The Baptist Pension Scheme – Family Solution

We are writing to inform you that a new "Family Solution" has been agreed that seeks to substantially reduce the deficit in the Baptist Pension Scheme (the Scheme). The Family Solution follows lengthy and detailed negotiations between the Pension Trustee and the BPS Employers Group (acting on behalf of the Baptist Union of Great Britain (BUGB) and the other scheme employers).

Its key outcomes include:

- **very significant additional cash contributions to the Scheme being made by the Baptist Union of Great Britain (BUGB)**
- **no change to the monthly deficit contributions for other employers**
- **the deficit contributions are planned to finish in 2028, 6½ years earlier than the previous plan**
- **some agreed changes to benefits for members and their dependants.**

We believe that the Family Solution improves the overall security of member benefits, while also reducing the long-term 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.

This letter contains more detail about the key features of the Family Solution.

There is no action for you to take as a result of this letter. It is for information only. (The information in this letter relates only to the Defined Benefit (DB) plan. The current Defined Contribution (DC) Plan and any benefits under it are unaffected.)

These documents may also be found at www.baptist.org.uk/familysolution

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Background

The Scheme has completed its statutory triennial valuation, confirming the financial position at 31st December 2016. As expected, the Scheme continues to have a substantial deficit. A combination of factors, such as low interest rates, quantitative easing and low projected investment returns, have led to the rising deficit.

The Baptist Pension Scheme Employers Group began its work in early 2016. It received a very clear message from churches during the 2015/16 roadshows that we need as a Baptist family to deal with the crisis now, rather than leave it to a future generation.

As there is no silver bullet within the Baptist family, work began on a series of proposals involving all across Baptists Together – a "Family Solution". It has involved working closely with the Pension Trustee to ensure that we achieved a balance between relieving financial pressure on employers and fulfilling the family commitment to provide pensions. The family solution was finally agreed between the Employers Group and the Pension Trustee in March and submitted to the Pensions Regulator in April.

Key features of the Family Solution

1. <u>£33.5m additional cash contributions from BUGB</u>
   BUGB has agreed to make total additional contributions of £33.5m on behalf of the Baptist family in order to reduce the current deficit. At least £30m will be paid in 2018, with the remainder by 2023. This contribution is being funded by:

    - the Union's pension reserve, which has been created through contributions from Regional Associations, Baptist Colleges, the Baptist Union Corporation (BUC) and the Baptist Union of Scotland, as well as BUGB's own resources.
    - up to £20m of the 2018 payment of £30m will come from a loan to the Union from the Retired Baptist Ministers Housing Society (RBMHS). This approach allows RBMHS to support the Baptist family through the strength of its asset base, but will have no impact on the day to day finances of RBMHS and no impact on the ability of RBMHS to continue to provide housing for retired ministers.

2. <u>No change to the current employer deficit contributions</u>
   The large additional contributions from BUGB mean that the Scheme employers will see no increase in the deficit contributions under the new recovery plan. Deficit contributions for churches and other employers will not increase, other than to reflect any annual changes in the Minimum Pensionable Income.

3. <u>The length of time for which deficit contributions must be paid, is reduced by 6½ years</u>
   The period for which deficit contributions need to be paid has been shortened by 6½ years with contributions now due to finish in December 2028 rather than June 2035. More details of the implications for churches and other employers can be found In the Employers FAQ section later in this letter

4. <u>Amendments to Scheme member benefits</u>
   At the request of the 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

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change is permitted within the scheme rules. RPI is now generally accepted as a flawed measure that typically overstates inflation, whereas CPI is calculated to an internationally recognised standard. Because CPI is typically lower than RPI, this change reduces the scheme deficit, by reducing the annual inflation increase paid to Scheme beneficiaries.

To partly offset the impact on scheme beneficiaries of the change from RPI to CPI, a number of other amendments to the scheme benefits have been agreed:

- an increase to that part of any pension in payment which was earned on service before 6th April 2006, of up to 1% in addition to CPI for each of the next 3 years, provided that CPI is less than RPI, and subject to the overall annual cap of 5% on increases contained within the scheme rules.
- an increase to the cap on annual increases for that part of any pension in payment which was earned on service on or after 6th April 2006, from 2.5% to 5% (this mirrors the cap on increases to pre 6th April 2006 pensions).
- The manse allowance (which has been frozen for a number of years) will increase in line with CPI inflation, benefitting 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

More details of the changes to benefits can be found in the employers and members FAQ sections later in this letter.

5. <u>Dealing with Double Cessation Events</u>
The revised Employer Debt Regulations, which came into force on 6th April 2018, unfortunately did not deal with the issues relating to double cessation events, where the regulations can cause church deficits to be double counted. A number of the Scheme employers are affected by this.

However, as part of the recovery plan for the scheme, the Employers Group and Pension Trustee are working on a solution. 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.

6. <u>Important caveat to the above</u>
There is one important caveat to all of the above. 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 Baptist Pension Scheme. 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.

The 2016 Valuation
The period since the 2013 Valuation has been challenging for all Defined Benefit pension schemes, with the extended period of very low interest rates leading to considerable pressure on scheme deficits. Consequently, ***the deficit as at 31st December 2016 is £93m***, an increase of £9m on the £84m at the previous valuation. This allows for the benefit changes listed in point 4 above.

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Once the contribution from BUGB has been made at the end of 2018, the deficit should fall significantly, putting the Scheme in a healthier position than it has been for some considerable time, giving beneficiaries greater comfort in the security of their benefits and reducing the total financial

contributions needed from churches and other employers from the Scheme. Fuller details can be found in the "Summary of scheme funding position", enclosed.

In closing, we would like to put on record our thanks to all the many people who have worked to put in place the above proposals. We are thankful for the prayers of many across our Baptist Family that have supported us all through a very challenging process.

Yours sincerely

Chris Maggs Moderator of the Baptist Pension Scheme Trustee	Malcolm Broad Moderator of the Baptist Pension Scheme Employers' Group	Rich Webb Moderator of the Trustee Board Baptist Union of Great Britain

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