Email: chris.rice@broadstone.co.uk

STRICTLY PRIVATE AND CONFIDENTIAL
The Trustee of the Baptist Pension Scheme

21 November 2025

Dear Trustee Directors

Baptist Pension Scheme – DC Section (“the Scheme”)
Statutory Money Purchase Illustrations as at 5 April 2025

The Trustee has delegated to Broadstone the responsibility of providing members of the DC Section of the Baptist Pension Scheme with a Statutory Money Purchase Illustration (“SMPI”) each year in respect of their Defined Contribution (“DC”) funds.

The purpose of this letter is to set out the assumptions that the Trustee will need to adopt for the purposes of the SMPIs as at 5 April 2025.

The letter is subject to and complies with the technical actuarial standard TAS 100. The letter has been subject to an independent peer review in accordance with the requirements of the Actuarial Profession Standard APS X2: Review of Actuarial Work.

Background

The legislation and guidance relating to the production of SMPIs are covered by Section 113 of the Pension Schemes Act 1993 and associated regulations, together with the Actuarial Standard Technical Memorandum - AS TM1: “Statutory Money Purchase Illustrations”, as adopted by the Financial Reporting Council on 6 April 1997. I have referred to these collectively as “the SMPI rules”.

In October 2022, a revised version of AS TM1 (version 5.0) was published, effective for SMPIs issued on or after 1 October 2023, which introduced some material changes to how the illustrations are calculated. In February 2024, AS TM1 version 5.1 was published which came into effect for illustration dates on or after 6 April 2024. This latest version will be used to determine assumptions for the 5 April 2025 illustrations.

The legislation (and guidance from the Financial Reporting Council) lays down most of the assumptions that should be used, which I summarise in this letter.

It should be noted that AS TM1 version 5.1 makes further amendments to the SMPI rules under AS TM1 version 5.0 used last year. In particular, the accumulation rates for volatility groups 1-3 have increased by 1% p.a. this year.

Member options at retirement date

In accordance with the latest rules, SMPIs must be prepared with the assumption that:

- members do not take a tax-free cash lump sum on retirement (i.e. all of their fund is used to provide a pension);
- the pension purchased with their fund will not increase once in payment;
- the pension purchased will be guaranteed for 5 years; and
- the pension purchased by their fund will not include a provision to pay a dependant's pension on the death of the member.

A dependant's pension can be included in the projection if it must be provided under the Scheme Rules. As this is not a requirement under the Scheme Rules, this is not required for the pension illustration.

This basis is the same as used for the Scheme in more recent years, so there is no change required for 2024.

For active members, projections will be provided assuming contributions will continue at their current rate. In previous years an alternative basis was provided, which assumed that contributions increased in future by £50 a year. Last year, this additional projection was removed and we propose not to provide the additional illustration again this year (and for all future years).

Inflation and future earnings increases

The SMPI Rules prescribe that future prices and earnings must be assumed to increase at 2.5% per annum. The Trustee does not therefore need to consider these assumptions further, and they are the same as used in previous years.

Assumed rate of investment returns (or accumulation rate)

Under the SMPI rules applicable to an illustration date of 5 April 2025 the accumulation rates must be determined according to each investment fund's "volatility group" which is prescribed by the FRC as shown below.

Volatility		Volatility Group	Accumulation Rate
Equal to or above	**Less than**		
0%	5%	1	2% p.a.
5%	10%	2	4% p.a.
10%	15%	3	6% p.a.
15%	Unlimited	4	7% p.a.

Each fund type will now have its own accumulation rate based on the volatility group; these are shown in the table in Appendix A.

The SMPI rules stipulate that the volatility for each fund be calculated from monthly returns of the fund over a five-year period ending on 30 September preceding the financial year in which the calculation is performed. For this purpose, we have interpreted "the financial year in which the calculation is performed" to mean the year ending on the effective date of the statements – 5 April 2025 – meaning the financial year is 2024/25. The volatility calculations have therefore been completed for the period ending 30 September 2023. It should be noted that we have received volatility data from L&G that is specific to the funds used by the Scheme, most of which have an inception date of April 2019, so it does not cover the full five-year period. Therefore, as required under the SMPI rules, we have used the volatility data for similar funds to complete the full five-year data set.

Investment Expenses

The SMPI rules require that an allowance should be made for the actual expenses that will be levied on the members' funds before retirement. Where future charges or expenses are not known and cannot reasonably be obtained or estimated, an assumed rate of 1% per annum can be applied.

The expenses as set out in the table shown in Appendix A are the actual 'ongoing charges' or 'Total Expense Ratio – TER' as at 30 June 2025, as notified to Broadstone by L&G. We propose to use the actual charges applicable to each of the funds. This is broadly consistent with the approach adopted in previous years, though certain funds with similar charges were grouped for simplicity.

Annuity rates

The SMPI rules also prescribe that the interest rate underlying annuity rates (which do not increase in payment) must be calculated based on the yield on the FTSE Actuaries Government 15-year Fixed Interest Yield Index rounded to the nearest 0.2%. The yield is determined on 15 February and fixed for the following tax year, so that for an illustration date of 5 April 2025 market yields on 15 February 2024 must be used.

Based on the indices applying on 5 April 2025, this implies **an assumed annuity interest rate of 4.4% per annum**, which compares to 3.8% that was used last year.

Please note that the larger increase in annuity interest rates assumed will lead to higher projected pensions, all other things being equal. The impact is likely to be even greater given the increased accumulation rates being used under the revised SMPI rules this year (i.e. as the accumulation rates for volatility groups 1-3 have increased by 1% p.a.).

Mortality rates

The SMPI rules prescribe the mortality assumptions to be used (as set out in Appendix B).

There is a requirement to update the version of the CMI mortality improvements model (to reflect updates to the model based on additional mortality data collected) and we will allow for this when preparing the figures.

Other assumptions

All other assumptions are prescribed under the SMPI rules and are set out in Appendix B.

Summary

The Trustee will need to adopt the assumptions as required under AS TM1 (version 5.1) as outlined as above and in the Appendices.

Both the increase in the annuity interest rate and the future accumulation rates will cause members to receive higher pension projections this year compared to last year, but the movement in their fund over the year may also impact the pension disclosed.

Overall we would not expect the changes to provide projections that are significantly different to last year and therefore do not propose any additional explanatory communication. But we would be happy to provide some illustrations and test this in more detail if the Trustee is concerned.

If you would like to consider the impact on member projections in more detail and any associated communications, please let me or Richard Sweetman know.

Your sincerely,

C. Rice

Christopher Rice, FIA
Head of Trustee Services

Appendix A – Volatility groups for each fund

Lifestyle Funds

Fund name	Volatility group as at 5 April 2025	Expenses	Assumed long-term rate of return p.a. as at 5 April 2025	Assumed long term rate of return used as at 5 April 2024
L&G Ethical Growth Fund	3	0.162%	6%	5%
L&G Ethical Diversified Fund	2	0.152%	4%	3%
L&G At Retirement Fund	2	0.163%	4%	3%
L&G AAA-AA-A Corporate Bond All Stocks Fund	2	0.12%	4%	3%
L&G Over 5 Year Index Linked Gilts Index Fund	4	0.08%	7%	7%
L&G All Stocks Index Linked Gilts Index Fund	3	0.08%	6%	5%
L&G All Stocks Fixed Interest Gilts Index Fund	2	0.08%	4%	3%
L&G Cash Fund	1	0.10%	2%	1%
L&G World Emerging Markets Equity Fund	3	0.45%	6%	5%
L&G Global Equity (30:70) Index (75% Currency Hedged Fund)	3	0.20%	6%	5%
L&G Newton Real Return Fund	2	0.83%	4%	3%
L&G Dynamic Diversified Fund	2	0.46%	4%	3%
L&G Columbia Threadneedle Responsible Global Equity Fund	3	0.74%	6%	5%
L&G Ethical Global Equity Fund	3	0.12%	6%	5%
L&G Low Carbon Transition UK Equity Fund	3	0.06%	6%	5%
L&G Diversified Fund	2	0.26%	4%	3%

Impact on Lifestyle Funds

Ethical default lifestyle

Period from retirement	5 April 2025 (after expenses) p.a.		5 April 2024 (after expenses) p.a.	
	Investment return in that year	Average investment return over period to retirement	Investment return in that year	Average investment return over period to retirement
30	5.84%	5.16%	4.83%	4.15%
25	5.84%	5.03%	4.83%	4.02%
20	5.84%	4.84%	4.83%	3.83%
15	5.84%	4.53%	4.83%	3.52%
10	4.84%	4.12%	3.83%	3.11%
5	3.85%	3.84%	2.84%	2.83%
0	3.84%	3.84%	2.83%	2.83%

Lump sum target lifestyle

All members are over their target retirement age, so no projections will be completed.

Appendix B – Statutory assumptions for SMPIs as at 5 April 2025

Assumption	SMPIs at 5 April 2024	SMPIs at 5 April 2025
Projection of Assets (accumulation rate)	Based on the criteria set out by the FRC, asset returns will be based on which volatility group the fund falls into (see Accumulation Rate Section).	Based on the criteria set out by the FRC, asset returns will be based on which volatility group the fund falls into (see Accumulation Rate Section).
Lump sum on retirement	No lump sum to be allowed	No lump sum to be allowed
Increases to Pension in Payment	Non increasing in payment (unless there is a legal requirement)	Non increasing in payment (unless there is a legal requirement)
Annuity Discount Rate in financial year 6 April 20YY to 5 April 20YY+1	Yield date 15 February from the prior financial year. Show **non increasing** annuity based on FTSE Actuaries' Government 15 year Fixed Interest Yield Index, rounded to the nearest multiple of 0.2% Assumption = 3.8% p.a.	Yield date 15 February from the prior financial year. Show **non increasing** annuity based on FTSE Actuaries' Government 15 year Fixed Interest Yield Index, rounded to the nearest multiple of 0.2% Assumption = 4.4% p.a.
Inflation	2.5% p.a.	2.5% p.a.
Spouse Pension	No spouse pension (unless there is a legal requirement)	No spouse pension (unless there is a legal requirement)
Age difference between member and spouse	N/A	N/A
Guarantee period	5 years	5 years
Mortality post 6 April 20YY	PCUA16 (YOB) CMI (2021) 1.25%	PCUA16 (YOB) CMI (2022) 1.25%
Expenses	4%	4%

The SMPI rules (AS TM1 v5.1) require that the following key assumptions must be made:

- Future inflation and earnings increases are assumed to be 2.5% per annum;
- The accumulation rate must be based from the volatility group that the fund falls into;
- Pensions are payable monthly in advance;
- Regular charges that are deducted from funds remain at the current level;
- No allowance is to be made for mortality before retirement;
- Mortality after retirement must be based on 50% of the PMA16 tables with allowance for future improvements based on CMI_2022_M[1.25%] plus 50% of the PFA16 tables with allowance for future improvements based on CMI_2022_F[1.25%] ;
- Any spouse's pension has been removed from the annuity, unless there is a legal requirement to provide these.