



PENSIONWATCH

AUGUST 2017

BAPTIST PENSION SCHEME – NEWSLETTER FOR CHURCHES AND OTHER EMPLOYERS

Welcome to PENSIONWATCH

It has been a strange year in the Western world, with a series of surprise election results. First Brexit, in June 2016, then the American president in November and now our own general election, leaving a hung parliament. Each of these sent their own shock waves through the political, financial and cultural landscape. Alongside that we have frequently heard of terror attacks abroad and closer to home. I am sure we have all reflected on the uncertainty of events and wondered about the future.

The Pension Scheme has been buffeted by these winds of change as well. Investment markets have reacted both positively and negatively at times. Interest rates and gilt yields remain at low levels, keeping the expected cost of providing future pensions high. Our formal actuarial valuation, which takes place every three years, was as at 31 December 2016 and we are working with our Actuary and the Employers' Group to agree what this will mean for the Scheme.

In the midst of this activity, it is perhaps helpful to step back a little and see the bigger picture. The Scheme was set up in 1927. For ninety years it has provided pensions for ministers and, more recently, church workers, on behalf of the churches and other organisations who fund it. For the majority of that time it has

done so without putting undue financial strain on those employers. Currently we are going through more demanding times and I am well aware of the hardship this brings to many church communities. Nevertheless, I am confident that we can deliver the pension promises that have been made to those who have served the Baptist family over the years.

With that broader context in mind, here are a few items of note from the last twelve months.

- We have brought the Trustee Board down to eight people this year. In doing so we have said goodbye to two member representatives, Vivienne O'Brien and Andrew Machin. I appreciate the time and commitment they have given over the years, in the complex and unfamiliar world of pensions. They have had to grapple with some difficult areas but have always done so with a genuine concern for the members of the Scheme and their churches.
- Our ongoing dispute with former advisers over Supplementary Benefits continues. However, we are now able to grant the increases legally due on pensions in payment that were earned before April 2006. There is more about this on page 13. We have also corrected some longstanding benefit inequalities between men and women that had been unknown until recently.

- Although investment markets have been volatile, the protections that were put in place in 2014/5 have served their purpose. Results are shown on page 18. We continue to review investment strategy with our advisers and are looking to introduce an infrastructure element soon.
- The Employer Hub has continued to develop in terms of providing employers with information and submitting information online. From April this included estimates of potential employer debts, updated monthly, allowing greater understanding of each employer's share of the shortfall as it stands.
- Finally, we were encouraged in April by the publication of draft regulations by the Department of Work and Pensions. These reflect discussions we have been having with the DWP about the difficulties of applying current legislation on debt payments to churches. It was good to see that they have taken notice of our unusual circumstances (albeit with a two-year gap between consultation and draft regulations) and we look forward to seeing final regulations in the coming months.

Progress is often slow but I believe we are moving forwards and, with God's grace, the Scheme will continue to provide pensions for at least another ninety years.

Chris Maggs

Chris Maggs

Moderator of the Trustee of the Scheme



Chris is a member of the Institute of Actuaries and spent 23 years as a pensions consultant to organisations operating similar schemes to our own. He made a career change to pension trustee work at the beginning of 2013 and became a trustee of our Scheme early in 2014. He is a treasurer of a Baptist church in Solihull.

ACTION POINTS

As well as providing you with an update on the Scheme and other pensions news, this newsletter details a number of important actions that you should be taking as an employer to ensure you are fulfilling your role properly. The key actions you need to take are summarised below.

Help the Scheme run smoothly and cost effectively

- If you are one of the small number of employers which has not yet registered as a user on the Employer Hub, please do so as soon as possible. The Hub provides key information, helps you to comply with your legal obligations and allows your organisation to communicate with us faster and more securely (see pages 8 and 9 for more details).
- Use the Employer Hub to:
 - notify us of any changes to your Scheme membership or their pensionable income figures
 - apply for a Period of Grace and receive instant confirmation
 - check your organisations Automatic Monthly Debt Estimate (AMDE)
 - keep your contact details up-to-date
 - tell us if your organisation's email address for correspondence changes.
- Please use the Scheme website and/or the Employer Hub as your first port of call, if you have any questions about the Scheme. We have shown links to both of these on pages 8 and 9.
- Provide us with your organisation's financial details for 2016 when requested to do so later this year. **Your organisation is legally obliged to provide this information to the BPS Trustee.** See page 14.

Avoid "bear traps"

- Cessation events: if you are a participating employer in the closed DB plan and your last active member leaves your employment, then please inform LCP immediately. If you wish to avoid a cessation event, you will need to apply for a "period of grace".
- If you have begun a period of grace that ends in less than 6 months, you must make provision to employ a new Scheme member within that period if you want to avoid a cessation event.
- Auto enrolment: ensure that you are doing everything required of you under the pension auto enrolment requirements. **In particular, please ensure you understand which employees must be auto enrolled and that you comply with the Certification and Declaration of Compliance requirements (you can find more information about auto enrolment on the BPS website)**
- Illness: if a member of the Ministers' or Staff Sections of the DC Plan in your service is off sick for four weeks, notify LCP immediately (this is a requirement of the Scheme Income Protection insurance policy).
- Change of legal structure: if you are considering changing the legal structure of your church or organisation, ensure that you identify any pensions implications, including the potential risk of inadvertently creating a cessation event, at the earliest possible stage in your planning.

More information on many of these action points is supplied in the following pages, and you can find LCP's contact details on the back page.

ABOUT THE SCHEME

The Baptist Pension Scheme has two sections: the closed DB Plan and the DC Plan

The closed DB PLAN

- Provides defined benefits for service up to 31 December 2011.
- There are more than 1,300 “participating employers”, responsible under UK pensions law for financing the DB Plan.
- Each church or other employer that had a member in the BMPF at any time between 1 September 2005 and 31 December 2011 remains liable for funding the Scheme until their liabilities are fully settled.
- The funding position is formally reviewed every 3 years by the Trustee and revised employer contributions are then agreed with BUGB on behalf of all the employers. The next formal review (position at December 2016) is currently in progress.
- More recent updates on funding and investments are provided later in this newsletter.
- Administration of the DB Plan was outsourced to LCP in 2015.



ABOUT THE SCHEME (cont.)

DC PLAN

- Provides defined contribution benefits for service from 1 January 2012.
- Divided into the Ministers' section, the Staff section and the Basic section.
- Administered and invested on the Trustee's behalf by Legal & General.

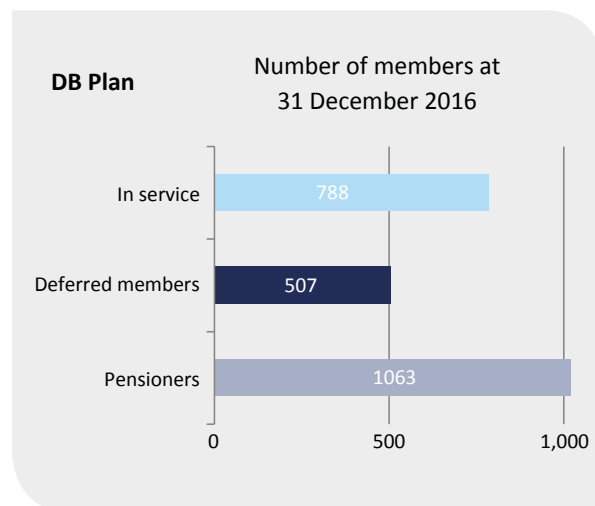
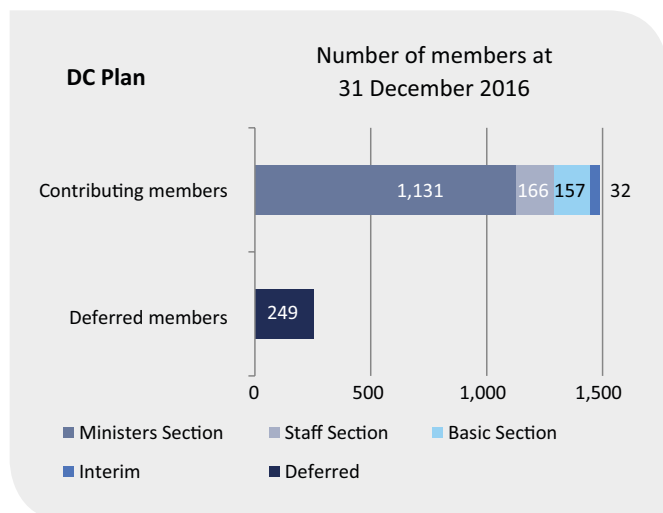
How does the DC Plan work?

- Contributions from both members and their church / employer are invested in individual Pension Accounts.
- Each individual's Pension Account is invested in the investment fund(s) they have chosen. There is a default option for individuals who do not make a choice. Individuals who wish actively to manage their pension savings, can choose from a wide range of investment funds and ethical options are available.
- When members come to retire, the value of their Pension Account is used to provide their benefits.
- Since April 2015, the law has given individuals more choices on how they take their DC benefits.

Where can I go to get more information?

- The BPS Website:
www.baptistpensions.org.uk
- The Employer Hub:
<https://hublogin.lcp.uk.com/account/signin>
- LCP (contact details on back page)





Notes: Members with benefits in both the DB Plan and the DC Plan are included twice. DB Plan membership numbers in last year's newsletter were overstated as these included DC-only members.

The following figures summarise the figures in the draft 2016 Scheme accounts

Income and expenditure	DC Plan	DB Plan
Assets at 31.12.2015	£20.3m	£180.3m
Contributions from employers	£3.1m	£5.8m
Contributions from members	£2.9m	-
Transfers and other income	£0.2m	-
Benefits and expenses paid	(£1.5m)	(£10.5m)
Return on investments	£3.1m	£43.2m
Transfer between sections	(£0.5m)	£0.5m
Assets at 31.12.2016	£27.8m	£219.3m

Note: The figures in the table above may not sum correctly due to rounding

Pension Quality Mark

We are pleased to announce that the DC Plan has been awarded the Government-recognised Pension Quality Mark. To achieve this we had to demonstrate that the DC Plan meets high standards of contributions, governance and communications.



HELP US TO HELP YOU

We continue to improve the way that we communicate with you, making more information readily available and at your fingertips. This is partly through the Employer Hub, which is a fantastic tool that is available to all employers. In summary you should use the Employer Hub to:

- Notify us of a member leaving the Scheme and, where applicable, apply for a Period of Grace at the same time (see page 10 for more information). This recent development to the Employer Hub has made the process of applying for a Period of Grace much easier for you.
- Notify us of any other changes to your organisation's Scheme membership (eg leavers, changes in Pensionable Income).
- View your organisation's Automatic Monthly Debt Estimate.
- Keep your contact details up to date or notify us of another person to contact.
- Provide us with a summary of your organisation's financial details for 2016 (see page 14).

You are also likely to be able to find anything else that you need on the Scheme's website at www.baptistpensions.org.uk.

Given the current funding position of the Scheme, it is really important that we all do what we can to reduce the Scheme's expenses. Whilst

we recognise that there will be the odd occasion where you still need to contact LCP directly, we would expect that the Employer Hub and the Scheme's website should provide you with much of what you need. In fact, many of you have already started to "self-serve" which helps enormously with the management of these expenses. We would therefore like to thank you for your help with this and would encourage this to continue.

Payment of pension contributions

As previously advised, we are unable to make retrospective adjustments to the contributions collected from you. It is therefore very important that you inform LCP as soon as you become aware of any changes to your membership (eg joiners and leavers) and their Pensionable Income figures.

Contributions are collected at the end of each month (eg contributions for September are collected at the end of September) and, as a result of legal rules regarding direct debit collections, any changes that impact on this must be processed by LCP around 4 weeks before the collection date.

Your key actions:

- Make use of the Employer Hub
- When you have a query, start by looking on the Hub, or the Scheme's website (www.baptistpensions.org.uk)
- Keep LCP informed of any changes to your contact details
- Inform LCP of any changes to your Scheme's membership as soon as possible



CESSATION EVENTS

It is still essential for your organisation to understand and correctly manage any issues that might arise from a possible cessation event.

For as long as there is a deficit in the DB Plan, a participating employer will trigger a 'cessation event', when it ceases to employ any active members of the Scheme. When a cessation event arises, the employer becomes liable for an 'employer debt'. This means that it has an immediate legal obligation to pay its share of the deficit. The amount of an employer debt depends on the participating employer's history of having members in the DB Plan, but it will normally be a substantial sum.

Hence, for ongoing employers, cessation events and their associated employer debts are to be avoided unless an employer is clear that it has the resources to meet the debt and wishes to pay it off.

Since the 2016 newsletter was issued, we have provided additional tools to assist you in this, including the provision of Automated Monthly Debt Estimates and a new module on the Employer Hub which makes it easier and quicker to apply for a period of grace.

How to avoid a cessation event if your last active Scheme member leaves your employment

1. Apply for a period of grace – this is a statutory provision, available where the employer intends to employ another active member of the Baptist Pension Scheme. During a period of grace, which may last up to three years, you will be treated as if you were still an employer of active members.
2. It is the sole responsibility of the employer to apply for a period of grace. Obtaining a period of grace is a simple process, but very inflexible, so it is essential that you understand what needs to be done and by when. The request should be made as soon as possible after you become aware that your last active Scheme member will be leaving. The very latest that a request can be made is two months after you cease to employ an active Scheme member. This time limit is set out in pensions regulations and no extension is permitted.
3. If you fail to request a period of grace within the time limit, a cessation event occurs and an employer debt is due immediately.
4. You should apply for a Period of Grace through the Employer Hub.

What happens at the end of a period of grace if you have not employed a new active Scheme member?

1. If you do not employ an active member by the last day of the period of grace, then you are treated as if the period of grace had not existed. This means that a cessation event has occurred at the date when you ceased to employ at least one active Scheme member and the employer debt becomes due in full.
2. If you employ an active member during the period of grace, the period of grace ends and you will be treated as if no cessation event had occurred.
3. If you still intend to employ another active Scheme member, then it may be possible under the Scheme Rules, to employ an Interim Member (IM). In essence, an IM is a temporary appointment effective until you are in a position to appoint a new permanent employee. Further details can be found on the BPS website.

What happens if you do not intend to employ another active member of the Scheme?

1. A period of grace is not available in these circumstances. The employer debt must be paid in full.

What happens if your church is closing?

1. This will trigger a cessation event and any pension liabilities need to be dealt with as a part of the closure process.
2. It is essential to contact us to check whether a debt is due before any assets are disbursed.

What happens if the legal structure of your organisation changes?

1. Under pensions regulations, a change in legal structure (for example conversion to a CIO, or a formal amalgamation of two existing churches) may lead to a cessation event.
2. There is a legal process set out for managing the pensions implications of such a structural change and avoiding a cessation event. It is quite bureaucratic and cannot be applied retrospectively.
3. It is therefore, essential that you contact the Scheme at a very early stage in your planning to consider any pensions implications.

PENSION NEWS



As we have outlined in previous newsletters, workplace pensions law has changed.

Every employer has new legal duties to help their employees save for retirement. You must automatically enrol certain workers into a qualifying workplace pension scheme and make contributions towards it.

The Pensions Regulator has produced a detailed step by step guide to the auto enrolment process: <http://www.thepensionsregulator.gov.uk/employers/beginners-guide-to-auto-enrolment.aspx>

The BPS has also provided detailed guidance notes on auto enrolment which are available at the following link: <http://www.baptistpensions.org.uk/auto-enrolment>

All sections of the DC Plan are designed to more than meet the current minimum automatic enrolment requirements and the Basic Section offers pension saving at lower contribution levels for both members and employers than the other sections of the DC Plan. However, the DC Plan may not necessarily be the best option for providing pensions for your staff, especially for lower-paid employees, and there are specific restrictions on the circumstances in which it would be available for use (see section 9 of the BPS note available on the website linked above). You can also consider alternatives such as NEST (the workplace pension set up by government).

<http://www.nestpensions.org.uk>



Scamproof your members' savings



Pension scams. Don't get stung.

Help your staff to be aware of pension scams, where they may be tricked into handing over their pension pots by fraudsters. Many of the "deals" seem very convincing, starting with offers of excellent returns.

However, once the money is transferred into a scam it's too late, and the member could end up losing all his or her hard earned pensions savings



and in some cases face a tax bill of up to 55%.

The Pensions Regulator has produced some tips to help give the best possible protections against pension scammers, which you can find at:

<http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx>

Reduction in the Money Purchase Annual Allowance

If any of your staff choose to 'flexibly access' any of their DC Plan or other money purchase benefits, the 'Money Purchase Annual Allowance' (MPAA) will apply to them.

That means they will have to pay extra tax if their total contributions to these arrangements in any tax year (including employer contributions) exceeds the tax year's MPAA. Special rules apply in the tax year the MPAA is first triggered.

Assuming the policy of the previous Conservative Government to reduce the MPAA from £10,000 to £4,000 is taken forward into legislation following the recent General Election, the MPAA is £4,000 per tax year from 2017/18.

Anyone currently contributing to the DC Plan should think carefully before drawing benefits flexibly, as this might put them into the MPAA regime. And anyone who is in the regime already will need to consider possible tax consequences of future contributions to the DC Plan and any other money purchase arrangements they are in.

LEGAL ISSUES

Proposed amendments to the Employer Debt Regulations

The Department of Work & Pensions issued a public consultation document containing draft revised debt regulations in April 2017. The proposals may assist a number of the BPS employers and have been broadly welcomed by the BPS, although we have also asked DWP for clarification on a number of points.

The BPS wrote to all Scheme employers at the beginning of June 2017 on this subject and you should ensure your organisation fully understands the current position.

We will write to employers again when the final version of the regulations is published (expected by the end of 2017).

Supplementary Benefits

The complex issues around the treatment of Supplementary Benefits, highlighted in the past two employer newsletters have yet to be concluded. However, we have now reached

the stage where our legal advisers have confirmed that it is in order to apply increases to Supplementary Benefit pensions (granted from contributions made between April 1997 and April 2006) when those pensions are in payment. We are calculating the payments due to affected members and will be contacting individuals about this before the end of the year. We regret the ongoing delay in fully resolving this difficult matter.

Equalisation of Pension Benefits

As we reported in last year's newsletter, during the course of 2015, a legal issue came to light, relating to the Scheme's historic treatment of equalisation of pension benefits between men and women. This matter has now been resolved. A number of members have received increases in pension as a result and all amounts due have been paid.

As a result of the changes required the overall liabilities of the Scheme have increased by approximately £3.6m

EMPLOYER FINANCIAL INFORMATION AND THE “EMPLOYER COVENANT”

“Assessing the employer covenant is complex and requires openness and cooperation between trustees and their sponsoring employers” The Pensions Regulator, June 2009

The employer covenant is the legal duty and the ability of the Scheme employers to fund the DB pension plan.

The Pension Trustee is legally obliged by the Pensions Regulator to monitor the strength of the employer covenant and consequently, the Scheme employers are legally obliged, under both pensions law and charity law, to provide the Pension Trustee with their organisation’s financial information.

It is essential to understand the strength of the covenant because it can have a material impact on a scheme’s actuarial assumptions, investment strategy, size of deficit, recovery plan terms

and the timing and size of additional financial contributions that have to be made by the scheme employers.

It is therefore in the interests of **every employer** that the covenant information held by the Scheme is as comprehensive and accurate as possible.

The Scheme has appointed PWC as its specialist covenant adviser and later in 2017, we will again be asking all employers to complete the PWC online covenant questionnaire. You can help us to minimise the cost and complexity of the covenant analysis work by doing this promptly and accurately.

EMPLOYERS' GROUP



Message from the Baptist Pension Scheme Employers' Group

It is now some eighteen months since the newly established Employers' Group (EG) began its work of representing the interests of c1,300 church employers and connected employers. The EG's priority has been to seek ways in which the Baptist family could identify additional ways to reduce the pension deficit and shorten the period of the current recovery plan.

The EG is well aware of the drain and strain on financial resources that the current recovery plan puts upon the Scheme employers. The EG has therefore set out a very ambitious plan to deliver a Family Solution that could solve the pension deficit within 10 years.

There is still a lot of work to be done as we enter into discussions with the Pension Trustees and LCP, the BPS Scheme Actuaries and therefore we are not yet at a point where we can share the Family Solution information with everyone, so please bear with us and pray for all those involved in these very detailed and complex conversations.

In the meantime, you can help us, if you haven't done so already. The strength or otherwise of the employer covenant is critical in any

assessment of the employer's ability to meet deficit contributions both now and into the future. This is why it is absolutely essential that every church and other employer in the Scheme submits a copy of their annual accounts to the Scheme. There are still a number of churches who have yet to submit a copy of their accounts. If you are one of those churches we urge you to send your accounts in immediately. Failure to do so is a breach of charity legislation for which all Baptist church trustees of an individual church are accountable.

We are running a series of pensions roadshows in the regions during the autumn. These roadshows will provide updates on the Scheme and also give you the opportunity to express your views to the Employers' Group. We would encourage every Scheme employer to send a representative.

We will be publishing further information in the Baptist Times and Transform in future communications, but if you would like to write to the Employers' Group at any time please write to Malcolm Broad, EG Moderator, Baptist House, PO Box 44, 129 Broadway, Didcot, Oxfordshire. OX11 8RT.

INVESTMENT UPDATE

The Trustee of the Scheme is responsible for deciding 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.

How do we decide how to invest?

When choosing an appropriate investment strategy we take account of many factors, including:

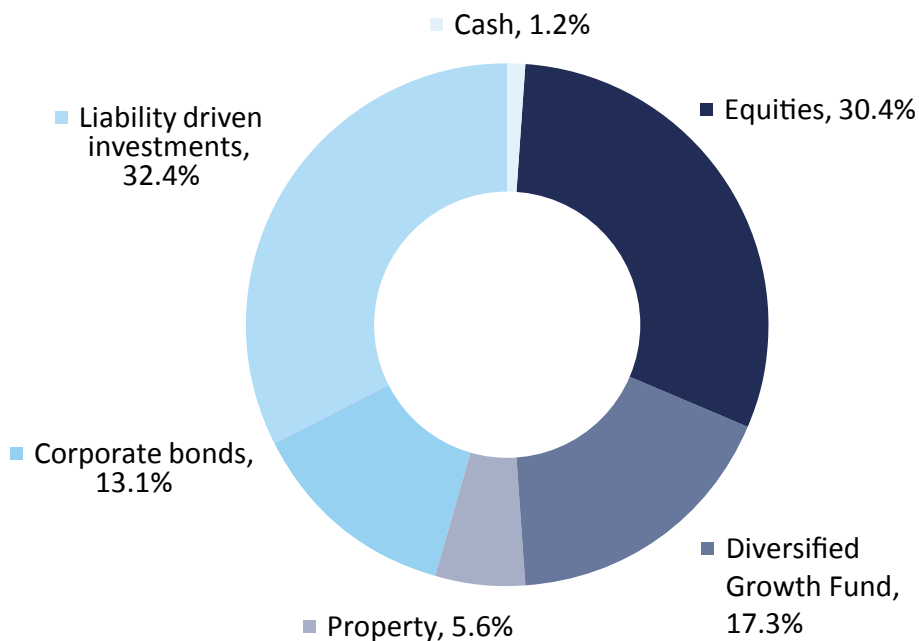
- The long timeframe over which the Scheme will continue to pay pensions.
- The balance of risk and potential reward.
- The employers’ ability to make additional contributions in future if we do not achieve the investment returns we hope for.
- Our ethical investment policy.

Choosing the right investment strategy is a difficult balance, and one which we monitor carefully.

Members are responsible for deciding how their DC Plan account is invested

Members can find out how their DC Plan account is currently invested and make any changes by contacting Legal & General. Legal & General also send DC Plan members a statement once a year.

Asset allocation as at 31 December 2016



Total Assets: £220.4m

Note: The total asset figure shown above excludes certain current assets and liabilities that are included within the Scheme’s accounts. It may therefore differ from the figure shown on page 7.

Recent changes to Investment strategy

Over the course of 2016, a number of changes have been made to the Scheme's investment strategy in order to further improve the Scheme's balance of risk and potential reward.

The main step taken was increasing the Scheme's exposure to Liability Driven Investments, in order to help stabilise the Scheme's funding level.

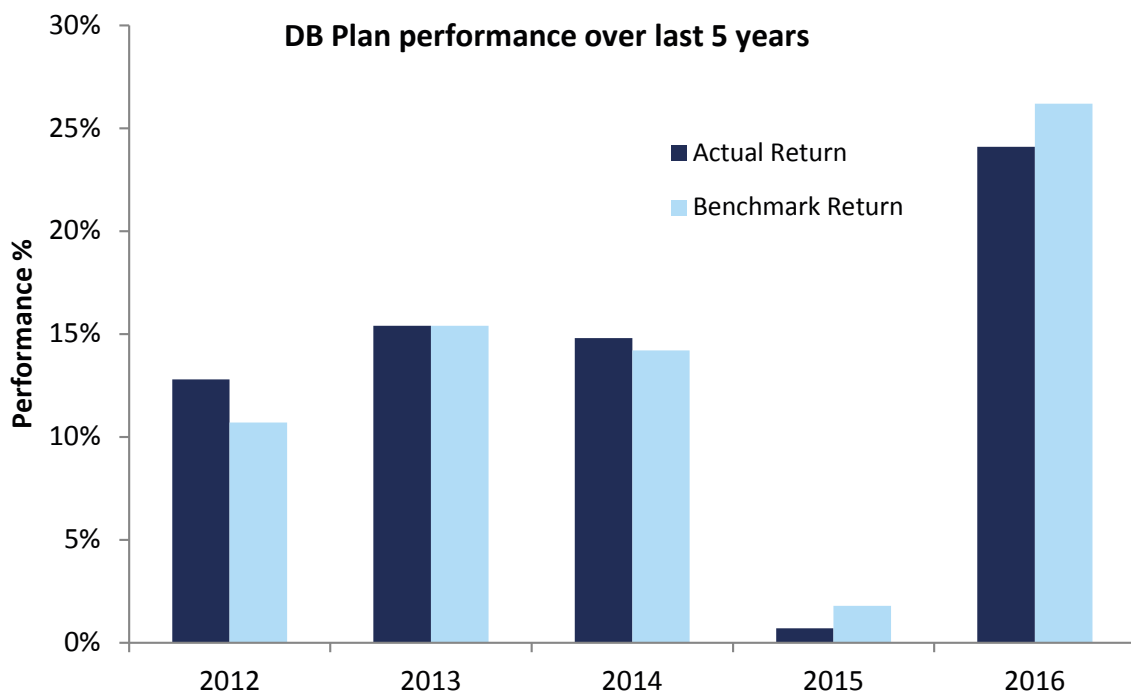


Recent performance

We compare the returns achieved on the Scheme's assets against a "benchmark", or target level of return.

Over the year to 31 December 2016, the overall return on our assets was +24%, slightly falling behind the average of the managers' targets (which was +26%). The main reason for this shortfall was one of our Diversified Growth Fund managers, which we are in the process of replacing, failing to meet its performance target. As a long term investor we believe the Scheme's performance over longer term periods is a more important measure. The Scheme's performance over the five years to 31 December 2016 was +13% pa, in line with the average of the managers' targets.

The chart below shows the performance of the Scheme over the last five years.



FUNDING UPDATE

At least once every three years, we must make a full assessment of the financial position of the DB Plan to check what needs to be done so that it is able to pay all benefits when they are due.

This assessment, which is called an actuarial valuation, helps the Pension Trustee and BUGB agree the level of deficit contributions that churches and other employers will pay over the following three year period to meet any shortfall in the DB Plan's finances.

A valuation as at 31 December 2016 is underway. It is clear from initial indications that the shortfall in the Scheme is significantly larger than at the last valuation at the end of 2013. This is despite the deficit contributions that have been paid in over the past three years and the positive investment returns that have been achieved. It has occurred because long-term future investment expectations have reduced, reflecting the continued low interest environment we are in.

Discussions are taking place between the Scheme Trustee and the Employers' Group to establish how this will affect employer deficit contributions going forward. In the absence of any extra funding or other changes, contributions will have to increase. We are also exploring different allocation of contributions between employers. However, we will endeavour to give adequate warning of any changes to contribution levels.

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