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Church of England Funded Pensions Scheme Report on actuarial valuation as at 31 December 2015

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Church of England Funded Pensions Scheme
Report on actuarial valuation as at 31 December 2015

As instructed, we have carried out an actuarial valuation of the Church of England Funded Pensions Scheme ("the Scheme") as at 31 December 2015 in accordance with Rule 15.6 of the Trust Deed. I now present my report that is addressed to the Church of England Pensions Board ("the Board") as Trustee of the Scheme.

The main purpose of the report, required by the Pensions Act 2004, is to set out the results and outcomes from the valuation and it also summarises some of the key risks faced by the Scheme, as shown in appendix 1. Scheme members will receive a summary funding statement relating to the valuation in due course.

The Board is responsible for the choice of assumptions for the valuation, and for then setting an appropriate level of future contributions, in consultation the Responsible Bodies. The main results and agreed contribution are summarised in chart 1 and table 1, with further detail in the following sections, appendices and attached key documents.

Chart 1: Summary of main results as at 31 December 2015

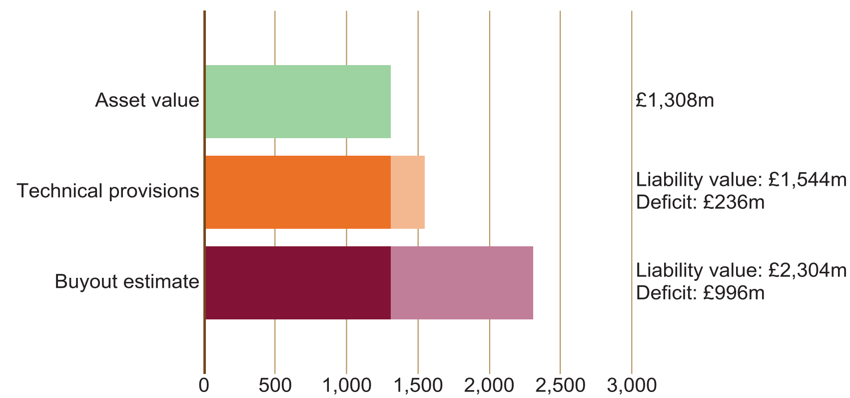

Table 1: Summary of agreed employer contributions

In respect of	
Deficit against technical provisions of £236m	11.9% of pensionable stipends until 31 December 2025
Future service accrual and ongoing expenses	Approximately 27.7% of pensionable stipends as set out in the Schedule of Contributions
Other	To fund any augmentations granted

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1. Benefits, contributions, data and assets

For the valuation we have relied on various sources of information, as shown in table 2.

The Scheme only provides for benefits for service after 1 January 1998, with all benefits for prior service met by the Church Commissioners.

Members of the Scheme are not contracted out of the State Second Pension.

The Board holds assets relating to members' money purchase Additional Voluntary Contributions.

Table 2: Sources of information

Item	Source	Summarised
Benefit and contribution structure	Trust Deed and Rules dated 5 December 1997, as amended.	Appendix 2
Membership data	The Board's staff	Appendix 3
Audited accounts for 3 years to the valuation date	The Board	Assets: Appendix 5 Revenue account: Appendix 4

2. Funding objective and actuarial assumptions

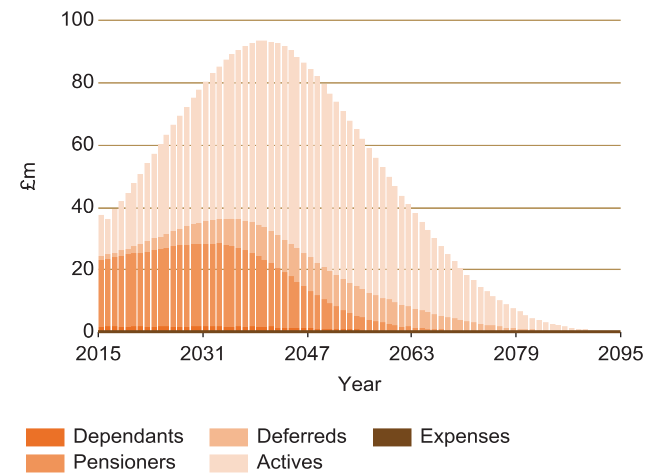
The Scheme's statutory funding objective is to hold sufficient and appropriate assets to cover its technical provisions. This is the same as for the previous valuation.

The Board took advice from me and has determined the method and assumptions to use for this valuation in consultation with the Responsible Bodies.

The valuation adopted the "projected unit method", under which the technical provisions are calculated as the amount of assets required as at the valuation date to meet the projected benefit cashflows, based on benefits accrued to the valuation date and the various assumptions made. The future service contribution rate is calculated to be sufficient to meet the increase in the technical provisions arising from the accrual of an additional year's service.

The benefit cashflows, which are primarily linked to price inflation, projected from the valuation date are shown in chart 2.

Chart 2: Projected benefit cashflows



The valuation includes an assumption about future investment strategy as follows:

- For investments backing liabilities for pensions in payment (from time to time), an allocation to gilts of 33% until 31 December 2019, and thereafter increasing linearly to 70% by 31 December 2030 with the balance invested in return-seeking assets; and
- For investments backing liabilities prior to retirement, a 100% allocation to return-seeking assets.

The assumptions are set out in the Board's statement of funding principles, which is enclosed. A summary of the key financial assumptions used for calculating the technical provisions is shown in table 3.

Table 3: Key financial assumptions

	% pa
Rate of price inflation (RPI)	3.2
Rate of return from gilts	2.6
Rate of return above that from gilts, from:	
liability-matching portfolio	0.0
return-seeking portfolio	2.0
Rate of increases in pensionable stipends	3.2
Rate of pension increases	
- RPI capped at 5% pa	3.1
- RPI capped at 3.5% pa	2.6

Note: the rates shown are equivalent average rates, where relevant.

The Scheme faces a number of risks, as described in appendix 1. In particular, the actual returns on the Scheme's assets may prove to be higher or lower than assumed. The higher the assumption, the greater is the chance that actual returns will be lower than assumed, leading to the need for additional contributions from the Responsible Bodies in the future. Similarly, there is the risk that the other assumptions adopted are not borne out by future experience.

Therefore, in determining the assumptions, the Board took account of their assessment of the strength of the Responsible Bodies' covenant, and in particular their likely ability to pay additional contributions in the future if future experience proves to be less favourable than the assumptions.

The key differences in the assumptions compared with the previous valuation are as follows:

- The rate of return anticipated from gilts has reduced from 3.2% pa to 2.6% pa as a result of the fall in the yields on fixed interest gilts.
- The assumed investment strategy has been updated to allow for the opportunistic de-risking carried out by the Board during 2013 and for an extra year of de-risking (from 67% of pensioner liabilities covered by liability-matching assets in 2029 to 70% in 2030).
- The mortality assumption used for this valuation, as described in the statement of funding principles, results in shorter assumed life expectancies than the assumption adopted at the previous valuation, reflecting updated industry tables.
- The allowance for ill-health retirements has been reduced, following an in-depth analysis of experience over the last five years.

3. Technical provisions and future service contribution rate

As at the valuation date the calculated technical provisions were £1,544m and resulting deficit was £236m, as shown in chart 3.

The deficit as at the previous valuation was £293m.

The projected deficit at this valuation, had experience been in line with the assumptions made and allowing for contributions paid over the period, would have been £225m. The actual deficit at the current valuation is therefore £11m higher, and the main reasons for this are shown in chart 4.

"Changes in financial conditions" refers to the change in the yields on fixed interest and index-linked gilts over the period, which in turn change the anticipated investment returns and price inflation assumptions.

The future service contribution rate calculated to be sufficient to meet the increase in the technical provisions arising from the accrual of an additional year's service and expenses, is 28.0% of pensionable stipends. This is up from 25.8% at the last valuation, mainly because of the fall in gilt yields.

Appendix 6 shows the effect on the valuation of changing some of the key assumptions.

Chart 3: Assets and technical provisions

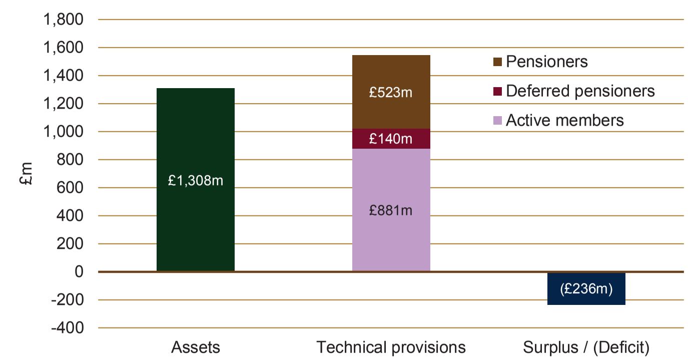
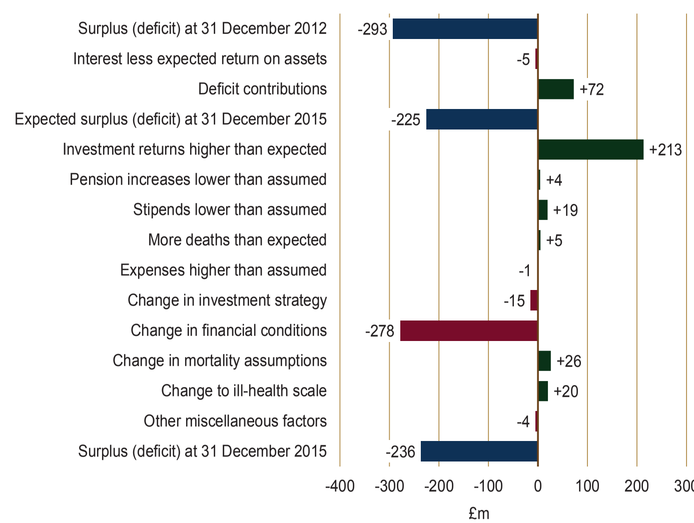


Chart 4: Experience over the three years



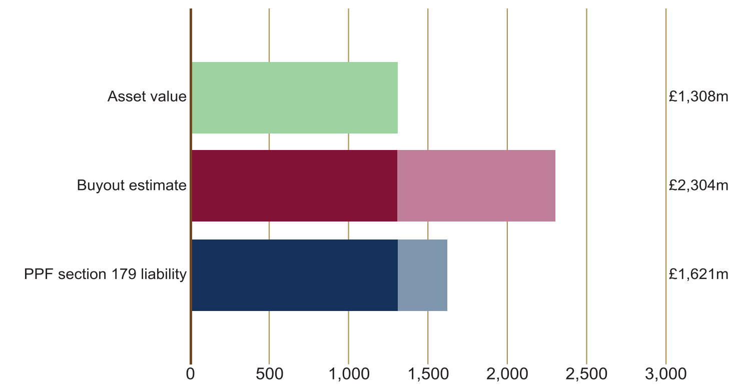
4. Discontinuance

This section considers the position were the Responsible Bodies to have ceased sponsoring the Scheme on the valuation date. In this situation, the pensionable service of active members would cease and they would become entitled to leaver benefits. The results are shown in chart 5.

We have considered the solvency of the Scheme by estimating the “buy-out” cost as at the valuation date, ie the cost of securing the benefits for all members by the purchase of annuity policies from an insurance company and winding up the Scheme.

We have not obtained actual quotations, but have produced our estimate using the assumptions described in appendix 7. These assumptions differ from those set out in the statement of funding principles and they result in an estimated buy-out cost that is higher than the technical provisions.

Chart 5: Approximate discontinuance measures



In practice, the actual buy-out cost can be determined only by running a selection process and completing a buy-out with an insurer. The ultimate shortfall on buy-out could be very different from our estimate for various reasons, including:

- additional funding may be available from the Responsible Bodies;
- market conditions will be different from those applying at the valuation date;
- the insurers will set their terms taking into account their view of the life expectancy of the Scheme’s members;
- there may have been changes in the level of competition in the insurance market; and
- the actual expenses of winding-up are likely to be different from the allowance made.

The deficit on buy-out of £996m compares with £798m as at the previous valuation. This movement is the result of similar factors to those described in section 3, together with changes in the insurance market.

Where a scheme is discontinued because of the insolvency of the Responsible Bodies, the Pension Protection Fund ("PPF") is required to assess whether the scheme is eligible to enter the PPF. This includes assessing whether the scheme is insufficiently funded.

In broad terms, if the PPF is satisfied that the scheme's assets are insufficient to buy out benefits equal to PPF compensation with an insurance company then the assets would be transferred to the PPF which would then pay members PPF compensation in place of scheme benefits. If the assets are sufficient, the scheme can be wound up outside the PPF with the assets first used to secure benefits equal in value to PPF compensation, with the balance being applied to secure benefits above that level in accordance with the scheme's rules.

As a proxy for the financial assessment that would be required by the PPF in these circumstances, we have taken an initial estimate of the separate statutory "section 179" valuation of the Scheme as at the valuation date, as shown in chart 5.

On this basis, it seems likely that, had the Scheme discontinued at the valuation date with no further contributions from the Responsible Bodies or other sources, the Scheme would have had a shortfall and so met the financial test for entering the PPF.

5. Contribution policy and implications for funding

The Board has determined in consultation with the Responsible Bodies that the Responsible Bodies will pay contributions to the Scheme of approximately 39.6% of pensionable stipends as shown in the schedule of contributions (enclosed with this report) and summarised in table 1 above.

The projected funding levels three years after the valuation date are shown in table 4. These projections are on the basis that:

- contributions are paid as set out in the schedule of contributions;
- future experience is in line with the assumptions used to calculate the technical provisions, but with an allowance for the return-seeking portfolio to deliver returns of 2.5% pa above the return on gilts during the period of the recovery plan; and
- there is no change in the annuity market.

Experience from the valuation date is likely to be different from the assumptions made. Therefore, the time taken to pay off the deficit is likely to be shorter or longer than projected. In particular, experience since the valuation date has so far been unfavourable, as discussed in the next section.

Table 4: Approximate projected funding levels

Measure	31 December 2015	31 December 2018
Technical provisions	85%	90%
Solvency	57%	61%

6. Experience since the valuation date

The valuation considers the financial position of the Scheme as at the valuation date. Since that time the estimated funding position has deteriorated. We have discussed the deterioration in funding and the Board, taking into account its view of the sponsors' covenant, has decided not to adjust the contributions agreed but to monitor the Scheme's funding position closely.

Chart 6 shows an approximate projection of how the deficit against the technical provisions has varied since the valuation date.

Chart 6: Estimated deficit

7. Certification

Under the Pensions Act 2004, I am required to certify that the technical provisions have been calculated in accordance with the legislation, and my certificate is attached as appendix 8.

I am also required to certify that the schedule of contributions is consistent with the statement of funding principles and that payment of contributions at the agreed rates can be expected to lead to the Scheme having sufficient assets to cover its technical provisions by the end of the recovery period.

There is provision under the legislation for me to have regard to the position as at the valuation date when providing this certificate, and I have therefore adopted this approach. In the light of the changes in market conditions since the valuation date, I would be unable to provide this certificate based on current conditions.

My certificate forms part of the schedule of contributions attached.

Aaron Punwani FIA
Partner
Appointed Scheme Actuary

21 December 2016

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The use of our work

Our work (including any calculations) has been provided to assist you and is only appropriate for the purposes described. Unless otherwise indicated, it is not intended to assist any other party nor should it be used to assist with any other action or decision.

Our work is provided for your sole use. It is confidential to you, although we acknowledge that you are required to pass it to the Responsible Bodies sponsoring the scheme. You should not provide our work, in whole or in part, to any other third party unless you are legally obliged to do so by statute or regulation (eg in relation to the disclosure of information to scheme members).

We accept no liability to any third party to whom our work has been provided (with or without our consent), unless the third party has asked us to confirm our liability to them, and we have done so in writing.

Professional Standards

This report is part of the work in connection with the valuation of the scheme. The report has been produced for the information of interested readers and not with the intention that it should support any decision that they may make. The work in preparing this report is subject to and complies with those principles set out in the Technical Actuarial Standard on reporting actuarial information (version 2), on data (version 1), on modelling (version 1), together with the Pensions Technical Actuarial Standard (version 2).

Appendices

Some risks faced by the Scheme

Risk	Comments
Responsible Bodies	The Responsible Bodies are not able to make the required contributions, and in particular are not able to pay increased contributions if experience is unfavourable. If this happened, then it is unlikely that the Scheme would be able to pay the benefits in full.
Investment strategy	Changes in asset values are not matched by changes in the technical provisions. The technical provisions are linked to gilt yields, but the Scheme assets include a substantial holding in return-seeking assets, so the two may move out of line as investment conditions change. For example, if equity values fall with no changes in gilt yields, the deficit would increase.
Investment returns	Future investment returns are lower than anticipated. The higher the assumed investment returns, the greater the risk that those returns are not achieved.
Gilt yields	Asset values and the technical provisions do not move in line as a result of changes in the yields available on fixed interest and index-linked gilts. This is because most fof he Scheme's assets are in equities and other return-seeking assets, and also because the Scheme's holding in gilts may differ from the technical provisions in terms of their nature (ie fixed or inflation-linked) and/or their duration.
Inflation	Actual inflation is higher, and so benefit payments are higher, than anticipated.
Mortality	Scheme members live longer, and so benefits are paid longer, than anticipated.
Regulatory	In future the Scheme may have backdated claims or liabilities arising from equalisation or discrimination issues or from future legislation or court judgments.

Benefits and contributions

The following brief summary is based on our understanding of the benefits provided to active members of the Scheme as at 31 December 2015 and should not be relied upon as a definitive summary. Full details can be found in the trust deed and rules.

Benefit or defined term	Description
Pensionable Stipend	National Minimum Stipend, as determined by the Central Stipends Authority, in the 12 months ending on the previous 31 March
Pensionable Service	Years and completed days of full-time equivalent service on or after 1 January 1998
Normal Retirement Age (NRA)	68
Member contributions	Non-contributory
Normal Retirement Pension	$1/37^{th}$ of $2/3^{rds}$ of Pensionable Stipend for each year of Pensionable Service before 31 March 2008, $1/40^{th}$ of $2/3^{rds}$ of Pensionable Stipend for service between 1 April 2008 and 31 December 2010 and $2/83^{th}$ of 1/2 of Pensionable Stipend for service from 1 January 2011, subject to an overall cap on service of between 37 years and 41.5 years, depending on the service start date. Uplifted pensions apply to members holding offices such as Bishop or Archbishop.
Lump sum	Three times the basic Normal Retirement Pension
Early retirement pension	From age 55 members may receive a pension as for normal retirement, reduced for early payment
Incapacity retirement pension	Immediate unreduced pension based on total past and a proportion of prospective service to NRA
Commutation	Commutation of pension for a lump sum is allowed based on factors set by the Board

Benefit or defined term	Description
Benefits on death after retirement	
Spouse's pension	Two-thirds of the member's pension at death
Lump sum	On death within 1 year of retirement, balance of pension payments which would otherwise have been received had the member survived until the first anniversary of retirement
Benefits on death in service	
Spouse's pension	Two-thirds of the member's pension calculated as if the member had retired through incapacity on the date of death
Children's pensions	Children's pensions may be payable
Lump sum	Three times the Pensionable Stipend
Leaving service	Deferred pension (payable from NRA) based on Pensionable Service completed
Pension increases	
In payment	For benefits accrued before 1 January 2008, increases each year in line with the increase in the Retail Prices Index ("RPI"), or 5% if lower. For benefits accrued after 31 December 2008, increases in line with the increase in the Retail Prices Index (RPI), or 3.5% if lower
In deferment	Statutory increases, but with a practice of increasing in line with the increase in the Pensionable Stipend (ie for the valuation, increases are assumed to be in line with RPI)
Discretionary	The Board does not intend to provide discretionary increases for pensions in payment unless the funding position improves significantly

Membership details

The following table shows the membership details as at 31 December 2015. Figures as at 31 December 2012 are shown in brackets.

	Number		Average age		Pensions at date of valuation £'000 pa	
Active members	8,376	(8,612)	53	(52)	n/a	n/a
Deferred members	1,998	(1,869)	52	(51)	5,300	(4,264)
Pensioners and dependants	7,071	(5,879)	72	(70)	23,462	(16,500)
Total	17,445	(16,360)				

The National Minimum Stipend for the year to 31 March 2017 is £23,440 pa.

Note: The results also include allowance for the known pension increase of 0.8% granted on 1 April 2016 (not included in the data above). The general pension increases granted on 1 April 2013, 2014 and 2015 were 2.6%, 3.2% and 2.3% respectively.

Note: There have been no discretionary benefits granted or discretionary increases made to benefits since the previous valuation.

Consolidated revenue account

	£'000	£'000
Opening fund as 31 December 2012 (excl AVCs)		**895,688**
AVC investments		14,139
Opening fund as 31 December 2012 (incl AVCs)		**909,827**
Income		
Employers' contributions	216,499	
Members' AVC contributions	8,844	
Transfer values received	1,343	
Other income	634	
Total income		**227,320**
Expenditure		
Pensions	60,352	
Lump sum on retirement	27,988	
Lump sum on death	2,706	
Transfer values paid	2,669	
Purchases of annuities from AVC policies	72	
Other expenses	7,676	
Total expenditure		**101,463**
Change in value of investments		**294,353**
Closing fund at 31 December 2015 (incl AVCs)		**1,330,037**
AVC investments		22,254
Closing fund at 31 December 2015 (excl AVCs)		**1,307,783**

Investment strategy and composition of assets

The table below sets out the Scheme's holdings as at the valuation date.

	Market value at 31 December 2015	
Asset type	**£m**	**%**
Return-seeking pool	1,100	84
Liability-matching pool	206	16
Cash and net current assets	2	0
Total assets	**1,308**	**100**

Note: Assets in respect of members' AVCs have been excluded from the above figures.

Note: Over the period since the previous valuation, the average rate of return earned on the assets was approximately 8.8% pa by reference to market values.

Sensitivity to assumptions

The valuation results are sensitive to the assumptions chosen and we illustrate here effects of changes to some of the key assumptions.

The results are particularly sensitive to the advance credit for future investment returns. By way of illustration, the effect of changing this assumption is shown in the table opposite.

The results are also sensitive to the pensioner mortality assumption in terms of both life expectancy at the valuation date and how life expectancy may change in the future. To the extent that the mortality assumption under-estimates life expectancies, the technical provisions will be too low, all other things being equal.

As an illustration, if it were assumed that life expectancies were one year longer than implied by the mortality assumption adopted, the technical provisions would be broadly 2-3% higher.

Advance credit for return-seeking asset returns above gilts	% pa	Deficit £m	Future service contribution rate %
Actual rate used	2.0	236	28.0
Higher rate	2.5	152	26.1
Lower rate	1.5	326	30.2
No credit	0.0	649	38.3

Key assumptions used for assessing solvency

We have based our estimate of the Scheme's solvency on our in-house insurer buy-out pricing model. The model is based on similar but simplified principles to those adopted by insurance companies to set their prices. It is calibrated against actual quotations and final transaction prices for other pension schemes.

The main financial assumptions for our buy-out estimate as at the valuation date are shown in the table opposite.

The demographic assumptions are the same as those adopted for the calculation of the technical provisions, except as shown opposite.

We have included an allowance for the insurance company's costs in administering the benefits of £15m, and separately we have included a provision of £18m for expenses that would be incurred by the Board in winding up the Scheme.

This basis has no relevance beyond establishing an estimate of the hypothetical buy-out cost and my statutory estimate of solvency as at the valuation date.

Main financial assumptions (single equivalent rates)

Assumption	% pa
Discount rate	2.4
Rate of RPI inflation	3.3
Revaluation in deferment	RPI
Pension increases in payment	
- RPI capped at 5% pa	3.2
- RPI capped at 3.5% pa	2.7

Main demographic assumptions

Assumption	
Retirement age	Age 65 for all members
Post-retirement mortality	80% of S2NMA / S2NFA; CMI 2014 core projection from 2007 with long-term annual rate of improvement of 1.5% for males and females
% with dependants	85% at retirement or earlier death
Commutation	None

Key documents

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Actuary's certification of the calculation of technical provisions

This certificate is provided for the purpose of Section 225(1) of the Pensions Act 2004 and Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: The Church of England Funded Pensions Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 December 2015 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the scheme and set out in the Statement of Funding Principles dated 21 December 2016.

Signature: .... **Date:** 21 December 2016

Name: Aaron Punwani **Qualification:** FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London W1U 1DQ

Church of England Funded Pensions Scheme ("the Scheme")
Statement of Funding Principles

We, the Church of England Pensions Board, as Trustee of the Church of England Funded Pensions Scheme, have produced this statement which describes our policy for securing that the Statutory Funding Objective under Section 222 of the Pensions Act 2004 is met.

It sets out:

- our policy for assessing the "technical provisions" – that is the amount of money the Scheme should aim to hold, from time to time; and
- how we intend to manage any difference between the amount of money in the Scheme and the technical provisions.

This statement has been prepared as part of the Scheme's actuarial valuation as at 31 December 2015. We have taken advice from the Scheme Actuary, Aaron Punwani, when drawing up this statement and have agreed it with the Responsible Bodies.

1. Technical provisions

We have decided that the technical provisions and the future service contribution rate should be calculated using the method and assumptions set out in the Appendix to this document.

We chose this method and these assumptions following consultation with the Responsible Bodies, as required by law. In arriving at them, we took advice from the Scheme Actuary, and we took account of various relevant factors (in particular the ability of the Responsible Bodies to support the Scheme and the expectation that the Scheme will remain open to new members for the foreseeable future).

2. Recovery plan

If the value of the Scheme's assets is less than the technical provisions, we are required to set a recovery plan, in consultation with the Responsible Bodies, that is designed to eliminate the difference by the payment of additional "deficit" contributions.

The objective is to aim for any difference to be eliminated by 31 December 2025. This period was set after considering the financial strength of the sponsors and their ability to pay the resulting contributions.

In calculating the necessary contributions allowance is made for returns from the Fund's investments at the rates set in the Appendix. It is recognised that these returns are higher than those anticipated when calculating the technical provisions.

3. Discretionary benefits

The Rules allow for benefits in payment to be increased at the discretion of the Trustee and with the agreement of the sponsors.

In setting the technical provisions we have made no allowance for such discretionary awards. To the extent that any were to be granted in future, appropriate arrangements would need to be made at that time to meet the cost of doing so.

4. Payments to the Responsible bodies

We do not currently expect to make any payments back to the Responsible Bodies.

5. Contributions other than from the Responsible Bodies

There are no arrangements in place for any contributions to be paid to the Scheme other than from the Responsible Bodies.

6. Cash equivalent transfer values

Under current legislation, the trustees may reduce transfer values to take account of the funding level of the Scheme.

Cash equivalent transfer values are calculated on a basis determined by us, having received advice from the actuary. The Board does not currently expect to reduce transfer values, even if the funding level in the Scheme would permit this. However, the position will be kept under review with the actuary if the need arises.

7. Reviewing the valuation position and this statement

We will normally commission a full actuarial valuation every three years. Under rule 15.6 of the Scheme, we can request full valuations more frequently than every three years and, depending on circumstances, we may do so from time to time.

This statement replaces the previous statement, which was dated 3 September 2013.

We will review and, if necessary, revise this statement as part of each valuation. We may review it at other times.

This statement of funding principles was prepared on ....21........December 2016.

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Signed on behalf of the Board

Signature: ..Bernadette J. Kenny..........

Name: ...BERNADETTE J. KENNY.........

Position: ..CEO..

Date: ....21........December 2016

Signed on behalf of the Responsible Bodies

Signature: ..Bernadette J. Kenny..........

Name: ..BERNADETTE J. KENNY..........

Position: ..CEO..

Date: ....21........December 2016

Church of England Funded Pensions Scheme
Statement of Funding Principles
Actuarial method and assumptions

The method and assumptions for calculating the technical provisions, future service contribution rate, and the recovery plan are set out below.

1. Technical provisions

Actuarial method

Projected unit method with a one year control period.

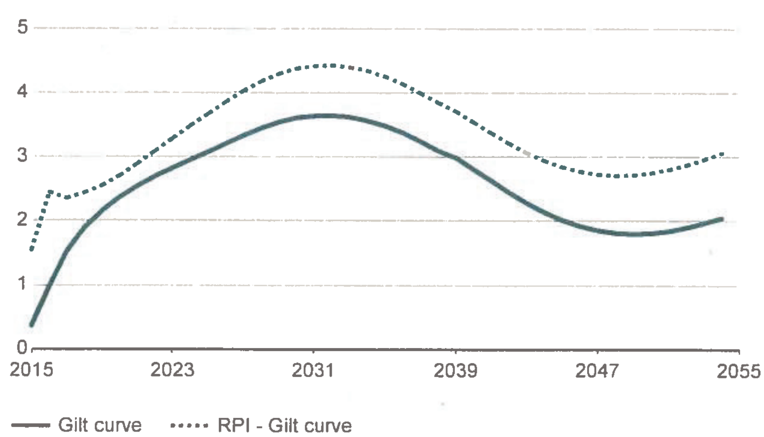
Gilt return and price inflation assumptions

The assumptions for the future return on gilts and price inflation are derived consistently as described below:

- The return from gilts over each future year is taken from the latest available yield curve as at the valuation date for fixed interest gilts as published by the Bank of England (adjusted for changes in market conditions between the effective date of the curve and the valuation date) and extrapolated for later durations.
- Price inflation as measured by the Retail Prices Index ("RPI") over each future year is as implied by the latest available yield curves as at the valuation date for fixed interest and index-linked gilts as published by the Bank of England (adjusted for changes in market conditions between the effective date of the curves to the valuation date) and extrapolated for later durations.

For illustration, as at 31 December 2015, the assumptions for the return on gilts and RPI inflation were as shown in the chart below:

Gilt returns and implied RPI inflation as at 31 December 2015



For illustration, as at 31 December 2015 the single equivalent average rates (weighted by reference to the projected future benefit cashflows) were:

	Rate
Gilt returns	*2.6% pa*
RPI inflation	*3.2% pa*

Investment returns

The discount rates to assess the present value of future benefit payments will be set to reflect the following assumed investment strategy:

- For investments backing liabilities for pensions in payment (from time to time), an allocation to gilts of 33% from the valuation date until 31 December 2019 and thereafter increasing linearly to 70% by 31 December 2030, with the balance invested in return-seeking assets; and
- For investments backing liabilities prior to retirement, a 100% allocation to return-seeking assets.

The actual discount rate used for each future year will be a combination of the anticipated rate of return on gilts and the anticipated return on return-seeking assets, consistent with the above strategy.

The anticipated rate of return on return-seeking assets will be the anticipated rate of return on gilts plus 2.0% pa, subject to review at each valuation.

Other assumptions

Future benefit payments are projected using the assumptions set out below.

- Pension increases to pensions in payment calculated over each future year at a rate reflecting the provision of the rules, the assumption for RPI inflation in that year and the volatility of RPI inflation of 1.8% pa, subject to review at each valuation

For illustration, as at 31 December 2015 the resulting single equivalent average assumed rates of pension increase were:

Pension increase	*Assumption*
RPI subject to a maximum of 5% pa	*3.1% pa*
RPI subject to a maximum of 3.5% pa	*2.6% pa*

- No allowance for discretionary pension increases.

- Future increases in pensionable stipends (except where already known) are assumed to be in line with RPI. No explicit allowance is made for promotions.
- No annual withdrawal of active members before retirement or death.
- Retirements according to the following scale:

Age	Number (out of every 100 retirements)
60	4
61	5
62	5
63	6
64	6
65	59
66	9
67	1.5
68	1.5
69	1.5
70	1.5

- An allowance for ill health retirements in line with the following table:

Age	Proportion of non-pensioner members retiring due to ill health at each age
39 and under	0.0%
40 - 47	0.1%
48 – 53	0.2%
54	0.3%
55	0.4%
56	0.5%
57	0.6%
58	0.7%
59	0.8%
60 - 62	1.5%
63 - 65	2.0%
66 to 68	2.5%
69 and over	0.0%

- No allowance for commutation of pension at retirement in excess of the retirement lump sum provided as part of the standard benefit scale.
- For mortality post-retirement and pre-retirement:
  - 80% of the S2NMA and S2NFA tables; and

  - projected from 2007 in line with the CMI 2015 core projections with a long-term annual rate of improvement of 1.5% for both males and females.

- 80% of current pensioners are assumed to have a spouse or civil partner as at the valuation date. 80% of other members assumed to be married or have a civil partner at retirement, or earlier death.
- Spouses/civil partners assumed to be three years younger (male members) or three years older (female members) than the member.
- An allowance for expenses of approximately 1.2% of total pensionable stipends, with precise details set out in the Schedule of Contributions.
- Pension Protection Fund (PPF) levies are to be met by the Scheme's assets.

2. Recovery plan

The allowance for the return on existing assets during the period covered by the recovery plan are as adopted for the calculation of the technical provisions except that the anticipated rate of return on return-seeking assets during the recovery period will be 2.5% pa above the anticipated return on gilts, subject to review at each valuation.

The calculation of the additional contributions due under the recovery plan also assumes that the number of active clergy will decrease by 1.5% pa.

3185135

Church of England Funded Pensions Scheme ("the Scheme") Recovery Plan

The actuarial valuation of the Scheme as at 31 December 2015 revealed a deficit (technical provisions minus value of assets) of £236m.

In accordance with Section 226 of the Pensions Act 2004, the Church of England Pensions Board, as Trustee of the Scheme, has prepared this recovery plan, after obtaining the advice of Aaron Punwani FIA, the Scheme Actuary.

1. Steps to be taken to ensure that the statutory funding objective is met

The Trustee has determined, after consultation with the Responsible Bodies, that Responsible Bodies will pay contributions at the following level to eliminate the funding shortfall (in addition to the contributions required to meet accruing benefits).

- 14.1% of pensionable stipends until 31 December 2017
- 11.9% of pensionable stipends from 1 January 2018 for a period of 8 years.

2. Period in which the statutory funding objective should be met

The deficit is expected to be eliminated by 31 December 2025. This is based on the following assumptions:

- Technical provisions are calculated according to the method and assumptions set out in the Scheme's Statement of Funding Principles dated 21 December 2016.
- The return on existing assets and deficit contributions during the period are as adopted for the calculation of the technical provisions except that the allowance for the additional returns from return-seeking assets is 2.5% pa above the return on gilts.
- The number of active clergy will decrease by 1.5% pa.

3. Progress towards meeting the statutory funding objective

It is expected that 50% of the above additional contributions will have been paid by 28 February 2021.

4. Agreement by the Trustee and the Responsible Bodies

This recovery plan was prepared on ..21.. December 2016.

Signed on behalf of the Board

Signature:...Bernadette J. Kenny...

Name: ....BERNADETTE J. KENNY....

Position: ....CEO....

Date: ....21......December 2016

Agreed on behalf of Responsible Bodies

Signature:...Bernadette J. Kenny...

Name: ...BERNADETTE J. KENNY....

Position: ...CEO....

Date: ....21.....December 2016

Church of England Funded Pensions Scheme ("the Scheme") Schedule of Contributions

This Schedule of Contributions has been prepared by the Church of England Pension Board ("the Board"), as Trustee of the Scheme, in accordance with Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations (SI 2005/3377). It sets out the contributions, other than the members' additional voluntary contributions, payable to the Church of England Funded Pensions Scheme ("the Scheme") for the period between the date that this Schedule of Contributions is certified and 31 December 2025, subject to review at future actuarial valuations.

It also shows the contributions that were paid to the Scheme between the effective date of the valuation and the date that the actuary signs this schedule.

The Responsible Bodies and the Church of England Pensions Board, as Trustee of the Scheme, have agreed this schedule, as indicated below by authorised signatories.

Contributions by each Responsible Body will be at an annual rate representing a percentage of the National Minimum Stipend in the 12 months ending on the previous 31 March, multiplied by the appropriate Multiple set out in Rule 3.1, for each Member for whom that Responsible Body is responsible.

For the period to 31 December 2016, the relevant contribution rate will be 39.9% of pensionable stipends[1] in line with the previous schedule of contributions.

From 1 January 2017, the relevant contribution rate to the Scheme will be:

- 39.6% of pensionable stipends[1] for the Church Commissioners and the Dioceses; and
- 39.9% of pensionable stipends[1] less an annual rebate for other Responsible Bodies. The annual rebate is calculated as £70 pa per full-time member in active service each 31 December.

This is made up as set out below:

- 24.3% of pensionable stipends[1], becoming 26.5% of pensionable stipends from 1 January 2018, in respect of the accrual of future service benefits; and

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[1] taking into account the appropriate Multiple as described above

- 14.1% of pensionable stipends[1], becoming 11.9% of pensionable stipends from 1 January 2018, in respect of the funding shortfall, payable to 31 December 2025 in accordance with the agreed Recovery Plan; and
- An allowance for expenses as follows:
  - For the Church Commissioners and the Dioceses, 1.2% of pensionable stipends[1];
  - For the other Responsible Bodies, 1.5% of pensionable stipends[1] less an annual rebate. The annual rebate is calculated as £70 pa per full-time member in active service each 31 December.

The contributions to the Scheme shown above exclude the additional contributions of 0.3% of pensionable stipends[1] that the Church Commissioners and the Dioceses have agreed to pay to the Church of England Pensions Board with effect from 1 January 2017 towards the expenses of administering the Church of England Pensions Measures scheme.

Contributions will be paid on a monthly basis and will be due before the end of the following month, except that the annual rebate will be provided as a rebate against contributions due in the first quarter of the following year.

No contributions are required from Members.

The Responsible Bodies will pay any additional contributions as decided by the Church of England Pensions Board, on the advice of the actuary, and in accordance with the Scheme Rules, to meet benefit augmentations. Such contributions will be paid before the end of the month following the due date notified by the Board.

This Schedule of Contributions replaces the Schedule of Contributions dated 3 September 2013 with effect from the date of certification.

This Schedule of Contributions is agreed:

on behalf of the Board

Signature: Bernadette J. Kenny .... authorised signatory

Name: BERNADETTE J. KENNY

Position: CEO

Date: ......21......December 2016

3185134 Agreed on behalf of the Responsible Bodies

Signature: Bernadette J. Kenny ...... authorised signatory

Name: BERNADETTE J. KENNY

Position: CEO.

Date: ......21......December 2016

3185136

Actuary's certification of schedule of contributions

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: The Church of England Funded Pensions Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2015 to be met by the end of the period specified in the recovery plan dated 21 December 2016.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 21 December 2016.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature: .... **Date:** 21 December 2016

Name: Aaron Punwani **Qualification:** FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London W1U 1DQ

Notes not forming part of the certification

In giving the above opinion I have interpreted the phrase "could have been expected to be met" as being satisfied by consideration of the proposed contributions under the economic and demographic scenario implied by the Board's funding assumptions as set out in its statement of funding principles dated 21 December 2016 and its Recovery Plan dated 21 December 2016 and without any further allowance for adverse contingencies that may arise in the future. My opinion does not necessarily hold in any other scenarios.

Furthermore, I have taken no account of either adverse or beneficial outcomes that have become known to me since the effective date of the valuation. However, I have taken account of contributions that are payable to the Scheme between the effective date of the valuation and the date that I have certified this Schedule as documented in the Schedule of Contributions.