BAPTISTS TOGETHER
BAPTIST PENSION SCHEME

PENSIONWATCH

MAY 2016

BAPTIST PENSION SCHEME – NEWSLETTER FOR CHURCHES AND OTHER EMPLOYERS

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 Baptist Union of Great Britain (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. See page 14 for more on the new Group.
- I was able to participate in some of the Pension Roadshows for churches during the Autumn and Winter months. As well as explaining where the Scheme is now, we sought views on strategic changes. The Employer Group is considering these and this formed part of a Strategy Day involving the Employer Group and the Trustee in February.
- The process of LCP taking over the administration of the Defined Benefit (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 Defined Contribution (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 over the claim against our former advisers. A new legal issue regarding equalisation of benefits has also come to light. This has meant suspending calculation of individual church debt figures again, which we know is a cause of frustration for many.
- 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 18 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.

ACTION POINTS

As well as providing you with an update on the Scheme and other pensions news, this newsletter details a number of important actions that you should be taking as an employer to ensure you are fulfilling your role properly. The key actions you need to take are summarised below.

Help the Scheme run smoothly

- We strongly encourage you to use the scheme website and/or the Employer Hub as your first port of call, if you have any questions about the Scheme. We have shown links to both of these on page 8.
- If you haven't already done so, register as a user on the Employer Hub.
- Use the Employer Hub to keep your contact details up-to-date: let LCP know if your organisation's email address for correspondence changes.
- Inform LCP promptly of any changes to your Scheme membership or their pensionable income figures.
- Contact LCP as soon as possible if you think you will need to include a pensions liability on your balance sheet in your accounts under FRS102.
- Thank you providing the Trustee with your organisations' financial details in 2014/15. This helps us to understand the financial strength of the employers (which the Pensions Regulator requires us to consider). We have appointed new advisers (PWC) to assist us with this and will be asking for further information from you in the months ahead. We would be very grateful for your prompt response.

Avoid "bear traps"

- Auto-enrolment: establish from the Pensions Regulator's website the latest date by which you need to meet the auto-enrolment requirements and start to plan accordingly.
- Illness: if a member of the Ministers or Staff Sections of the DC Plan in your service is off sick for four weeks, notify LCP immediately.
- Change of legal structure: if you are considering changing the legal structure of your church or organisation, ensure that you identify any pensions implications, including the potential risk of inadvertently creating a cessation event, at the earliest possible stage in your planning.
- Cessation events: if you are a participating employer in the closed DB plan and your last active member leaves your employment, then please inform LCP immediately. If you wish to avoid a cessation event, you will need to apply for a "period of grace".
- If you have begun a period of grace that ends in less than 6 months, you must make provision to employ a new Scheme member within that period if you want to avoid a cessation event.

More information on many of these action points is supplied in the following pages, and you can find LCP's contact details on the back page.

ABOUT THE SCHEME

The Baptist Pension Scheme has two sections: the closed DB Plan and the DC Plan

The closed DB PLAN

- Provides defined benefits for service up to 31 December 2011.
- Formerly known as the Baptist Ministers' Pension Fund (BMPF).
- There are more than 1,400 "participating employers", responsible under UK pensions law for financing the DB Plan.
- Each church or other employer that had a member in the BMPF at any time between 1 September 2005 and 31 December 2011 remains liable for funding the Scheme until their liabilities are fully settled.
- The funding position is formally reviewed every 3 years by the Trustee and revised employer contributions are then agreed with BUGB on behalf of all the employers.
- Following the December 2013 review, employer contributions have increased to 12% of Pensionable Income/Minimum Pensionable Income from 1 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 December 2013, these deficit contributions would be payable until June 2035.
- More recent updates on funding and investments are provided later in this newsletter.
- Administration of the DB Plan was outsourced to LCP in 2015.

ABOUT THE SCHEME

DC PLAN

- Provides benefits on a defined contribution basis 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.

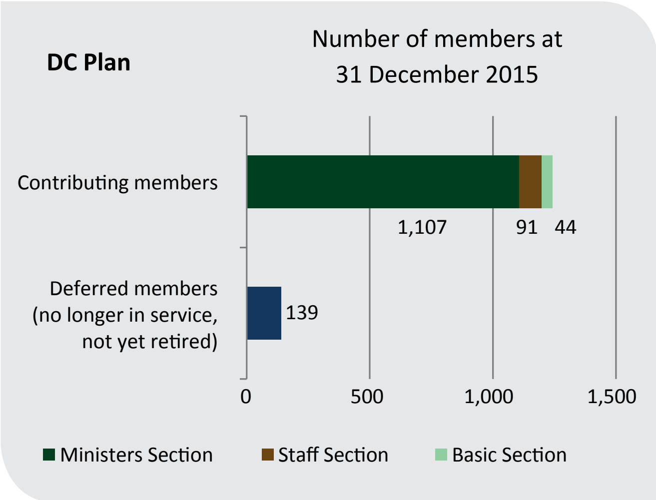
How does the DC Plan work?

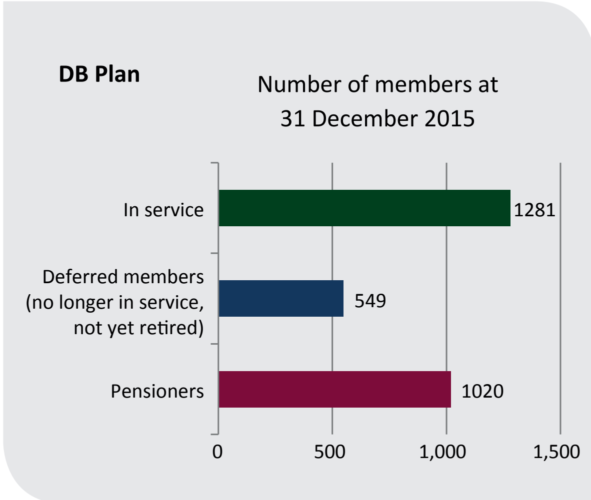
- Contributions from both members and their church / employer are invested in individual Pension Accounts.
- Each individual's Pension Account is invested in the investment fund(s) they have chosen. There is a default option for individuals who do not make a choice. For those individuals who wish actively to manage their pension savings, choices can be made from a wide range of investment funds and ethical options are available.
- When members come to retire, the value of their Pension Account is used to provide their benefits.
- Since April 2015, the law no longer requires individuals to use their Pension Account to buy a pension when they retire.
- The Trustee changed the rules of the DC Plan in 2015 to incorporate some of the new flexibilities made available in law and to restructure the default funds appropriately. We wrote to members separately in June 2015 to explain these changes.
- Although the DC Plan is a high quality offering, the constant changes to pensions legislation and the continuing pressure on investment returns mean that it is important to regularly review the Plan to ensure it remains fit for purpose. The Employer Group is currently considering options which might improve the flexibility of the DC plan.

Where can I go to get more information?

- The BPS Website: www.baptistpensions.org.uk
- The Employer Hub: https://hublogin.lcp.uk.com/account/signin
- LCP (contact details on back page)

AT A GLANCE





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

Note: The figures in the table above may not sum correctly due to rounding

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

OUTSOURCING OF DB PLAN ADMINISTRATION

A year on from the decision to outsource the DB administration work to Lane Clark & Peacock ("LCP") we are pleased to report that the administration 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.

The Employer Hub

The launch of the Employer Hub in July 2015 has made it easier, faster and more secure for employers to submit information to the scheme and to ensure that your contact details are kept up to date. This will allow the Scheme significantly to improve its communication with you and will also help us with the management of scheme expenses. Given the current funding position of the Scheme, it is very important that we all do what we can to reduce these expenses (whilst also ensuring that the Scheme is run in accordance with best practice and you are able to readily access the information that you need).

We will be adding additional functionality to the Hub (including information about individual employer deficit liability figures) during 2016.

The Hub has been well received by employers, with over 90% of you now registered to use it. We are delighted with this response and would like to thank you all for your co-operation during this period of change. If you haven't already done so, you can register as a new user at **https://hublogin.lcp.uk.com/account/signin**

The BPS Website

We strongly encourage you to use the Scheme website (**www.baptistpensions.org.uk**) and the Employer Hub as your first port of call if you have any questions. The content of the website is being refreshed to make sure it covers the most common queries we receive from employers and members. Some examples of the information available are:

- A fully comprehensive guide to cessation events and the process to follow should you wish to avoid triggering such an event.
- General information about the Scheme such as details regarding the level of contributions that are payable and the Pensionable Income figures upon which these should be based.
- Details of the steps to be taken in order to add a new member to the Scheme (including an "Interim Member").
- A comprehensive guide to the new automatic enrolment requirements.
- A suite of standard forms (eg a change of pastorate forms, direct debit mandates etc).
- Copies of documents such as this newsletter (together with previous editions).

If you are not able to find what you need through this route, you can still contact the LCP administration team. Their contact details 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).

Payment of Pension Contributions

Please note that we are unable to make retrospective adjustments to the contributions collected from you. It is therefore very important that you inform LCP as soon as you become aware of any changes to your membership (eg joiners and leavers) and their pensionable income figures.

Contributions are collected at the end of each month (eg contributions for February are collected at the end of February) and, as a result of legal rules regarding direct debit collections, any changes that impact on this must be processed by LCP around 4 weeks before the collection date.

Once again, 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 and we are confident that this will continue as we introduce further functionality through the Employer Hub and improve our communication with you.

CESSATION EVENTS

For as long as there is a deficit in the DB Plan, a participating employer will trigger a 'cessation event', when it ceases to employ any active members of the pension scheme. This can easily happen for example, when a church employs only one member in the Scheme, the minister, and he/she moves on, retires, or dies and there is a gap, sometimes lengthy, before a new minister is appointed.

When a cessation event arises, the employer becomes liable for an 'employer debt'. This means that it has an immediate legal obligation to pay its share of the deficit. The amount of an employer debt depends on the participating employer's history of having members in the DB Plan, but it will normally be a substantial sum.

Hence, for ongoing employers, cessation events and their associated employer debts are to be avoided unless an employer is clear that it has the resources to meet the debt and wishes to pay it off.

How to avoid a cessation event if your last active scheme member leaves your employment

1. Apply for a period of grace – this is a statutory provision, available where the employer intends to employ another active member of the Baptist Pension Scheme. During a period of grace, which may last up to three years, you will be treated as if you were still an employer of active members.
2. It is the responsibility of the employer to apply for a period of grace. Obtaining a period of grace is a simple process, but very inflexible, so it is essential that you understand what needs to be done and by when. The request should be made as soon as possible after you become aware that your last active scheme member will be leaving. The very latest that a request can be made is two months after you cease to employ an active scheme member. This time limit is set out in pensions regulations and no extension is permitted.
3. If you fail to request a period of grace within the time limit, a cessation event occurs and an employer debt is due immediately.
4. Full details of how to apply for a period of grace, including a downloadable request letter, are on the BPS website.

What happens at the end of a period of grace if you have not employed a new active scheme member?

1. If you do not employ an active member by the last day of the period of grace, then you are treated as if the period of grace had not existed. This means that a cessation event has occurred at the date when you ceased to employ at least one active scheme member and the employer debt becomes due in full.
2. If you employ an active member during the period of grace, the period of grace ends and you will be treated as if no cessation event had occurred.
3. If you still intend to employ another active scheme member, then it may be possible under the Scheme Rules, to employ an Interim Member (IM). In essence, an IM is a temporary appointment effective until you are in a position to appoint a new permanent employee. Further details can be found on the BPS website.

What happens if your church is closing?

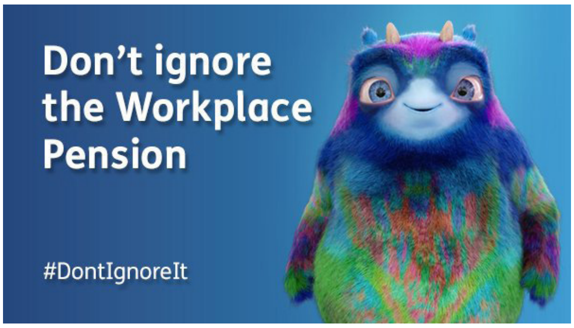
1. This will trigger a cessation event and any pension liabilities need to be dealt with as a part of the closure process.
2. It is essential to contact us to check whether a debt is due before any assets are disbursed.

What happens if the legal structure of your organisation changes?

1. Under pensions regulations, a change in legal structure (for example conversion to a CIO, or a formal amalgamation of two existing churches) may lead to a cessation event.
2. There is a legal process set out for managing the pensions implications of such a structural change and avoiding a cessation event. It is quite bureaucratic and cannot be applied retrospectively.
3. It is therefore, essential that you contact the Scheme at a very early stage in your planning to consider any pensions implications.

PENSION NEWS

Auto-enrolment



As we have outlined in previous newsletters, all employers will soon need to provide a pension for all their employees (except those on very low levels of pay, or outside certain age bands) through automatically enrolling them into a pension scheme. This requirement applies to many larger employers already. The scheme that is provided for employees must meet certain minimum requirements, mainly regarding the level of contributions that are paid by both the employee and the employer.

If you have not done so already, it is essential that you understand:

- the date from which you are legally required to enrol your employees automatically into a pension scheme (you can find information on this at www.thepensionsregulator.gov.uk/employers/what-is-my-stagingdate).
- the requirements involved in automatically enrolling your minister and any other employees (you can find information on this at www.thepensionsregulator.gov.uk/automatic-enrolment).

The BPS has also provided detailed guidance notes on auto enrolment which are available at the following link: **http://www.baptistpensions.org.uk/auto-enrolment**

All sections of the DC Plan are designed to more than meet the current minimum automatic enrolment requirements and the Basic Section offers pension saving at lower contribution levels for both members and employers than the other sections of the DC Plan. However, the DC Plan may not necessarily be the best option for providing pensions for your staff, especially for lower-paid employees, and there are specific restrictions on the circumstances in which it would be available for use (see section 9 of the BUGB note available on the website linked above). You can also consider alternatives such as NEST (the workplace pension set up by government). **http://www.nestpensions.org.uk**

Scamproof your members' savings

Pension scams. Don't get stung.

Help your staff to be aware of pension scams, where they may be tricked into handing over their pension pots by fraudsters. Many of the "deals" seem very convincing, starting with offers of excellent returns.

However, once the money is transferred into a scam it's too late, and the member could end up losing all his or her hard earned pensions savings and in some cases face a tax bill of up to 55%.

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

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

PENSION NEWS (cont.)

New UK accounting standards

As mentioned in previous newsletters, a new accounting standard called FRS102 and an updated version of the Charities SORP (statement of recognised practice) apply from 2015.

We expect that very few churches and employers that support the Scheme will be required to account under FRS102 but some may choose to in any case. Importantly, those that do will need to disclose pension liabilities in their accounts for the first time. To help you decide which accounting standard is appropriate for your organisation, please refer to the following website:

http://www.charitysorp.org/choosing-the-right-sorp

Please contact LCP as soon as possible if you think that you will adopt FRS102 and be required to disclose pension figures. There will be a charge for obtaining the relevant information and calculations.

More changes to pensions tax

In the July 2015 Budget the Government confirmed further changes to the pensions tax regime. For most members of the BPS, the changes will have little or no impact. But a few 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 or your employees may be affected you should consider taking appropriate independent advice, taking into account 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

LEGAL ISSUES

Supplementary Benefits

We mentioned in our 2015 newsletter that one particular aspect of the Scheme's operation is currently under review: the treatment of Supplementary Benefits. This change may require increases to be applied to Supplementary Benefit pensions (granted from contributions made between April 1997 and April 2006) when those pensions are in payment. This would increase the pensions payable to members and the Scheme's overall liabilities. We regret the ongoing delay in resolving this matter but we are currently still considering the complex legal questions on this issue and a separate update will be provided in due course. A letter was sent in March 2016 to all employers providing further details.

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 a) males with service between 17 May 1990 and 13 March 1991, and b) males who joined the scheme before 1 March 1991 and later took early retirement between 1 October 1994 and 20 May 2015. The overall result may be an increase in the pension payable to them and an increase to the Scheme's overall liabilities. We will be writing in due course to all affected members to explain the impact. A further unfortunate outcome of this new issue, has been that for some months we have been unable to calculate individual employer debt estimates. We realise how frustrating this has been and apologise for lengthy delay. We are grateful for your patience and understanding and are pleased to advise that estimate calculations will be restarting in the next few weeks.

EMPLOYER FINANCIAL INFORMATION AND THE "EMPLOYER COVENANT"

"Assessing the employer covenant is complex and requires openness and cooperation between trustees and their sponsoring employers" The Pensions Regulator, June 2009

The employer covenant is the legal duty and the ability of the scheme employers to fund the DB pension plan. The stronger the employer covenant of a scheme, the more likely it is that the pension promise made to members will be met.

The relative strength or weakness of the covenant can have a material impact on a scheme's actuarial assumptions, investment strategy, deficit, recovery plan terms and the timing and size of additional financial contributions.

The Pension Trustee is legally obliged by the Pensions Regulator to monitor the strength of the employer covenant and we have appointed PWC as our advisers in this area.

Thank you to those of you who provided the Trustee with your organisations' financial details in previous years. This information is essential to help us understand the overall financial strength of the employers supporting the scheme.

We will be asking for further information from you in the months ahead and would remind you that all employers participating in the DB Plan have a legal obligation, under both pensions law and charity law, to supply their financial accounts to the Trustee.

EMPLOYER GROUP

A Message from the new Baptist Pension Scheme Employer Group

Over the last 10 years the final salary pensions environment has become far more complex and the financial position of many pension schemes has deteriorated significantly. This has been caused by a sustained period of very low interest rates, lower than expected investment returns and significantly increased liabilities as people live longer.

As one of the UK's largest multi employer schemes the Baptist Pension Scheme has been heavily impacted by these forces and at the last valuation in December 2013 it had a deficit of £84 million. Since then the position has got significantly worse with the deficit at 31 December 2015 being around £105 million.

These challenges combined with the desire of many Churches and other Employers, to have a greater say in helping solve this issue led to BUGB, as the scheme principal employer, establishing the Employer Group.

The objective of this group is to work with the Pension Fund Trustee, (which is legally independent of BUGB and all the employers participating in the scheme and is responsible for representing the pension scheme members), to develop solutions to ensure that the deficit in the scheme is solved by this generation. This will not be an easy task, will involve some imaginative solutions and will require sacrifice by all parties.

The Employer Group is made up of 7 people with 2 representing Regional Baptist Associations, 4 representing Churches and one from BUGB. The people who have been chosen to serve and who they represent are:-

- Revd Graham Ensor (Yorkshire Baptist Association)
- Tim Jackson (East Midlands Baptist Association)
- Malcolm Broad (BUGB)
- Dean Thorpe (Dronfield Baptist Church)
- David Evans (Loughton Baptist Church)
- Carole Sheldon (Brighton Road Baptist Church)
- Revd Graham Dunn (Barrow Baptist Church)

The group's first meeting was in early March following the extensive preparatory work done by the initial working group in the second half of 2015. The Employer Group can also co-opt 2 further people with specialist knowledge.

The Employer Group is there to develop a strategy for bringing the Pension Scheme DB Plan into balance in the medium term, in conjunction with the Pension Fund Trustee. It will also review the ongoing Defined Contribution Scheme that ministers and staff are now provided with.

We were delighted that so many of you were able to attend the recent Pension Roadshows and the excellent feedback provided by the discussion groups from each roadshow will be a valuable starting point to the Group's work. If you have any strategic ideas that may inform the potential solution please contact us as outlined below.

However if you have a Church specific query then that should continue to be directed to LCP.

We all need to recognise that the Baptist Pension Scheme is in a challenging position and we need to work together to ensure that we develop a robust plan involving all members of the Baptist family to ensure that discussions of this sort do not continue to be top of the agenda for many years to come. As you have already seen the deficit contributions for most employers have increased to 12% on 1 January 2016 and if we do not develop some radical solutions it is likely they will increase further after the 31 December 2016 valuation. These are costs that could start to impact the mission of a number of our Churches.

Our aim is to issue further feedback in the middle of the year to update you on progress and the potential solutions.

Contact details:

The Employer Group
Email: pensionemployersgroup@baptist.org.uk

INVESTMENT UPDATE

The Trustee of the Scheme 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.

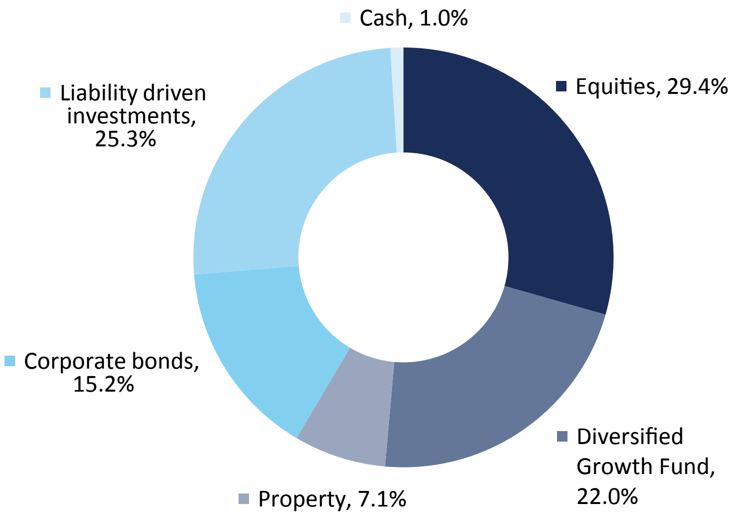
How do we decide how to invest?

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

- The long timeframe over which the Scheme 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

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:

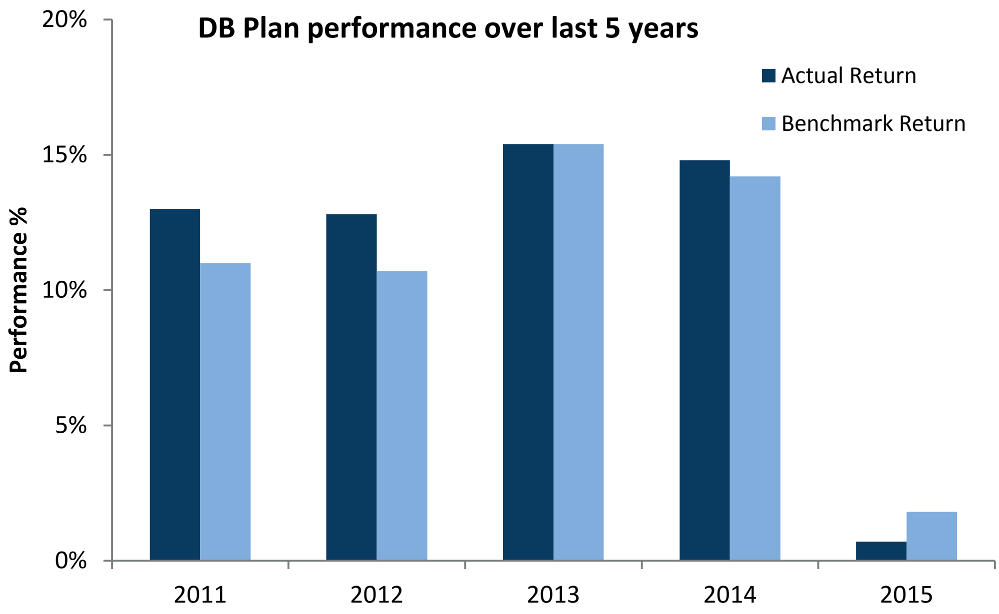
- appointing investment managers specialising in lower volatility approaches
- appointing a new ethical equity manager
- increasing the Scheme's exposure to bond assets, in order to stabilise the Scheme's funding position
- appointing of a specialist property manager

These changes 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, over 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.



FUNDING UPDATE

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

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

Our latest full actuarial valuation had an effective date of 31 December 2013, and we are required to obtain more formal annual "snapshots" once a year.

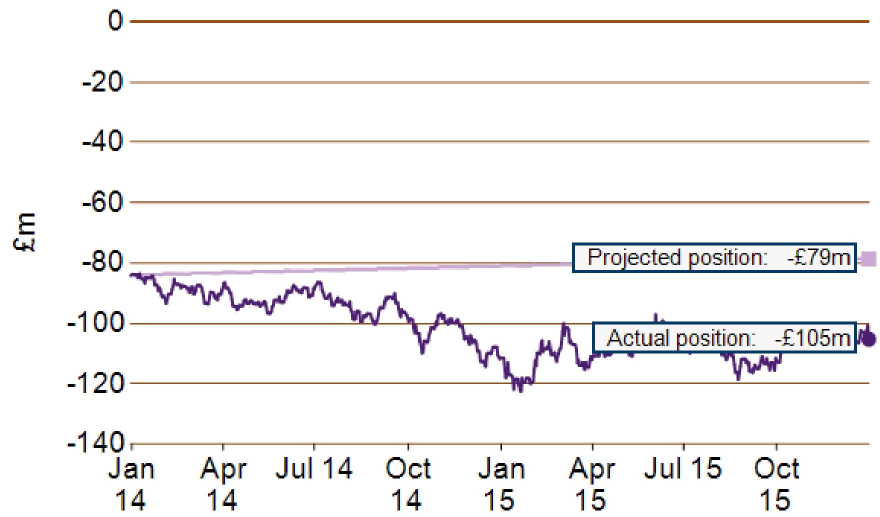
The results of these annual snapshots are shown in the table below.

Snapshots of the Scheme's funding level

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%

As well as these annual snapshots, we are able to track the progress of the DB Plan's financial position on an approximate basis day-by-day. The chart below shows:

- "Projected position": how the shortfall would gradually have reduced over time if the assumptions made for the 2013 actuarial valuation had been borne out in practice and deficiency contributions were paid; and
- "Actual position": the approximate shortfall each day, allowing for actual movements in investment markets.



This chart highlights the substantial risks that remain within the DB Plan, as the shortfall can vary considerably even over short periods. It would be possible to further reduce the risk within the DB Plan's investment strategy, but there would be a corresponding reduction in expected returns. This would mean that deficiency contributions from the employers would need to increase or be paid for even longer to make up the difference.

Changes since 2013

The table above shows that, between 2013 and 2015, the shortfall in the DB Plan's assets increased despite the contributions paid by churches and other employers.

The Trustee realises that the funding position of the DB Plan will fluctuate over time as financial and investment market conditions change, and the last few years have been very challenging for pension schemes with long term interest rates remaining persistently low.

Level of deficit contributions

Following the 2013 actuarial valuation, employers' deficit contributions have increased 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%.

Further details were given in last year's newsletter.

Looking ahead

It was projected that, if the actuarial assumptions were fulfilled in practice, the revised deficit contributions would be payable until June 2035, at which point the deficit would have been removed.

The next 3-yearly valuation is due as at 31 December 2016. Unless the DB Plan's funding position improves considerably before that date, the figures in the table above indicate that it will be necessary to further increase deficit contributions and / or extend the period for which those contributions are due to be paid.

The way that the overall deficit contributions are distributed between the 1400+ churches and other employers participating in the DB Plan will be reviewed at the next valuation.

CONTACT US

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