	£3.3m	£5.0
Contributions from members	£2.8m	-
Transfers and other income	£0.2m	£0.1m
Benefits and expenses paid	(£2.0m)	(£9.2m)
Return on investments	£0.4m	£1.2m
Transfer between sections	(£0.7m)	£0.7m
Assets at 31.12.2015	£20.2m	£180.2m

Pension Quality Mark

We are pleased to announce that the DC Plan has been awarded the Government-recognised Pension Quality Mark. To achieve this we had to demonstrate that the DC Plan meets high standards of contributions, governance and communications.

PENSION QUALITY MARK

ADMINISTRATION OF THE SCHEME

Administration of the DC Plan (Legal and General)

The DC Plan is administered and invested by Legal and General. Contact details are on the back page.

Administration of the DB Plan (Outsourcing to LCP)

In your last newsletter we explained the Trustee's decision to outsource the day-to-day administration of the DB Plan to Lane Clark & Peacock ("LCP").

A year on from the outsourcing, we are delighted to report that the administration of the DB Plan is running smoothly and feedback from both members and employers has generally been positive. The Trustee and LCP are always striving to improve the service provided and so any further feedback would be welcome.

Contact details for LCP are on the back page. LCP aim to respond to any enquiries they receive within 10 working days (although, in practice, it is often much sooner than this).

Changes to contribution levels

Please note that, we are unable to make any retrospective adjustments to the contributions collected from your employer. It is therefore very important that LCP are informed, at least 4 weeks in advance, of any changes that affect the calculation of your contributions (eg a change in your Pensionable Income) as soon as possible. This will normally be done by your employer but you may wish to check this with your employer when a change occurs.

We would like to thank you for your co-operation during this period of change – hopefully you will have already started to see the benefits of the new arrangements but, as explained above, we would welcome any feedback that you have on how we can improve the service provided.

Help us to help you

The scheme website can be found at **www.baptistpensions.org.uk**. The content of the member section is currently being refreshed and we strongly encourage you to use the website as your first port of call if you have any questions about the scheme. You will find instantly accessible information on subjects like:

- How to join the scheme.
- The level of contributions that are payable and the Pensionable Income figures upon which these should be based.
- Your investment options.
- What happens if you leave the scheme before retirement.
- The choices you have on how to take your retirement benefits.
- Downloadable forms and copies of important documents (such as all editions of the Members Newsletter).
- If you are not able to find what you need through this route, you can still contact the LCP administration team or Legal & General.

PENSION NEWS

THE PENSIONS REGULATOR

Scamproof your savings

Pension scams. Don't get stung.

Pension scams, where people may be tricked into handing over their pension pots by scammers, are on the increase and the new pension flexibilities introduced by the government in 2015, while generally very positive for members, have opened up further opportunities for fraudsters. Many of the offers seem very convincing, but, once you've transferred your money into a scam, it's too late. You could end up losing all your pensions savings and in some cases face a tax bill of up to 55%.

The Pensions Regulator has produced some tips to help you give yourself the best possible protection against the pension scammers, which you can find at:

http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx

More changes to pensions tax

In the July 2015 Budget the Government confirmed further changes to the pensions tax regime. For many people, the changes will have little or no impact. However some people will need to consider these changes carefully, particularly those who have already built up large pension benefits and savings, and those who are saving or earning large amounts in their pension schemes.

The table below outlines the key changes. If you think you may be affected you should consider taking appropriate independent advice, taking into account your personal circumstances.

Key Changes

Item	What is it?	Who is affected?
Lifetime Allowance	The Lifetime Allowance is the figure against which the value of an individual's pension benefits and savings is tested before extra tax is payable. It is being reduced from £1.25m to £1m.	Likely only to affect those who have already built up or are currently building up large pension benefits and savings, including pensions accrued with schemes other than the BPS
Annual Allowance	The Annual Allowance is the figure against which an individual's pension benefits and savings in a year are tested before extra tax is payable. It is being reduced for high earners from £40,000 to between £10,000 and £40,000, depending on income.	Reduction affects only those with total income of more than £110,000 in a tax year
Pension Input Period	The period over which an individual's pensions savings are measured for testing against the Annual Allowance (the "Pension Input Period") is changing for some. This will now be aligned to the tax year for all.	Applies to all but generally only impacts those making large pension savings

State pensions

The Government has announced that the 'full rate' of the new state pension, which starts in April 2016, has been set at £155.65 per week. Press reports have suggested that many people will not get the full amount.	**£155.65** "full rate" of the new weekly state pension - but how much will you receive?
Anyone who reaches State Pension Age from 6 April 2016 will be in the new state pension system. Those reaching State Pension Age before this date remain in the current state pension system.	**Action** Check your State Pension Age at https://www.gov.uk/calculate-statepension/y/age
Your new state pension is based on your personal National Insurance contributions/credits. A new online service is being developed which will enable everyone to access personalised information based on the new state pension rules. As the contributions you pay before 6 April 2016 can affect your new state pension starting amount, an accurate projection may not be available until some time after that date.	**Action** Request a statement of your new state pension at https://www.gov.uk/statepension-statement (if you are over age 55) or log on to www.Tax.service.gov.uk/checkmystatepension for a state pension forecast.

LEGAL ISSUES

Supplementary Benefits

We mentioned in our 2015 newsletter that we were reviewing the treatment of Supplementary Benefits. This review, in some circumstances, may result in increases being applied to Supplementary Benefit pensions (granted from contributions made between April 1997 and April 2006) when those pensions are in payment. However, this would also result in an increase to the Scheme's liabilities. We are sorry that the review has not yet been concluded, but we are currently still considering a number of complex legal questions on this matter. A separate update to members who may be affected was issued in March 2016.

Equalisation of Pension Benefits

During the course of 2015, a new legal issue came to light, relating to the scheme's historic treatment of equalisation of pension benefits between men and women. Resolution of this matter has been a lengthy process, requiring extensive engagement with the scheme solicitor and actuary and analysis of many years of historical member data. Those members who may be affected are males who joined the scheme prior to 14th March 1991 and the result may be an increase in the pension payable to them. We will be writing later in the year to all affected pensioners to explain the impact in detail. In the meantime though we can give reassurance that there will not be any reduction in benefits for any member.

INVESTMENT UPDATE

DB Plan Investments

The Trustee is responsible for deciding how to invest the DB Plan's assets.

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

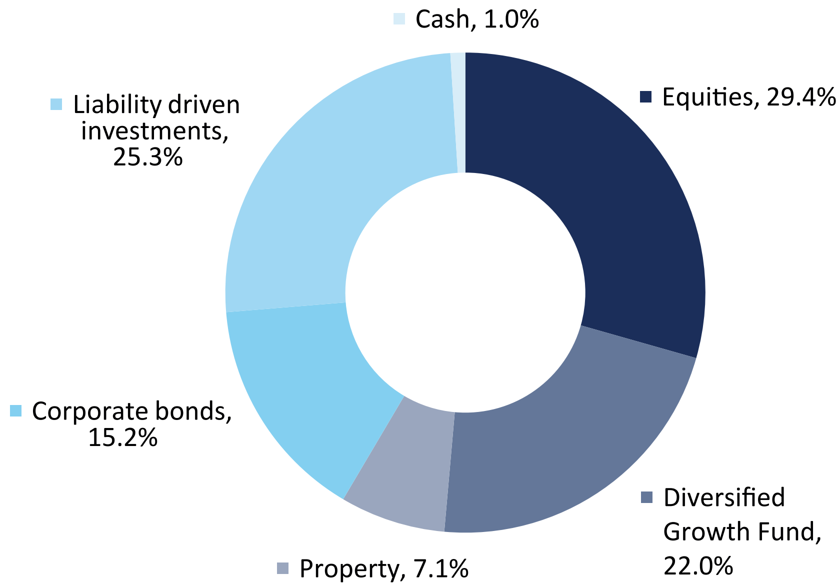
How do we decide how to invest the DB Plan assets?

When choosing an appropriate investment strategy we take account of many factors, including:

- The long timeframe over which the DB Plan will continue to pay pensions
- The balance of risk and potential reward
- The employers' ability to make additional contributions in future if we do not achieve the investment returns we hope for
- The ethical investment policy we have agreed with BUGB

Choosing the right investment strategy is a difficult balance, and one which we monitor carefully.

Asset allocation as at 31 December 2015



Total Assets: £180.4m

INVESTMENT **UPDATE** (cont.)

Recent changes to Investment Strategy

Over the course of 2014-2015, we have reviewed the Scheme's investment strategy in order to further improve the Scheme's balance of risk and potential reward. The main steps were as follows:

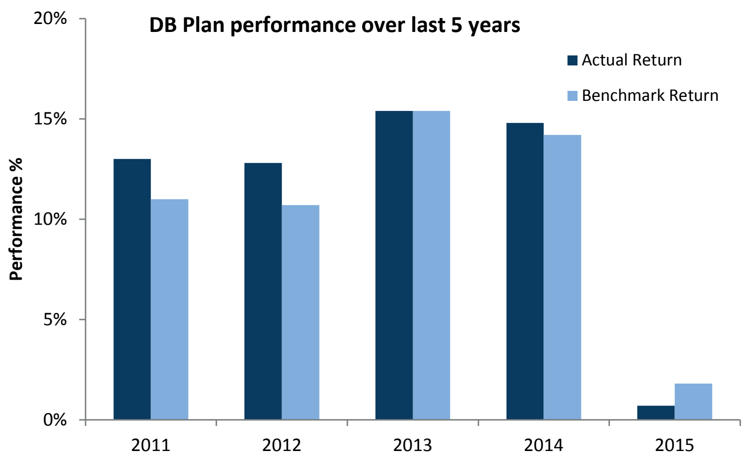
- appointing investment managers specialising in lower volatility approaches
- appointing a new ethical equity manager
- increasing the Scheme's exposure to bond assets, in order to stabilise the Scheme's funding position
- appointing a specialist property manager

The changes we have made have helped protect the Scheme's funding position over a difficult period for pension schemes.

Recent performance

We compare the returns achieved on the Scheme's assets against a "benchmark", or target level of return.

Over the year to 31 December 2015, the overall return on our assets was +1%, slightly falling behind the average of the managers' targets (which was +2%). The main reason for this shortfall was our Diversified Growth Fund managers falling behind their targets, in a difficult year for this type of fund. However, one year is a short time in the life of the Scheme and we attach greater significance to returns over longer periods. The return on the Scheme's assets over the three years to 31 December 2015 was 10% pa, in line with the average of the managers' targets. The chart below shows the performance of the Scheme over the last five years.



DC Plan investments

We have also reviewed and updated the DC Plan investment options during the year. Following the new options that were introduced to how members may draw their DC Plan savings, we made the following changes:

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

We set out more details of these updates when we wrote to you in June 2015.

SUMMARY FUNDING STATEMENT

What is the purpose of this statement?

We are sending you this statement to tell you about the DB Plan's funding. The law requires us to send you a statement each year. This statement has been produced by the Trustee of the Scheme with the aid of our professional advisors and relates to the DB Plan only.

How is the Scheme 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 by the members of the DB Plan 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 participating employers involved with the DB Plan, 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 DB Plan'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 participating 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 participating 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 participating employers were to become insolvent and unable to support the DB Plan (see further below).

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. The next valuation will take place as at 31 December 2016, although we also obtain "snapshots" of the position in the years between full valuations. In addition, we are able to track the progress of the DB Plan's financial position on an approximate basis day by day.

SUMMARY FUNDING STATEMENT (cont.)

Snapshots of the Scheme's funding level

The results of the actuarial valuation as at 31 December 2013 were set out in your last newsletter. These are repeated below, alongside more approximate snapshots of the position in 2014 and 2015.

Item	31 December 2013	31 December 2014	31 December 2015
Value of assets held in the Scheme	£161m	£182m	£180m
Target level of assets needed to pay benefits	£245m	£293m	£285m
Shortfall in assets	£84m	£111m	£105m
Estimated funding level	66%	62%	63%

On the solvency basis, the actuarial valuation at 31 December 2013 revealed 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 and unable to support the Scheme. We have no reason to believe that this might happen and the Pension Trustee is legally obliged by the Pensions Regulator to monitor closely the ability of its supporting churches and other employers to meet their obligation to members, In pensions jargon, this is known as monitoring the strength of the employer covenant and in 2015, the Trustee appointed PWC as our specialist advisers in this area.

How has the position changed?

The table above shows that the shortfall in the DB Plan's assets increased during 2014 but recovered partially during 2015. Overall, the shortfall has increased.

This worsening in the funding position, despite the contributions paid by the employers, was mainly due to movements in investment markets over the year working against the Scheme.

The Trustee realises that the funding position of the DB Plan will fluctuate over time as financial and investment market conditions change. So long as the participating employers pay the necessary contributions, then the existence of a shortfall will not prevent benefits continuing to be paid in full.

How much do the participating employers contribute to the DB Plan?

Following the 2013 actuarial valuation, it was agreed that employers' deficit contributions would increase to 12% of Pensionable Income/ Minimum Pensionable Income with effect from January 2016. Churches and other employers that were only involved in the DB Plan for a short period pay less than 12%. It was projected that, if the actuarial assumptions were fulfilled in practice from 31 December 2013, these deficit contributions would be payable until June 2035.

As the deficit is estimated to be larger now than in 2013, a further increase in contributions may be needed after the 2016 actuarial valuation.

What would be the situation if the participating employers were unable to pay the necessary contributions?

In general, legislation requires employers to meet their pension liabilities. Even if the worst came to the worst and the 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.

Where can I get further information?

Should you require further information about your benefits in the DB Plan you should contact LCP - contact details are shown on the back page of this 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?

Regulations require us to confirm to you that the participating employers have not taken any money out of the Scheme in the last 12 months. We can confirm this is the case and as far as we are aware the participating employers have no intention of doing so in future.

CONTACT US

IF YOU HAVE ANY QUESTIONS ON YOUR BENEFITS PLEASE CONTACT:

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+44 (0)1962 672930

BaptistAdmin@lcp.uk.com

Legal & General

0845 070 8686
(and enter pin number 97 when prompted so that the person who answers your call will then know you are a member of the Baptist Pension Scheme)

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

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Lane Clark & Peacock LLP

Administrators (DB Plan)
Lane Clark & Peacock LLP

Administrators (DC Plan)
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Ruffer LLP
CB Richard Ellis Investors
GMO UK Ltd

Royal London Asset Management Ltd