Baptist Pension Scheme (‘the Scheme’)

SUMMARY FUNDING STATEMENT as at 31 December 2011

Issued June 2012

Introduction

This Statement has been produced by the Trustee of the Scheme. Its purpose is to summarise the results of the most recent actuarial valuation of the Scheme and the funding update which was completed as at 31 December 2011. This statement relates to defined benefits provided through the DB Plan within the Scheme, which was known until 31 December 2011 as the Baptist Ministers’ Pension Fund (‘the Fund’). It does not cover the defined contribution arrangements which came into operation on 1 January 2012, as described further below.

The Scheme is administered by a corporate Trustee, Baptist Pension Trust Limited (‘the Trustee’). The Trustee is also responsible for investing the assets of the Scheme, having delegated responsibility for day-to-day decisions on the investments held in respect of the DB Plan to professional investment managers, who operate within guidelines set by the Trustee. Accounts are audited annually and an actuarial valuation is carried out every three years with the aim of ensuring that the Scheme is able to pay the benefits promised. The Trustee receives a written actuarial report each year which covers developments since the last formal funding valuation.

To understand what this statement shows you, you need to understand what an actuarial valuation is and what it can and can’t do.

The aim of a valuation is to suggest:

- how much money the Trustee of the Scheme should set aside to cover the benefits members have already earned; and
- if there is not currently enough money in the Scheme, what contributions the Churches and other employers should pay to make up the difference.

No-one can guarantee the future or predict the exact figures, but by making sensible assumptions about economic conditions and the Scheme’s membership, the actuary can make informed estimates.

In the valuation, the Scheme’s actuary compares:

- the assets the Scheme is building up through its investments, in its bank balances and any money owed to the Scheme with
- the liabilities the Scheme has in respect of the benefits payable to members and their families and administrative expenses.

As a person entitled to benefits from the Scheme we are writing to give you an update of the Scheme’s funding position. This is a statement that we are required by legislation to send to you. We will send you a statement like this each year to let you have updated information about the funding of the Scheme.

In addition, we are sending copies of this statement to all churches and other employers who have legal responsibility for financing the DB Plan within the Scheme (together referred to as the 'DB Employers') and to other churches and employers who currently have members in the Scheme. The financial position of the Scheme is very important for the DB Employers.

Amendments to the Scheme

Following the previous actuarial valuation, as at 31 December 2007, the Union Trustees and the Pension Scheme Trustees were concerned about the deteriorating financial position within the Fund, together with that of the Baptist Union Staff Pension Scheme. In particular, there was a likelihood that if provision for defined benefit pensions continued, the contributions for employers would continue to increase and become unsustainable.. Therefore, after a long review process, and due consultation with members and Churches, the defined benefit schemes were closed to further accrual on 31 December 2011, and replaced by a defined contribution arrangement (the DC Plan within the Scheme), invested and administered by Legal and General with effect from 1 January 2012.

Members' benefits built up within the Fund (now the DB Plan within the Scheme) before 2012 remain unchanged. Contributing members of the Fund at the end of 2011 automatically became members of the new DC Plan unless they indicated that they did not wish to enter the new scheme. The new scheme also provides good benefits in the event of death in service, and there are parallel insured arrangements for paying income to members who are unable to work due to long term periods of ill-health. There are transitional arrangements to ensure that benefit entitlements on death or ill-health retirement under the old scheme are not taken away from existing members of that scheme.

The DC Plan is available to Ministers, and to staff of the Unions, Associations, Colleges and other Baptist Organisations. It is also now available to non-ministerial staff of churches at the request of the church. At some point in the next five years it is currently envisaged by government that all employers will need to 'auto enrol' all their employees, subject to a minimum level of pay, into a suitable pension scheme. Churches may choose to use this Scheme to enable them to meet these obligations, and an additional 'Basic Section' within the DC Plan is to be introduced from the start of 2013 to help in this, but of course churches will be free to use different arrangements if they choose to do so. In view of this widening of the membership, the name of the Fund was changed to the Baptist Pension Scheme on 1 January 2012.

The latest scheme funding valuation

This looks at the Scheme's funding position assuming that the Scheme continues into the future.

The most recent funding valuation of the DB Plan within the Scheme showed that on 31 December 2010 the funding position was as follows:

Assets	£129.8 million
Amount needed to provide benefits	£199.6 million
Shortfall	£69.7 million
Funding level	65%

As a result the Council agreed with the Scheme Trustee that the DB Employers would pay deficiency contributions of 8.4% of Pensionable Income in 2012, and 11% of Pensionable Income in 2013 and the years following, which were expected to eliminate the shortfall by 31 December 2034 (and this is set out in the Scheme's 'Recovery Plan').

Change in the Scheme's funding position

The last Summary Funding Statement that we sent to you showed the Scheme's funding position as at 31 December 2009, when the shortfall was £47.8 million and the funding level 70%. The deterioration in the position between that date and the end of 2010 is due to adverse conditions in world financial markets and to a number of changes in the actuarial assumptions used. In particular the 2010 valuation allows for:

- increases in life expectancy
- more prudent assumptions about future investment returns, partly due to the decision to close the defined benefit arrangements
- the cost of administering the DB Plan over the long-term

In accordance with statutory requirements, the Trustee has now received an actuarial report which provides an approximate update of the funding position of the Scheme as at 31 December 2011. Unfortunately, this shows that the funding level of the Scheme deteriorated markedly during 2011 from 65% to 51%, with the shortfall increasing from £69.7 million to around £123 million.

How has this happened?

Despite a further year of difficult conditions in world stock markets, the value of the Scheme's assets fell only marginally over 2011. The damage to the funding position has come from an increase of over £50 million in the value of the Scheme's liabilities. The reason for this is that one of the key factors used in calculating the value of the Scheme's liabilities is the yield on British Government bonds ('gilts'). Gilt yields fall as the price of gilts rises and lower yields mean higher liabilities.

In 2011, the Eurozone crisis created strong demand for gilts, pushing up prices, and this effect was exacerbated by the Bank of England's policy of 'Quantitative easing', which involves the Bank buying gilts and so pushing prices up further still. As a result, by mid-January 2012, gilt yields had reached their lowest level ever since records began in 1703.

This problem is not specific to the Scheme, as these conditions have had a very serious effect on almost all defined benefit schemes in the UK. Current financial market conditions are very unusual by historical standards and a return to more 'normal' conditions is expected to be beneficial for scheme funding, but we do not know if or when that may happen.

The Trustee is obviously concerned about this situation and will continue to monitor the Scheme's financial position carefully. The deficiency contributions payable to the Scheme will be reviewed at the next formal valuation of the Scheme, due not later than as at 31 December 2013. The Trustee is committed to seeking a methodology for charging deficiency payments following that valuation which more closely reflects the potential liability each employer has in respect of the deficit. Such a methodology will help those churches with a small historic exposure to the Scheme, but will inevitably increase the amount or duration of contributions required from churches with a rather larger historic exposure to the Scheme. However, it is not yet clear whether such a methodology will be feasible.

Cessation Events

Where an employer ceases to have any employees within the Scheme, then in accordance with statutory pensions regulations, a 'cessation event' occurs, and the relevant employer is required by law to make good their share of any deficit within the Scheme. The deficit here is calculated based on the cost of passing responsibility for paying all of the Scheme benefits to an insurance company (see the section 'What would happen if the Scheme started to wind up?' below). The Trustees' current policy in respect of employer debts was set out in the document entitled

'Pension Bulletin – Baptist Churches and the Baptist Ministers' Pension Fund', which was circulated in March 2011. Copies of this document can be downloaded from the Union's website.

In calculating employer debts, it is intended that the Actuary will allocate the extra cost of ill health early retirements across all the employers and not allocate it just to the church which employed the Minister at the date of retirement. Where employer debt calculations have to be made at dates other than 31 December, it will be necessary to use approximate asset values, as audited figures are not available.

Further information about cessation events and employer debts can be obtained from the Pensions Office at Didcot through the contact details at the end of this statement.

Payment to the Union

There has not been any payment to the Union out of the Scheme's assets in the previous twelve months or at any other time (other than the reimbursement of administration expenses). This is information we are obliged to provide you with and the Union has no intention of receiving any payment from the Scheme.

HOW THE SCHEME OPERATES

How is my pension paid for?

The Churches pay deficit contributions to the DB Plan so that the Scheme can pay pensions to members when they retire. The money to pay for members' defined benefit pensions is held in a pooled fund rather than in separate funds for each individual and is separate from Baptist Union funds.
Active members pay contributions of 8% of Pensionable Income to the new DC Plan, and these are deducted from members' gross income. Employers also pay contributions to this DC Plan which cover the cost of risk benefits and administration, and put a further 6% of Pensionable Income into members' individual pension accounts. Each member's account is invested by Legal & General in the funds chosen by that member, and these are also separate from Baptist Union funds.

Members are able to track their individual pension accounts by using the website tools developed and made available by Legal and General. In addition, annual statements will also be issued by Legal & General.

How is the amount the Scheme needs worked out?

The Trustee has a funding plan (set out in the 'Statement of Funding Principles') which has been agreed by the Council. This plan aims to make sure there is enough money in the DB Plan to pay for pensions now and in the future.

The Trustee obtains regular actuarial valuations of the benefits earned by members. Using this information, the Trustee comes to an agreement with the Union (acting on behalf of all the employers) on the future contributions to be paid by members and the Churches into the Scheme. The amount of money which the Churches pay into the Scheme may go up or down following the regular valuations.

The contributions into the DC Plan are invested as indicated above and are used by members on retirement to purchase appropriate pensions, although part of the account value may be taken as a tax free lump sum. It is important that members seek appropriate independent financial advice at this time as decisions made at retirement cannot be changed retrospectively.

The importance of the employers' support

DB Plan - The Trustee's objective is to have enough money in the DB Plan to pay pensions now and in the future. However, the success of this relies on the employers (ie the Union the Churches and other bodies which employ members of the Scheme) continuing to support the Scheme because:

- the funding level can fluctuate, and when there is a funding shortfall, the employers may well need to increase the rate of contributions, and
- at some future date the target funding level may turn out not to be enough so that the employers will need to increase the rate of contributions.

DC Plan - The employer has no further liability in respect of defined contribution pensions after the contributions have been paid, since the member's pension is based solely on the pension account available and is not guaranteed to be of any particular amount.

What would happen if the Scheme started to wind up?

The Trustee is obliged by current legislation to provide you with information about the estimated amount needed to ensure that all members' benefits could have been paid in full if the Scheme had started winding up. The inclusion of this information does not imply that the Union or the Trustee is expecting to wind up the Scheme.

If the Scheme winds up, you might not get the full amount of pension you have built up even if the Scheme is fully funded under the Trustee's funding plan. However, whilst the Scheme remains ongoing, even though funding may temporarily be below target, benefits will continue to be paid in full.

The estimated amount needed at 31 December 2010 was £230 million (compared to the assets of £129.9 million) and this shortfall of approximately £100m has increased significantly since. The amount is higher than on the ongoing funding position described above because the winding up position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and wish to make a profit. By contrast, our funding plan assumes that the Union and the Churches will continue to support the Scheme. Even if a scheme is fully funded on the ongoing basis, the winding up position is very likely to be less than 100% funded.

If the Scheme were to start to wind up, the employers would be required to pay enough money into the Scheme to enable the members' benefits to be completely secured with an insurance company. It may be, however, that the employers would not be able to pay this full amount at the required time. If all the employers became insolvent, the Pension Protection Fund might be able to take over the Scheme and pay compensation to members. Further information and guidance is available on the Pension Protection Fund's website at www.pensionprotectionfund.org.uk or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

What is the Scheme invested in?

The Trustee's policy is to invest the assets held in respect of the DB Plan in a broad range of assets subject to a long term benchmark asset allocation, which is currently as follows:

Global Equities	60%
Corporate bonds and Government securities	28%
Property	10%
Cash	2%

This benchmark is being reviewed in the light of the closure to future accrual.

Member's benefits in the defined contribution scheme can be invested in a broad range of assets at the discretion of each member. There is a default fund into which contributions are invested if the member does not exercise the discretion available. The member may switch funds, free of charge, at any time.

Where can I get more information?

If you have any other questions, or would like any more information, please contact us. A list of more detailed documents which provide further information is attached. If you want us to send you any of these documents please let us know. If you would prefer to download these documents from our website please email a request to **pensions@baptist.org.uk** quoting your full name and date of birth.

Please help us to keep in touch with you by telling us if you change address.

If you are thinking of leaving the Scheme for any reason you should consult a professional advisor, such as an independent financial advisor, before taking any action. Leaving the Scheme may have significant implications for you and your church or employer.

Baptist Pension Trust Limited
Baptist House
PO Box 44
129 Broadway
Didcot
Oxfordshire
OX11 8RT

Telephone: 01235 517700
Email: pensions@baptist.org.uk

Additional documents available on request

The **Statement of Funding Principles**. This sets out the Scheme's funding plan.

The **Recovery Plan**. This explains how the funding shortfall is being made up.

The **Statement of Investment Principles**. This explains how the Trustee invests the money paid into the fund.

The **Schedule of Contributions**. This shows how much money is being paid into the Scheme.

The **Annual Report and Accounts** of the Baptist Pension Scheme, which shows the Scheme's income and expenditure in the year up to 31 December in each year.

The full report on the **Actuarial Valuation** following the actuary's check of the Scheme's situation as at 31 December 2010.

The **Baptist Pension Scheme Explanatory Booklet** (you should have received a copy in September 2011, but it can also be downloaded from the Union's website).

An **Annual Benefit Statement** – if you are not getting a pension from the Scheme (and have not received a benefit statement in the previous 12 months) you can ask for a statement that provides an illustration of your likely pension.

The **Rules of the Scheme** which is the legal document governing the Scheme.