Baptist Union
Staff Pension Trust Limited
Encouraging Missionary Disciples

Baptist Union Staff Pension Scheme ('the Scheme')

SUMMARY FUNDING STATEMENT
as at 1 January 2012

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 1 January 2012. This statement relates to the Baptist Union Staff Pension Scheme, which provides defined benefits for service up to 31 December 2011. It does not cover the defined contribution arrangements under the Baptist Pension Scheme 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') which took over Trusteeship from Baptist Union Staff Pension Trust Limited ('the Staff Trustee') on 1 January 2012. Two of the member-nominated Directors of the Staff Trustee became member-nominated Directors of the Trustee, and the four employer-appointed Directors of the Staff Trustee were already Directors of the Trustee, so there is continuity of management. The Trustee is responsible for investing the assets of the Scheme, having delegated responsibility for day-to-day decisions on the investments held 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 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 employers who have legal responsibility for financing the Scheme (together referred to as the 'participating Employers'). The financial position of the Scheme is very important for the participating Employers.

Amendments to the Scheme

Following the previous actuarial valuation, as at 1 January 2008, the Union Trustees and the Pension Scheme Trustees were concerned about the deteriorating financial position within the Scheme, together with that of the Baptist Ministers' Pension Fund. 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 employers, 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 Baptist Pension Scheme), invested and administered by Legal and General with effect from 1 January 2012.

Members' benefits built up within the Scheme before 2012 remain unchanged. Contributing members of the Scheme 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 Scheme are not taken away from existing members.

The latest scheme funding valuation

This looks at the Scheme's funding position knowing that the Scheme has been closed to future accrual, and assuming that it continues in its current format for the foreseeable future.

The most recent funding valuation of the Scheme showed that on 1 January 2011 the funding position was as follows:

Assets	£6.1 m
Amount needed to provide benefits	£9.7 m
Shortfall	£3.6 m
Funding level	63%

As a result the Union Trustees agreed with the Staff Trustee that the Employers would pay deficiency contributions of £1,500 per annum for each member of the scheme, whether active, deferred or in receipt of pension as a member or dependant. These deficiency contributions, which are to increase with retail price inflation and to compensate for any reduction in the number of members, were expected to eliminate the shortfall by 31 March 2031 (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 1 January 2010, when the shortfall was £1.774 million and the funding level 74.6%. The deterioration in the position between that date and the start of 2011 is due to adverse conditions in world financial markets and to a number of changes in the actuarial assumptions used. In particular the 2011 valuation allows for:

- increases in life expectancy
- more prudent assumptions about future investment returns, partly due to the decision to close the Scheme to future accrual of benefits
- the cost of administering the Scheme 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 1 January 2012. Unfortunately, this shows that the funding level of the Scheme deteriorated markedly during 2011 from 63% to 48%, with the shortfall increasing from £3.6 million to around £6.3 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 a little over 2011. The damage to the funding position has come from an increase of approximately £2.4 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 contributions payable to the Scheme will be reviewed at the next formal valuation of the Scheme, due not later than as at 1 January 2014.

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 participating employers pay deficit contributions to the Scheme so that it 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.

From 1 January 2012, active members pay contributions of 8% of Pensionable Income to the new DC Plan within the Baptist Pension Scheme, 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 Union Trustees. This plan aims to make sure there is enough money in the Scheme 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 participating employers into the Scheme. The amount of money which the participating employers pay into the Scheme may go up or down following the regular valuations.

The contributions into the DC Plan within the Baptist Pension Scheme 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

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, the success of this relies on the participating employers 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.

Under the DC Plan within the Baptist Pension Scheme, the employers have 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 1 January 2011 was £9.6 million (compared to the assets of £6.1 million) and this shortfall of approximately £3.5m has increased since. Unusually, this shortfall is slightly lower than on the ongoing funding position described above, despite the winding up position allowing for benefits to be secured by buying insurance policies. This is expensive, as insurers are obliged to take a very cautious view of the future and wish to make a profit. However, the provision for long-term operating expenses within the Scheme more than outweighs the extra cost of buying annuities, and the Trustee is considering means of reducing those costs.

If the Scheme were to start to wind up, the participating 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 participating employers would not be able to pay this full amount at the required time. If all the participating 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	57%
Corporate bonds and Government securities	30%
Property	11%
Cash	2%

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

Member's benefits in the defined contribution scheme (which is part of the Baptist Pension 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.

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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 Union Staff 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 1 January 2011.

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

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.