BAPTISTS TOGETHER
BAPTIST PENSION SCHEME

To all churches and other employers with a financial commitment to the DB Plan of the Baptist Pension Scheme

Baptist Pension Scheme (BPS)
Update on the Family Solution

Dear Friends,

Update on the Family Solution

We are writing to provide your organisation with an update on the implementation of the Family Solution, which we wrote to you about in May 2018 (see www.baptist.org.uk/familysolution for copies of the communications).

In the communication in May 2018, we highlighted a caveat to the Family Solution concerning a judgement due from the Supreme Court. The judgement was published in early November 2018 and legal advice was subsequently received that the judgement did not present any impediment to the Family Solution. As a result, the Pension Scheme Trustee and Baptist Union of Great Britain (Baptist Union) have been working hard over November and December to implement the Family Solution.

Under the Family Solution, the Baptist Union agreed to contribute £30m by the end of 2018 with a further £3.5m by the end of 2023. We are pleased to inform you that the Baptist Union actually contributed £33m to the Baptist Pension Scheme in December 2018. The Trustees of the Baptist Union decided to bring forward £3m of the contributions due by 2023 to accelerate the improvement in the funding position of the scheme. The Baptist Union is committed to paying the remaining £0.5m by the end of 2023.

The adjustments to the scheme benefits agreed under the Family Solution have also been implemented starting from the beginning of 2019. These changes are as follows:

- Change from RPI to CPI for the inflation index used to calculate increases to pensions in payment.
- To help cushion the effect of this change for current pensioners:
    - an increase to that part of any pension in payment which was earned on service before 6th April 2006, of up to 1% in addition to CPI for the increase this January and the next 2 years, provided that CPI is less than RPI, and subject to the overall annual cap of 5% on increases contained within the scheme rules.
    - An increase to the cap on annual increases for that part of any pension in payment which was earned on service on or after 6th April 2006, from 2.5% to 5%. (This mirrors the cap on increases to pre-6th April 2006 pensions.)
- The manse allowance (which has been frozen for a number of years) will increase in line with CPI inflation, benefitting active scheme members. For 2019 this will be £6,144 up from £6,000.

Double Cessation Events

As part of the Family Solution and as a direct result of the £33m additional contribution from the Baptist Union, the Pension Scheme Trustee and the Union have agreed a mechanism which allows us to overcome the iniquity of the double counting of liabilities for a certain group of employers, without any material cost to the scheme. This relates to an inconsistency in pensions legislation where employers have or might have multiple cessation events. This solution will ensure that the approximately 350 employers directly affected by this issue will be relieved of the unfairness of potentially being liable to pay some or all of their liabilities to the scheme twice. We will be issuing a further communication to all the scheme employers in the next few weeks giving more detail on this part of the Family Solution and also writing to each directly affected employer providing information on what will happen next.

Update on Scheme Performance

Despite the volatility in the financial markets seen in 2018, overall the scheme has continued to perform in line with the Recovery Plan agreed as part of the Family Solution in April 2018. As at 31st December 2018 the estimated deficit on a technical provisions basis has reduced to around £50m, compared to £93m at the end of 2016, with the key improvements being due to the £33m contribution by the Baptist Union and regular deficit contributions from all scheme employers. The estimated deficit on a buy-out basis (based on the cost of paying an insurance company to take on the liabilities for the scheme) has reduced even more, from £162m at the end of 2016 to around £80m at the end of 2018. The additional reduction has come in part from improvements in buy-out pricing being offered by insurers, and also incorporation of the Family Solution benefit adjustments described above (which had not previously been reflected in the buy-out cost as they were not codified in the Scheme Rules). The deficit figures at 31 December 2018 quoted above are estimates at this stage – they will be formally confirmed in the Employer Newsletter due out this summer.

If your organisation receives an automated Monthly Debt Estimate (AMDE), you will be able to see the impact of these improvements by checking the next set of AMDE figures on 4*my*staff which will be published shortly. Please note that these are estimates of your organisation's share of the deficit on the buy-out basis.

The scheme remains on track to clear the deficit by the end of 2028, based on employers continuing to make their required deficit contributions. In line with the Recovery Plan, employer contributions will continue to rise in line with Minimum Pensionable Income (MPI).

However there remain risks to this plan and employers need to be aware that contributions may need to go on for longer than currently planned or be increased in future. The Pension Scheme Trustee and Employers' Group will continue to monitor progress against the deficit recovery plan and keep employers updated.

In the light of the improved funding position the Pension Scheme Trustee has already implemented changes to the investments held by the scheme to reduce the risk level. Most notably the proportion of the scheme's assets invested in equities has already been reduced and moved to lower risk investments.

Further changes to the Investments are under consideration, including the Pension Scheme Trustee considering purchasing a policy with an insurance company to match a portion of the scheme benefit payments. Such a policy would further reduce the risk level and help to improve the security of the Scheme. It would have no impact on members and the level of their pensions. There will be further communications about this in 2019.

What you need to do

Employers do not need to take any action as a result of this communication. We urge employers to continue to make their required deficit contributions in line with their legal obligations to the scheme. A separate communication will be sent to scheme beneficiaries.

Our thanks

We would like to put on record our thanks to all who have worked hard to bring together the Family Solution. Significant contributions have come from across the Baptist Family and we believe this puts the scheme in a much better position than it has been for some considerable time.

Yours sincerely

Chris Maggs
Moderator, Baptist
Pension Scheme Trustee

Alastair Mitchell-Baker
Moderator, Baptist Union
of Great Britain

Tim Jackson
Moderator, Baptist Pension
Scheme Employers' Group