BAPTISTS TOGETHER
BAPTIST PENSION SCHEME

PENSIONWATCH

OCTOBER 2013

BAPTIST PENSION SCHEME NEWSLETTER - FOR MEMBERS OF THE SCHEME

PENSIONWATCH

I am delighted to present this newsletter on behalf of the Trustee of the Baptist Pension Scheme.

Pensions are a significant issue for all of us in the Baptist family, but we recognise that it's a subject that many people struggle to understand. To try to help you, in this newsletter we provide you with information about the Scheme and its financial position (including the Summary Funding Statement which we are required by law to send to you). We also introduce you to the Trustee Directors and update you on recent developments in the pensions world.

We intend to provide you with a newsletter on an annual basis and we hope that you find it helpful and interesting.

A new Baptist Pensions website is due to be launched in November this year, to provide useful information for both Scheme members and employers You will be able to find this at http://baptistpensions.org.uk and we hope you will find it helpful.

We are keen to get any feedback or comments from you, including any ideas you may have for content in future issues. Please do let us have your comments and ideas using the contact details on page 12.

Robert Ashurst

Robert Ashurst

DC (DEFINED CONTRIBUTION) PLAN

This section is relevant for members who are contributing to the DC Plan or have done so since it was introduced on 1 January 2012.

The DC Plan within the Baptist Pension Scheme provides defined contribution pensions for service from 1 January 2012. It is divided into the Ministers section, the Staff section and the Basic section (which came into operation from 1 January 2013). The DC Plan is administered and invested on our behalf by Legal & General.

The DC Plan has been running successfully for nearly two years now and we currently have around 1,200 contributing members, including 14 in the Basic section.

Contributions from both you and your church / employer are invested in your Pension Account. When you come to retire, the value of that Pension Account, including the returns achieved on your investments, will provide your benefits.

Contributions received are invested in the investment fund(s) you have chosen. The choice of funds is your responsibility and the returns are not guaranteed.

Please note that there are ethical options available.

The Trustee regularly monitors the range of investment options and may change these if we consider it to be in the interests of the members of the DC Plan.

Further details of the available investment options and the performance of the funds in which your Pension Account is invested can be obtained from Legal & General or the Baptist Pension Scheme website or the BUGB Pensions Office.

The importance of saving for retirement has never been greater. The Government are emphasising this with the requirement for all employers to enrol their employees automatically into a pension scheme that meets certain quality requirements. The DC Plan meets these requirements, but you should consider whether your overall level of pension, including other sources, such as pension from the Scheme's DB Plan and your State Pension, will provide you with an adequate income in retirement. There are tools available on the Legal & General website to help you estimate the income you may need in retirement and the amount of pension you may expect from the DC Plan. These tools can be found at http://www.legalandgeneral.com/workplacebenefits/employees/.

If you can afford it, you can choose to pay a higher level of contributions to increase your benefits from the DC Plan. These will be added to your Pension Account in the DC Plan and invested in the same way as your other contributions.

To request any information on various aspects of the DC Plan, including the current value of your Pension Account, your investment options or any administrative queries, please go on to the secure Legal & General website where you can set up password protected access if you have not already done so.

Alternatively, you can call Legal & General on 0845 070 8686 and enter pin number 97 when prompted by the recorded message. The person who answers your call will then know you are a member of the Baptist Pension Scheme.

If you are considering making any changes to your pension arrangements, you should think about taking expert financial advice.

DB (DEFINED BENEFIT) PLAN

This section is only relevant to members who were in the Baptist Ministers' Pension Fund before 1 January 2012.

The DB Plan is the part of the Baptist Pension Scheme that was formerly known as the Baptist Ministers' Pension Fund. It provides the defined benefits built up within the Ministers' Fund for service up to 31 December 2011. As of 31 December 2012 there were 1,092 DB Plan members contributing to the DC Plan, but the DB Plan also included 471 deferred pensioners (members who have stopped contributing to the Scheme, but aren't yet drawing their benefits) and 892 retired members, spouses and children receiving payments from the Plan.

A very unusual feature of the DB Plan is that it has more than 1,350 "participating employers", as each church or other employer that had a member in the old Ministers' Pension Fund at any time between 1 September 2005 and 31 December 2011 is included in that count. Under UK pensions law, responsibility for financing the DB Plan rests with the participating employers.

The financial position of the DB Plan is therefore of great importance not only to members, but also to all the participating employers and more information on this is set out in the Summary Funding Statement later in this newsletter. A separate Summary Funding Statement will be provided to Scheme members who were formerly contributing members of the Baptist Union Staff Pension Scheme.

INVESTMENT UPDATE

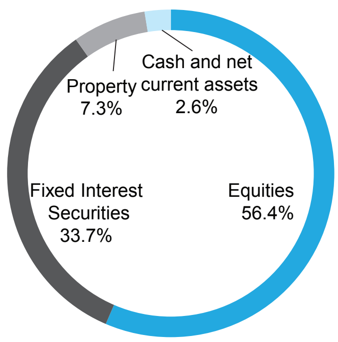
One of the most important and interesting jobs that we do as Trustee of the Scheme is to decide how to invest the DB Plan’s assets.

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.

Although the DB Plan is now closed to new members and to further accrual, payments from the DB Plan to its members will continue to be made over a very long timeframe, and therefore the long-term investment returns we can achieve will have a very important impact on the finances of the DB Plan. If the assets do not get the returns that we hope for, then we will need to agree with the Baptist Union of Great Britain (BUGB) what increased contributions are needed from the churches and other employers. When we consider the level of risk to take in our investment strategy, we need to take account of the churches’ and other employers’ ability to make additional contributions in future if needed. We continue to keep a close eye on developments in investment markets and we keep our investment strategy under regular review.

We invest part of the DB Plan assets in bonds, which can be used to provide a broad match to the pension payments from the DB Plan, and are therefore a relatively low risk investment. However, the returns are expected to be lower than from many other investments. Equities are expected to produce good investment returns over the long term, but investing in these is more risky than investing in bonds, as equity returns do not match the pension payments from the Scheme. The Trustee also has an ethical investment policy, agreed with BUGB, in place. Choosing the right investment strategy is therefore a difficult balance, and one which we closely monitor. The DB Plan’s asset allocation as at 31 December 2012 was can be seen in the chart below.

Distribution of Assets as at 31 December 2012

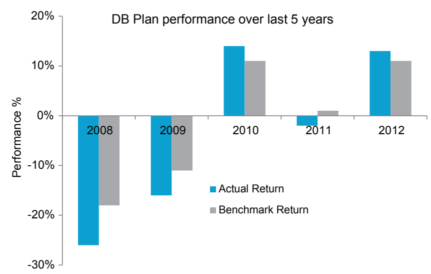


Total Assets: £141m

Since the end of last year we have invested some of the Scheme’s money in assets which help to improve the match between the bonds we hold and the DB Plan’s pension payments.

We have also set up a structure to move assets from equities into lower risk bonds at times when equities have performed well. The intention is to use this structure to reduce the investment risks over the course of time, but without requiring unaffordable increases in contributions.

We compare the returns achieved on the assets in which we invest against a “benchmark”, or target level of return. I am pleased to tell you that over the year to 31 December 2012 the overall return on our assets was 13% and both the DB Plan investment managers exceeded their benchmarks. However, one year is a short time in the life of the DB Plan and we attach greater significance to returns over periods of three to five years. The chart below shows the performance of the DB Plan over the last five years.



YOUR TRUSTEES & ADVISERS

The Scheme is managed by a Trustee Company, Baptist Pension Trust Limited. The Trustee Company has twelve directors. Six directors are nominated by BUGB, and the other six are elected by Scheme members.

The Scheme member nominated trustee directors are elected through a ballot. When there is a vacancy, we issue correspondence asking for nominations and then provide ballot papers to those who are eligible to vote.

We normally meet four times a year to manage the Scheme, including looking at its administration and investments. There are also four meetings each year of our Investment Committee, which liaises with our investment managers and considers in greater detail the Scheme's investment performance and our investment strategy.

The Trustee is legally independent of BUGB and all the churches and other employers participating in the Scheme. It holds the Scheme's assets on behalf of members, so that those assets are kept separate from BUGB and the other employers, and by law can only be used to pay Scheme members' benefits and Scheme expenses.

We as directors of the Trustee have a responsibility to ensure that the Scheme is run in accordance with its rules and the law, and have a duty to ensure that the interests of Scheme members and their dependants are properly taken into account.

Running a pension scheme is complicated, and the law requires us to take specialist advice. We have listed our current advisors opposite.

The Pensions Office

We are pleased to welcome two new members to the Baptist Pensions team this year, Mark Hynes as the new Pensions Liaison Officer and Naomi Wing as a Trainee Pensions administrator. They will work alongside Stuart Glen (Senior Pensions Administrator) and Hilary Mason (Pensions Administrator).

Mark's role is primarily focused on helping the churches and other employers. For individual member queries please contact either Stuart, Hilary or Naomi in one of the following ways:

Phone: 01235 517748

Email: Pensions@Baptist.org.uk

Address: Baptist House
PO Box 44
129 Broadway
Didcot
OX11 8RT

CURRENT DIRECTORS

Union-nominated

Robert Ashurst (Moderator)

Richard Nicholls

John Levick

Roger Short

Graham Shrubsole

Vacancy

Member-nominated

Andrew Machin

Chris Mepham

Peter Morgan

Vivienne O'Brien

Martin Poole

Jon Spiller

CURRENT ADVISERS

Scheme Actuary

Aaron Punwani,
Lane Clark & Peacock LLP

Actuarial and investment advisers

Lane Clark & Peacock LLP

Investment managers
(Defined Benefit plan)

Sarasin & Partners LLP

Royal London Asset Management

F&C Investments Limited

Investment managers
(Defined Contribution plan)

Legal & General Assurance Society Limited

Administrators

Baptist Pensions Office
(see note on page 6)

Auditor

Wilkins Kennedy LLP

PENSION NEWS

State pension changes

The Government has recently unveiled its long-awaited plan to create a single-tier state pension for those reaching their State Pension Age ("SPA") from April 2016. The single-tier pension will be set above the basic level of means-tested support, and is currently expected to be £144 per week in today's earnings terms (assuming a full National Insurance Contribution history of 35 years).

For most scheme members the age at which they can take their state pension is also changing. The SPA for women is rising gradually to reach age 65 in November 2018, which brings it in line with the male SPA. This will then be rising to age 66 for both men and women in 2020, with the ultimate aim of the SPA increasing thereafter in line with how long the population in general are living.

Pension liberation

Some companies are singling out pension savers and claiming that they can help them cash in on their pension early. Pension loans or cash incentives are being used, alongside misleading information, to entice savers. This activity is known as "pension liberation fraud".

The Pensions Regulator has launched an awareness campaign against pension liberation schemes, amidst reports that they have become much more prevalent over recent years. In the last four years an estimated £400m has been transferred to these schemes, involving thousands of individuals. Typically those individuals, who have been seeking early access to their pension savings, have instead ended up losing much of their savings in substantial commission payments and exceptionally large tax charges, due as a result of the payments being unauthorised. Accordingly, if you are approached by anyone suggesting that you can access your pension savings early, you should ignore them or seek financial advice from a reputable adviser.

If you would like more information on pension liberation fraud, the Pension's Regulator's website, www.thepensionsregulator.gov.uk, has some useful documents that set out the dangers involved.

PENSION NEWS

Change to pension taxation

For most people, pensions are a tax-efficient way of saving, but the law says that in some circumstances, you have to pay tax as you earn benefits in a pension scheme. We explain below the bare bones of this part of the tax regime. However, because the legislation is complicated, if you think you might be affected, you should seek advice from an accountant, tax advisor or financial advisor. You can find a list of financial advisors at www.unbiased.co.uk. Neither the Pensions Team nor your church/ employer can give you tax advice about your pension, and what we say below is not tax or financial advice.

UK tax legislation now limits the value of pension benefits that anyone can earn each year without incurring an upfront tax charge. Whilst we do not expect this to affect most members of the Scheme, if you were to build up pension benefits in a year worth more than this "annual allowance", then a tax charge may be payable. The Government reduced the annual allowance from £255,000 to £50,000 with effect from 6 April 2011. The Government has recently stated its intention to reduce the annual allowance further to £40,000 from 6 April 2014.

If you make any pension savings to an arrangement other than the Scheme (for example, contributions to a separate personal pension), then these savings will also need to be included in the assessment of your total pension savings for the year. The overall total is then compared with the annual allowance of £50,000. The calculation of the allowance is complicated and you should seek advice from a financial advisor if you believe it may affect you.

In addition, there is a limit on the total amount of pensions saving you may make across all UK tax-privileged pension arrangements throughout your life without incurring additional tax charges – this is called the "Lifetime Allowance" or LTA. For the 2011/12 tax year the LTA was £1.8m, reducing to £1.5m from 6 April 2012 and reducing again to £1.25m from 6 April 2014. This "Lifetime Allowance" may be relevant if you were previously in a well-paid job with generous pension provision.

This only provides a very high level summary of the new tax regime, which is very complicated for the few people who may be affected.

You can find a list of independent financial advisors at:
www.unbiased.co.uk

SUMMARY FUNDING STATEMENT

The Trustee is pleased to be able to provide members with this year's Summary Funding Statement.

What is the purpose of this statement?

We are sending you this statement to tell you about the Scheme's funding. The law requires us to send you a statement each year.

The statement relates to the DB Plan only.

This statement has been produced by the Trustee of the Scheme with the aid of our professional advisors.

How is the DB Plan assessed?

The Scheme's actuary investigates the financial position of the DB Plan by estimating the value of assets that the DB Plan needs to pay the benefits that have been earned to date, as they fall due, and then compares this against the value of the actual assets of the DB Plan. To make this estimate, the Trustee and BUGB, on behalf of the churches and other employers involved with the Scheme, have to agree on a number of assumptions about what will happen in the future. In particular: how long people will live; what inflation will be; and what returns will be earned on the Scheme's investments. The assumptions made will affect the value of assets which the actuary estimates is necessary to pay the benefits.

The Trustee must also take account of its assessment of the financial strength of the churches and other employers when agreeing on these assumptions. This is important because if the anticipated returns from investments do not materialise, then the Trustee would need to rely on additional contributions from the churches and other employers, and so it needs to be satisfied that they could provide such contributions in future if required.

The main aim of this exercise is to determine the contributions to be paid into the DB Plan. If the assets held by the DB Plan are less than the calculated target level then deficit contributions are needed to fund the shortfall.

The actuary also estimates how much an insurance company would charge to take over responsibility for the payment of the DB Plan's benefits that have been earned to date. This is referred to as a "solvency" assessment and relates to the position if the churches and other employers were to become insolvent and unable to support the DB Plan (see further below). This will normally be a bigger number than the Trustee's target level of assets, since it needs to include margins for the insurer's expenses, profit, and a substantial margin for risk (because, unlike the Trustee, an insurance company could not request additional contributions from the churches and other employers in future if investment returns turn out not to be as high as assumed).

This investigation – called an actuarial valuation – takes place in full every three years, with the latest one having an effective date of 31 December 2010. The next valuation will take place as at 31 December 2013, although we also obtain "snapshots" of the position in the years between full valuations. In addition, we are now able to track the progress of the DB Plan's financial position on an approximate basis day by day.

How much do the churches and other employers contribute to the DB Plan?

Following the 2010 valuation, the Trustee has agreed with BUGB, after consultation with the churches and other employers, that contributions should be made of 11.0% of Pensionable Income / Minimum Pensionable Income from 1 January 2013 to 31 December 2034 towards the deficit in the DB Plan - this is intended to provide enough money to pay for all of the DB Plan's benefits, based on the agreed assumptions about what will happen in the future.

What was the funding level as at 31 December 2010?

The target level of assets as at 31 December 2010 compared to the actual assets held was as follows:

2010	£m
Value of assets held in the Scheme	**130**
Target level of assets needed to pay benefits earned to date	**200**
Deficit	**70**
Funding level	**65%**

The result on the solvency basis as at 31 December 2010 was a shortfall of assets of about £100m against the estimated cost of securing all benefits with an insurance company, which equates to a funding level of about 57%. This level of solvency funding is typical of many UK pension plans, and the shortfall on this basis would affect members only if the churches and other employers were to become insolvent.

Where can I get further information?

Should you require further information you should contact the Pensions Office - contact details are shown at the end of the newsletter. If you are considering making any changes to your pension arrangements you should seek your own professional financial advice.

Is there anything else I need to know?

Regulations require us to confirm to you that the churches and other employers have not taken any money out of the Scheme in the last 12 months. We can confirm this is the case and as far as we are aware the churches and other employers have no intention of doing so in future.

How has the position changed since 31 December 2010?

The "snapshots" as at 31 December 2011 and 31 December 2012, which are calculated on a more approximate basis, are shown below:

	31 Dec 2011 £m	31 Dec 2012 £m
Value of assets held in the Scheme	**128**	**141**
Target level of assets needed to pay benefits earned to date	**251**	**246**
Shortfall in assets	**123**	**105**
Estimated funding level	**51%**	**57%**

As reported to you last year, the position deteriorated over 2011 mainly due to a fall in the returns available on British Government bonds ("gilts"). Lower future returns means a higher target level of assets, and a bigger deficit.

The position has improved over the year to 31 December 2012, the main reasons being:

- a small increase in the returns available on gilts over the year leading to a small decrease to the target level of assets; and
- higher than anticipated investment returns achieved on the Scheme's assets over the year.

The Trustee realises that the funding position of the Scheme will fluctuate over time as financial and investment market conditions change. At the time of writing, financial conditions have improved during 2013, but it is the position at 31 December 2013 that will determine the extent of any changes needed to employer contributions.

So long as the churches and other employers pay the necessary contributions, then the existence of a shortfall will not prevent benefits continuing to be paid in full.

What would be the situation if the churches and other employers were unable to pay the necessary contributions?

In general, legislation requires employers to meet their pension liabilities.

Even if the worst came to the worst and the churches and other employers became insolvent with not enough money in the Scheme to pay for all the benefits, the Scheme may enter the Pension Protection Fund, which provides some compensation to pension scheme members in such circumstances.

When will I receive further updates?

We will send you the next newsletter in 2014 when the results of the 2013 actuarial valuation are known.

CONTACT US

If you have any questions about your benefits in the Plan or for general information about the Plan then please contact the Baptist Pensions Team on:

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PO Box 44
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pensions@baptist.org.uk