FAQs for Scheme members

Why is BUGB making such a significant additional cash contribution?
In keeping with most Defined Benefit pension schemes, the BPS is dealing with a large deficit. This deficit has to be funded by the scheme employers.

BUGB has recognized the need to eliminate the deficit as quickly as possible. This would increase the security of member benefits and also reduce the financial strain that the pension deficit is placing on Baptist churches and other scheme employers across the country.

It has therefore agreed to make total additional contributions of £33.5m on behalf of the Baptist family in order to reduce the current deficit. At least £30m will be paid in 2018, with the remainder by 2023.

Why has the measure of inflation for pensions in payment been changed from RPI to CPI?
At the request of the Pension Employers Group as part of the overall Family Solution, the Pension Trustee has agreed that from January 2019 onwards, the annual increase to pensions in payment will use the Consumer Price Index (CPI) as the measure of inflation, rather than the Retail Price Index (RPI). This change is permitted within the scheme rules.

The Pension Employers Group request was on the basis that RPI is now generally accepted as a flawed measure that typically overstates inflation.

RPI lost its official status as a "National Statistic" in 2013. In March 2018, the Office for National Statistics (ONS) said "Overall, RPI is a very poor measure of general inflation, at times greatly overestimating and at other times underestimating changes in prices and how these changes are experienced".
In contrast to RPI, CPI is calculated to an internationally recognised standard.

Why has the Pension Trustee agreed to the change from RPI to CPI?
The Pension Trustee has responsibility to oversee the financial management of the Scheme and ensure payment of benefits according to the Scheme's rules. A change in index from RPI to CPI is allowed under the rules, so it was necessary for the Trustee to consider it at the request of the Employers Group.
The Trustee took account of several factors in reaching its decision. These included the size of the deficit, the significant amount being offered by BUGB as a lump sum, the security of future pensions and the nature of the two inflation indices. The offsetting measures were proposed by the Trustee to ameliorate the impact on pensions in payment over the first few years and to provide a more consistent long-term approach to inflation protection for pensions in payment across the Scheme.

What does the change from RPI to CPI mean for the Scheme members and their dependants?
CPI is typically, though not always, lower than RPI, by around 1% per annum. Over the long term therefore, although your pension will continue to be protected against future inflation, the increase to pensions in payment will be lower under CPI than RPI.

To partly offset the impact on scheme beneficiaries of the change to CPI, a number of changes to the scheme benefits have been agreed.

1. Pensions in payment which were accrued on service prior to 6th April 2006.
If you are receiving a scheme Defined Benefit pension, then for that element of your pension which was accrued on service prior to 6th April 2006, the following applies:

- For annual increases that take effect on 1 January 2019, 1 January 2020 and 1 January 2021, the increase will be CPI plus an additional amount of up to 1% subject to:

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- CPI being lower than RPI at the preceding 30th September
  - the total increase not exceeding RPI at the preceding 30th September
  - a maximum total increase of 5% (this is the maximum increase permitted under the scheme rules)
- If CPI is in excess of RPI at the preceding 30 September, the additional "up to 1%" will not be granted and the overall increase will be CPI, subject to a maximum of 5%.
- From 1 January 2022, the annual increase will be CPI, subject to a maximum of 5%

2. Pensions in payment which were accrued on service on or after 6th April 2006

If you are receiving a scheme Defined Benefit pension, then for that element of your pension which was accrued on service on or after 6th April 2006, the following applies:

- For annual increases that take effect on 1 January 2019 and each year thereafter, the maximum total increase in each year moves up from 2.5% to 5%. This mirrors the cap on increases to pre-2006 pensions which is currently 5% and provides additional protection to members in periods of higher inflation.

3. Changes to the Manse Allowance

Minimum Pensionable Income is equal to the Minimum Stipend (set by BUGB each year) and the Manse Allowance. The level of the Manse Allowance has been frozen since 2011. In future, it will increase in line with CPI. This will have the effect of increasing the MPI over time, benefitting current active scheme members.

I am a scheme pensioner - will my pension be reduced as a result of these changes?

No, your pension will not be reduced. Your current pension is unchanged and remains protected against future inflation. However, from 1st January 2019, the annual pension increase will be based on CPI, instead of RPI.

Although in some years, CPI may be greater than RPI, in most years and over the long term, CPI is expected to be lower than RPI. This means that your annual pension increase will usually be lower under CPI than RPI.

To partly offset this long-term effect, your pension increases will be amended in accordance with paragraphs 1 and 2 of the question above ***What does the change from RPI to CPI mean for the Scheme members and their dependants?***

I am an active scheme member with previous pension accrual in the DB plan – will my pension be reduced as a result of these changes?

No, your defined benefit (DB) pension will not be reduced. The commitment to increase the manse allowance by CPI each year means that the Minimum Pensionable Income, on which your actual DB pension will be based, will increase more quickly. When you access your pension, it remains protected against future inflation but will increase in line with CPI instead of RPI.

Although in some years, CPI may be greater than RPI, in most years and over the long term, CPI is expected to be lower than RPI. This means that your annual pension increase will usually be lower under CPI than RPI.

To partly offset this long-term effect, your pension increases may be enhanced in accordance with paragraphs 1 and 2 of the question above depending on when you retire.

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I am a deferred scheme member – will my pension be reduced as a result of these changes?
No, your DB Plan pension will not be reduced. While you remain a deferred member, your deferred pension will continue to be increased each year in line with RPI (subject to the statutory 5% pa cumulative cap) as this is mandated by the scheme rules. When you access your pension, it remains protected against future inflation but will increase in line with CPI instead of RPI.

Although in some years, CPI may be greater than RPI, in most years and over the long term, CPI is expected to be lower than RPI. This means that your annual pension increase will usually be lower under CPI than RPI.

To partly offset this long-term effect, your pension increases may be enhanced in accordance with paragraphs 1 and 2 of the question above depending on when you retire.

When will the changes to pension increases happen?
The changes will take place on 1st January 2019, subject to one important caveat. Later in 2018, the Supreme Court is expected to give judgment on a case which deals with the legality of a change of inflation index from RPI to CPI for pension increases. The circumstances of the case are quite specific to the pension scheme in question and our legal advice is that the judgement is unlikely to impact the BPS. However, if the judgement is delayed or does have implications for the BPS, then the Family Solution may also be affected and should this occur, the Pension Trustee and Employers Group have agreed to reopen negotiations on a revised funding plan.

Do I need to do anything?
There is no action required by you. Any changes to the inflation index or benefits will happen automatically.

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