BAPTISTS TOGETHER

**FAQs for Churches and other employers**

**How does the Family Solution affect my organisation?**
BUGB has agreed to make a significant additional cash payment to the scheme. This will reduce the scheme deficit and therefore improve the overall security of member benefits (i.e. the likelihood that the promised pensions will all be paid), while also reducing the long term financial burden on the Scheme churches and other employers.

Although the financial environment remains volatile and there may yet be further challenges ahead, the Family Solution gives the Baptist family a genuine opportunity to eradicate the pension deficit within the foreseeable future which will help ensure that we honour the pension promises made to past and current ministers and their dependants.

The additional cash and other changes made as a result of the valuation negotiations mean that under the new scheme recovery plan, the level of monthly deficit contributions for churches and other employers will not increase, other than to reflect any annual changes in the Minimum Pensionable Income. Furthermore, the recovery plan has been shortened by 6 ½ years, compared to the previous plan.

**Is there any risk to the new Family Solution?**
All employers in the scheme share the risk in the scheme and as we have seen in recent years, the financial position can change dramatically over time. Although the assumptions on which the new recovery plan is based are both prudent and reasonable, there is no guarantee that further volatility in the financial markets, or changes to average life expectancy will not affect the future level of scheme funding.

The scheme is legally required to conduct a valuation every three years and the position at 31st December 2019 when the next valuation is due, may be better or worse than the 2016 result.

The Pension Employers' Group and the Pension Trustee have therefore agreed that if the finances of the scheme deteriorate again, then subject to the approval of the Pensions Regulator, the first contingency measure would be to lengthen the recovery plan. Similarly, if the finances of the scheme improve, the improvement will be used to reduce the risk in the scheme rather than reducing contributions.

**How much will our monthly deficit contributions be in future?**
Deficit contributions will continue to be at the existing level. Future contributions will increase in line with the annual increase in the Minimum Pensionable Income (MPI). The MPI is the sum of the Standard Stipend (£22,750 for 2018) and the Manse Allowance (£6,000 in 2018).

The formula for assessing monthly deficit contributions was set out in the 2015 Scheme Employers' Newsletter, which is available on the BPS website at:
http://www.baptistpensions.org.uk/content/pages/documents/1430236045.pdf

The amounts and structure of deficit contributions will be reviewed again as part of the next actuarial valuation.

**How long do we need to pay the monthly deficit contributions for?**
The previous recovery plan, agreed at the last valuation dated 31st December 2013, envisaged contributions continuing until June 2035. Under the new plan, the period has been shortened by 6½ years to finish in December 2028. This period will be reviewed at each triennial valuation to check



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whether the scheme remains on track to be fully funded at that point. In the event of adverse experience, it is possible deficit contributions will need to be paid for a longer period, or increased.

**Why has the measure of inflation for pensions in payment been changed from RPI to CPI?**
At the request of the Pension Employers Group, as part of the overall Family Solution, the Pension Trustee has agreed that from January 2019 onwards, the annual increase to pensions in payment will use the Consumer Price Index (CPI) as the measure of inflation, rather than the Retail Price Index (RPI). This change is permitted within the scheme rules. The Pension Employers Group request was on the basis that RPI is now generally accepted as a flawed measure that typically overstates inflation.

RPI lost its official status as a "National Statistic" in 2013. In March 2018, the Office for National Statistics (ONS) said "Overall, RPI is a very poor measure of general inflation, at times greatly overestimating and at other times underestimating changes in prices and how these changes are experienced".
In contrast to RPI, CPI is calculated to an internationally recognised standard.

**Why has the Pension Trustee agreed to the change from RPI to CPI?**
The Pension Trustee has responsibility to oversee the financial management of the Scheme and ensure payment of benefits according to the Scheme's rules. A change in index from RPI to CPI is allowed under the rules, so it was necessary for the Trustee to consider it at the request of the Employers Group.
The Trustee took account of several factors in reaching its decision. These included the size of the deficit, the significant amount being offered by BUGB as a lump sum, the security of future pensions and the nature of the two inflation indices. The offsetting measures were proposed by the Trustee to ameliorate the impact on pensions in payment over the first few years and to provide a more consistent long-term approach to inflation protection for pensions in payment across the Scheme.

**What does the change from RPI to CPI mean for the Scheme and its beneficiaries?**
CPI is typically, though not always, lower than RPI by around 1% per annum. The change will reduce the scheme deficit, because the annual inflation increase on pensions in payment will be lower.

However, use of CPI means that the Scheme pensions continue to be protected against future inflation. To ameliorate the impact on pensions in payment over the first few years and to provide a more consistent long-term approach to inflation protection across the Scheme, the Pension Trustee proposed several offsetting measures which are:

- For each of the next three years, that part of any pension in payment which was accrued for service prior to 6th April 2006, will be increased by up to 1% in addition to CPI, provided that CPI is less than RPI and subject to the overall annual cap of 5% on increases contained within the scheme rules.
- The maximum increase in any one year for that part of any pension in payment which was accrued on service on or after 6th April 2006, will move from 2.5% to 5% (this mirrors the cap on increases to pre-2006 pensions which is currently 5%).
- the manse allowance (which has been frozen for a number of years) will increase annually in line with CPI inflation. This will have the effect of increasing the MPI over time, benefitting current active scheme members.

Deferred pensions will continue to rise in line with RPI (subject to the statutory 5% pa cumulative cap) as this is mandated by the scheme rules

**What is the impact of the rise in Manse Allowance?**
The manse allowance has been temporarily frozen at £6,000 since 2011. Going forward the Pension Trustee and Employers Group have agreed this will increase each year, in line with CPI, so that the



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allowance keeps pace with inflation. This will impact upon the calculation of the Minimum Pensionable Income noted above, which will benefit Ministers who are active scheme members.

**How will this impact upon the estimated debts on the Employer Hub?**
Once the changes to future pension increases are confirmed (See below FAQ ***When will the changes happen?***) and the additional BUGB cash contribution is made later in 2018, then all other things being equal, the scheme deficit should reduce significantly, with a commensurate impact on individual employer debt estimates.

**What about past cessation events?**
Where an employer already has incurred a cessation event, the Employer Debt Regulations require that its employer debt is calculated using the financial position of the scheme at the date of the cessation event. Therefore, the Family Solution will not affect the calculation of employer debts arising from historical cessation events.

**What about actual and potential "double" cessation events?**
We had hoped that the revised Employer Debt Regulations, which came into force on 6th April 2018, would provide a solution to the inherent unfairness of the potential double counting which can occur where an employer has incurred more than one actual cessation event, or has incurred a single cessation event and subsequently re-joined the scheme giving rise to the possibility of incurring a second cessation event in the future.

However, the government decided not to address the issue, its decision being driven primarily by concerns about the difficulties involved in introducing legislation that was retrospectively effective. The Pension Employers Group and the Pension Trustee accept this outcome and the rationale behind it, but still wish to address the unfairness in the regulations. They are therefore working together on a solution as part of the overall recovery plan for the scheme. The matter is technically complex and there is still much work to be done, so please be patient if you are one of the Scheme employers affected by this issue. We hope to be in a position to provide more information during quarter three this year.

**When will the changes to pension increases happen?**
The changes will take place on 1st January 2019, subject to one important caveat. Later in 2018, the Supreme Court is expected to give judgment on a case which deals with the legality of a change of inflation index from RPI to CPI for pension increases. The circumstances of the case are quite specific to the pension scheme in question and our legal advice is that the judgement is unlikely to impact the BPS. However, if the judgement is delayed or does have implications for the BPS, then the Family Solution may also be affected and should this occur, the Pension Trustee and Employers Group have agreed to reopen negotiations on a revised funding plan.

**How should this be reflected in church accounts?**
Over the next few months, the published standard text for pension notes for church accounts will be updated to reflect the new valuation and the change in funding plan. Church treasurers will be notified when these are available. Because the changes in the funding plan have only been finalised in April 2018, churches with financial year ends prior to 13th April 2018 can continue to use the existing notes until the revised ones are published.

**What do I need to do now?**
Churches and other employers don't need to do anything. The changes to the scheme will be implemented automatically. There will be no change to your monthly deficit contributions until the usual revision at the start of 2019.



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