The Church Workers' Pension Fund Report on actuarial valuation as at 31 December 2013

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Church Workers' Pension Fund
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As instructed, we have carried out an actuarial valuation of the Church Workers' Pension Fund ("the Fund") as at 31 December 2013. I now present my report which is addressed to the Church of England Pensions Board ("the Board"), as Trustee of the Fund.

This report, required by the Pensions Act 2004, consolidates the results and outcomes from the valuation of the two sections of the Fund: the Pension Builder Scheme ("PBS") and the Defined Benefits Scheme ("DBS"). It also summarises some of the key risks faced by the Fund, as shown in appendix 1. Fund 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, both in consultation with the sponsoring employers of the Fund ("the Employers"). The main results of the two sections are summarised in charts 1 and 2, with further detail (including details of the agreed contributions) in the following sections, appendices and attached key documents.

Chart 1: Summary of main DBS results as at 31 December 2013

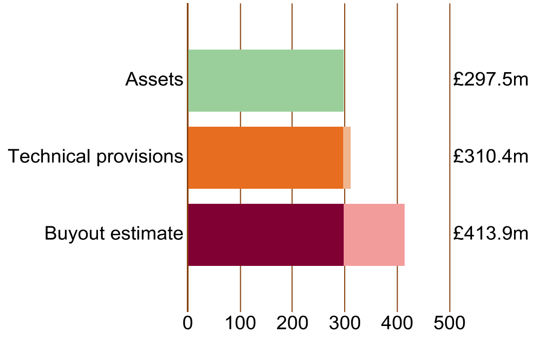
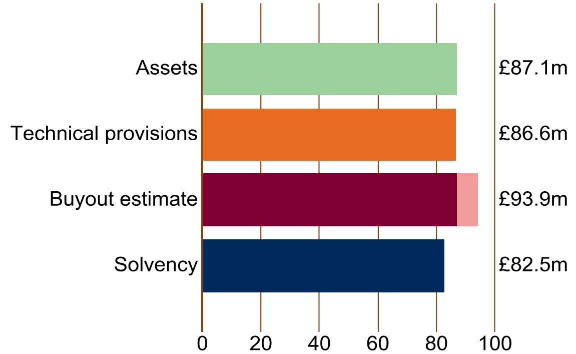


Chart 2: Summary of main PBS results as at 31 December 2013



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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 Fund is divided into two sections:

- The Pension Builder Scheme (PBS), which covers (i) all pensioners and deferred members who left active service before 1992, (ii) all other members who are on a benefit structure under which contributions received are converted to pension payable from normal pension age based on conversion terms which are in force from time to time, and (iii) additional voluntary benefits of DBS members accumulating on the same basis described for (ii); and
- The Defined Benefit Scheme (DBS), which covers those members for whom defined benefit scale benefits are being provided. This section is further sub divided into a Life Risk Section (LRS) and separate sub-sections for each Employer with its own defined benefit scale. The Employer sub-sections together make up what is known as the General Fund.

  The Employer sub-sections in the DBS contain active employees and members who have left and retained entitlement to deferred pensions. However, those who have become entitled to an immediate pension whether on retirement or as a dependant of a member who died, have had their benefits transferred to the LRS.

  The LRS provides pensions in payment and death in service benefits for all members of the DBS on a pooled basis. It also provides ill-health retirement benefits for those Employers opting to provide such cover and deferred pension benefits for former employees of Employers that have ceased to participate in the Fund.

Since the previous valuation, some Employer sub-sections in the DBS have changed the benefits that they offer, typically changing the upper limit on pension increases applying to accruing pensions from 5% pa to 2.5% pa and increasing the Normal Pension Age from which accruing pensions can be taken. Others have closed their sections to future accrual.

Table 2: Sources of information

Item	Source	Summarised
Benefit and contribution structure	Trust Deed and Rules dated 5 February 2014. Individual Employer agreements with the Board	Summarised by Board staff for the valuation, in a spreadsheet attached to an email of 30 April 2014. Also see Appendix 2.
Membership data	As provided by the Board	Appendix 3
Audited accounts for 3 years to the valuation date	As provided by the Board	Revenue account: Appendix 4 Assets: Appendix 5

2. Funding objective and actuarial assumptions

The Fund's statutory funding objective is to hold sufficient and appropriate assets to cover its technical provisions.

The Board took advice from me and has determined the method and assumptions to use for the valuation.

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 benefit cashflows for each section projected from the valuation date (including discretionary increases in the case of the PBS), which are primarily linked to price inflation, are shown in charts 3 and 4.

Chart 3: DBS projected benefit cashflows

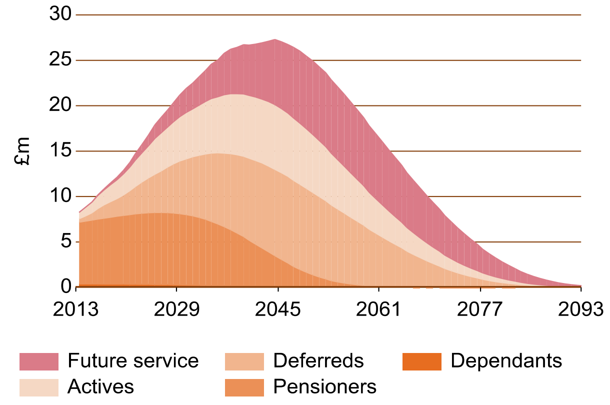
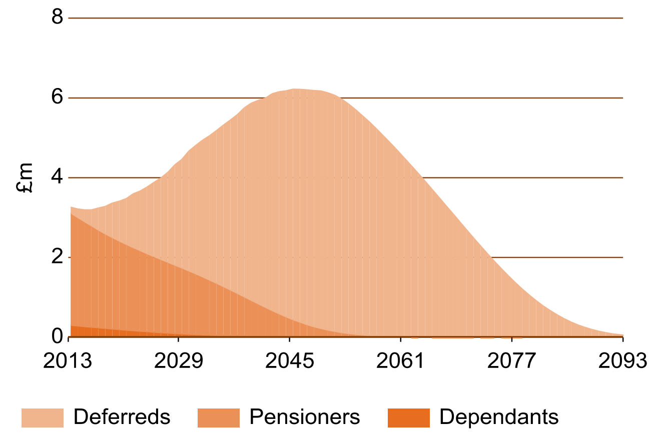


Chart 4: PBS projected benefit cashflows



The valuation includes assumptions about future investment strategies. These are described for the DBS and PBS below.

2.1. DBS investment strategy

For the DBS, the assumption is that at any time:

- Assets within the LRS are held in a portfolio comprising 75% liability matching assets and 25% return-seeking assets; and
- Assets within the General Fund Employer pools, in respect of benefits not yet in payment, are held in a portfolio of 100% return-seeking assets.

This is broadly consistent with the Board's actual investment strategy as at the valuation date as summarised in appendix 5.

2.2. PBS investment strategy

For the PBS, the assumption is that at any time:

- Assets backing pensions in payment that accrued after 6 April 1997 (which have guaranteed pension increases in payment) are held in a portfolio comprising 100% liability-matching assets; and
- All other assets are held in a portfolio of 100% return-seeking assets.

All of the chosen assumptions (including those relating to investment strategy) are set out in the Board's statement of funding principles, which is attached as appendix 9

The Fund faces a number of risks, as described in appendix 1.

In particular, the actual returns on the Fund's assets may prove to be higher or lower than the advance credit taken in the calculation of the technical provisions for returns above the return on gilts. The greater the advance credit taken, the greater is the chance that actual returns will be lower than the advanced credit taken, which would lead to:

- the need for additional Employer contributions in the future, within the DBS; or
- lower or no discretionary bonuses granted within the PBS.

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 employers' overall 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 by 0.6% pa as a result of the fall in the yields on fixed interest gilts.
- The mortality assumption used for this valuation, as described in appendix 9, results in longer assumed life expectancy than the assumption adopted at the previous valuation.
- The assumption for CPI inflation has been reduced from 0.5% below RPI inflation to 0.7% below RPI inflation.
- The assumption regarding salary increases has been reduced from 1.5% above RPI price inflation to 1.2% above CPI price inflation.
- An ill-health reserve of £1m within the LRS has been removed.
- The proportion married of members assumed to be married has been reduced from 100% to 85%.

In 2010 the Government announced its intention to introduce legislation in relation to the elimination of inequalities in Guaranteed Minimum Pensions, although the method of achieving this is as yet unclear. No explicit allowance has been made for liabilities arising from the potential adjustment of benefits to allow for any such inequalities.

3. Technical provisions, contributions and bonus strategy

Table 3 sets out the technical provisions and funding position at the valuation date.

Table 3: Technical provisions at 31 December 2013

	DBS £m	PBS £m
Technical provisions	310.4	86.6
Market value of assets	297.5	87.1
Surplus / (Deficit)	(12.9)	0.5

We have commented in more detail below.

3.1. DBS technical provisions and recovery plan

In valuing the DBS, the Board:

- considers the position of the LRS;
- makes a levy on the General Fund Employer pools towards the recovery of any deficit within the LRS, if appropriate; and
- values the Employer pools within the General Fund – putting in place contribution arrangements with each individual Employer to make good any shortfall.

The following table sets out the result of the DBS split between the LRS and General Fund

Table 4: LRS and General Fund technical provisions

	LRS £m	General Fund £m
Technical Provisions	138.6	171.8
Assets		
prior to LRS levy	133.7	163.8
LRS levy	4.3	(4.3)
post LRS levy	138.0	159.5
Surplus / (Deficit)	(0.6)	(12.3)

Shortly after the valuation date, 70% of the LRS benefits were insured through a bulk annuity policy with Prudential, resulting in a valuation gain of about £0.6m.

The deficit in the DBS as at the previous valuation was £40.3m.

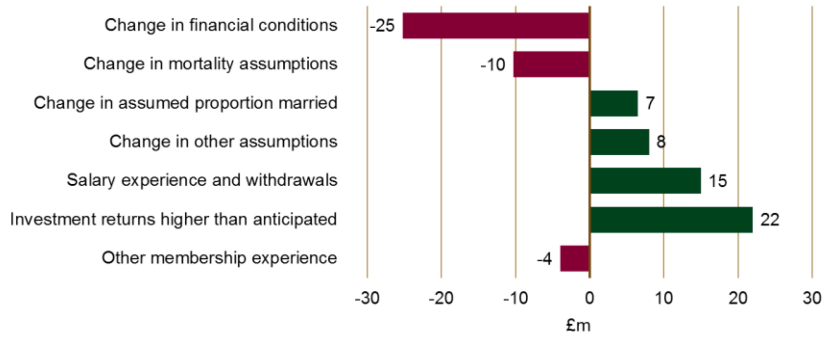
The projected deficit at this valuation, had experience been in line with the assumptions made and allowing for contributions paid over the period, would have been £25.5m, The actual deficit at the current valuation is therefore £12.6m lower, and the main reasons for this are shown in chart 5.

"Changes in financial conditions" refers to the change in the yields on fixed interest and index-linked gilts over the period.

"Change in other assumptions" relates mainly to the reduction in the assumed salary increases in excess of inflation and the change to the assumption for CPI inflation.

Appendix 6 shows the sensitivity of the valuation to changing some of the key assumptions.

Chart 5: DBS experience over three years



3.2. PBS technical provisions and bonus strategy

The only guaranteed increases in the PBS are to pensions in payment built up after 6 April 1997. Discretionary bonuses are applied before payment to all benefits and to pensions in payment built up prior to 6 April 1997. As a result, a key purpose of the valuation is to set an appropriate policy for granting future bonuses.

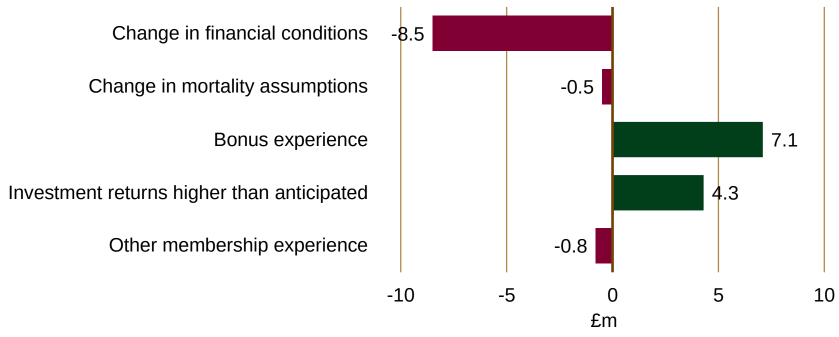
We carry out the valuation in respect of the PBS on two bases.

- The technical provisions assume future bonuses are in line with RPI inflation and return-seeking assets deliver 3% pa in excess of gilt returns. Given the discretionary nature of the PBS pension increases, this assumption is higher than the prudent return assumption used for the DBS. If lower returns are achieved, lower bonuses will be granted, and vice versa. This is known as the "ongoing valuation".
- We also value the benefits on a "solvency" basis, making no allowance for future discretionary bonuses and assuming all the assets are switched into gilts. The solvency valuation is used as a key measure when deciding whether to grant future discretionary bonuses. Ideally, the funding level would always be above 100% on this basis.

The surplus at the previous valuation on an ongoing basis was £2.3m. However, for this valuation, the data supplied included a number of members who joined the PBS prior to 31 December 2010 (ie the previous valuation date) but for whom we have had no data before. As a result the position at the previous valuation was restated to be a deficit of £0.9m.

The projected (restated) deficit at this valuation, had experience been in line with the assumptions made, would have been £1.1m, The actual surplus of £0.5m at the current valuation is therefore £1.6m higher, and the main reasons for this are shown in chart 6.

Chart 6: PBS ongoing experience over three years



On the solvency basis, there was a surplus of £4.6m. This is set in more detail in table 5.

Table 5: PBS solvency basis

	£m
Solvency target in respect of:	
Non-pensioners (Pool B)	43.2
Pensioners	
- Post '97 pensions in payment (Pool A)	14.6
- Pre '97 pensions in payment (Pool B)	24.7
	82.5
Assets	87.1
Surplus	4.6

The above suggested that a small discretionary increase could be considered. However, the position deteriorated quite markedly since 31 December 2013 and so the decision was made not to grant a bonus at 1 January 2015. The position should be reviewed annually.

4. Discontinuance

This section considers the position were the Employers to have ceased sponsoring the Fund 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 charts 7 and 8.

We have considered the solvency of the Fund 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 Fund.

We have not obtained 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.

In the case of the PBS, we have excluded discretionary pension increases.

Chart 7: Discontinuance measures - DBS

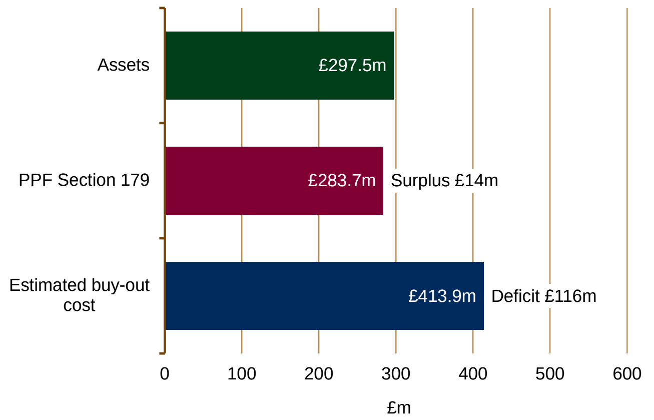
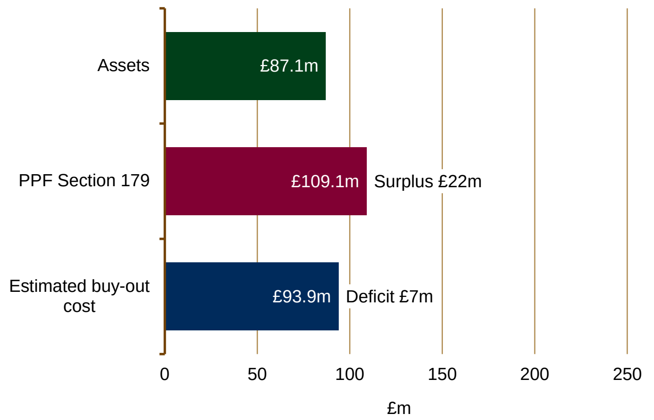


Chart 8: Discontinuance measures - PBS



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 Employers;
- 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 Fund'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 compares with £79.6m 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 employer, the Pension Protection Fund ("PPF") is required to assess whether the Fund is eligible to enter the PPF. This includes assessing whether the Fund is insufficiently funded.

In broad terms, if the PPF is satisfied that the Fund'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 Fund benefits. If the assets are sufficient, the Fund 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 Fund's rules.

As a proxy for the financial assessment that would be required by the PPF in these circumstances, we have taken the results of the separate statutory "section 179" valuation of the Fund as at the valuation date, as shown in charts 7 and 8.

On this basis, it seems likely that, had the Fund discontinued at the valuation date with no additional funds recovered from the Employers, the Fund would have entered the PPF and members' benefits would have been cut back to PPF compensation levels. Although the PBS benefits were in excess of PPF levels, we understand that the PPF would look at the Fund as a whole.

5. Contribution policy and implications for funding

The Board has determined in consultation with the Employers that the Employers will pay contributions as shown in the recovery plan and schedule of contributions (attached as appendices 10 and 11).

The projected funding levels three years after the valuation date are shown in table 6. 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 set out in the statement of funding principles; and
- there is no change in the annuity market

Table 6: Approximate projected funding levels

Measure	31 December 2013	31 December 2016
Technical provisions		
DBS	96%	99%
PBS	101%	101%
Combined	97%	100%
Solvency		
DBS	72%	75%
PBS	93%	97%
Combined	75.7%	78.6%

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.

6. Experience since the valuation date

The valuation considers the financial position of the Fund as at the valuation date. Since that time there have been significant fluctuations in investment markets which have affected the value of the assets and the technical provisions.

Charts 9 and 10 show an approximate projection of how the deficits of both sections against the technical provisions have varied since the valuation date.

Chart 9: Projection of DBS ongoing funding deficit

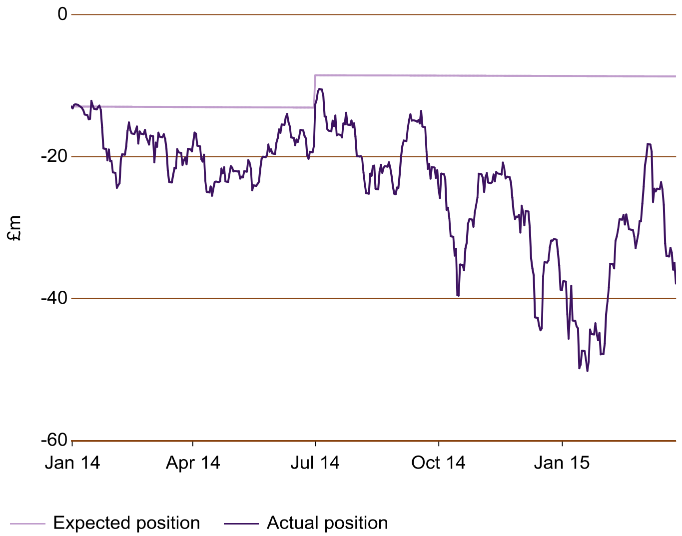


Chart 10: Projection of PBS ongoing funding surplus\deficit

It can be seen that the position deteriorated significantly during 2014 but has partly improved since then. We recommend that the position continues to be monitored.

7. Certification

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

I am also required to certify, in relation to the schedule of contributions, that payment of contributions at the agreed rates can be expected to lead to the Fund having sufficient assets to cover its technical provisions by the end of the recovery period, based on the assumptions in the statement of funding principles. 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 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, a copy of which is attached.

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Appointed Scheme Actuary

31 March 2015

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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

Our work in preparing this and the associated documents described above is subject to and complies with the Technical Actuarial Standard on reporting actuarial information (version 2), on data (version 1) and on modelling (version 1), together with the Pensions Technical Actuarial Standard (version 2).

Appendices

Some risks faced by the Fund

Risk	Comments
Employers	An Employer is not able to make the required contributions, and in particular is not able to pay increased contributions if experience is unfavourable. If this happened, then it is unlikely that the Fund 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 Fund 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 greater the allowance made in the technical provisions for returns on assets other than gilts, 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 may arise because of a mismatch between the Fund's holding in gilts and its 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	Fund members live longer, and so benefits are paid longer, than anticipated.
Regulatory	In future the Fund may have backdated claims or liabilities arising from equalisation or discrimination issues or from future legislation or court judgments. In particular, the actual impact of any adjustment to benefits that may be required to remove any inequalities arising from Guaranteed Minimum Pensions may well be different to any allowance made.
PBS	Although the PBS or Pension Builder Scheme is DC-like in many ways, it is not a DC scheme and there is a risk that the pensions (with no further discretionary increases) may not be able to be provided without further contributions from the Employers.

Benefits and contributions

We have taken the benefits provided by the Fund and the contributions required from members to be those set out in the Trust Deed and Rules which were adopted with effect from 5 February 2014. Each Employer in the DBS enters into a participation agreement with the Board, which sets out details of the benefits to be provided to their employees, selected from options for:

1. whether or not Employees' Pensionable Service will be contracted-out by reference to the Fund;
2. a Normal Pension Age, on or after the Member's 60th birthday;
3. Member's Contribution Rate to be either nil or at a specified percentage;
4. the Annual Review Date for the purpose of calculating Member's contributions;
5. an Accrual Rate of 1/100, 1/80, or 1/60, or such other rate agreed with the Board;
6. provisions for survivor's pensions chosen from:
   - 6.1 a Survivor's Pension Fraction to apply when the Member dies before his or her pension has started. This will be 1/2 or 2/3;
   - 6.2 a Survivor's Pension Fraction to apply when the Member dies after his or her pension has started. This will be 1/2 or 2/3 except that for Members in contracted-in Service the Survivor's Pension Fraction may be nil.
   - 6.3 whether the death in service pension is to be related to the Member's accrued pension or prospective pension; and
   - 6.4 any provision for children's pensions;
7. a "State Pension Deduction" from Pensionable Salary of nil or up to 1.5 times the lower earnings limit for National Insurance Contributions;
8. a Lump Sum Death Benefit of two, three or four times the Member's Final Pensionable Salary at the date of death;
9. whether or not pensions for Members who leave Service before Normal Pension Age because of Incapacity will be reduced for early payment and, if there is to be no reduction, whether or not it will be calculated based on notional service to Normal Pension Age.

We have relied on a summary of these agreements provided by the Board. We are not aware of any other governing documentation.

It is possible that the technical provisions may prove to be too low on account of any back dated adjustment to benefits arising from equalisation or discrimination issues or from future legislation or court judgments.

Membership details

The following table shows the membership details as at 31 December 2013. Figures as at 31 December 2010 are shown in brackets.

DBS

	Number		Average age		Pensionable Salaries / Pensions £'000 pa	
Active members	709	(1,191)	53	(51)	21,432	(32,562)
Deferred members	1,736	(1,518)	50	(49)	3,981	(2,830)
Pensioners and dependants	1,802	(1,460)	70	(69)	7,198	(5,493)
Total	4,247	(4,169)				

Active members

Note:
- The average annual increase in pensionable salary (as used for our valuation) for those who were members on 31 December 2010 and 31 December 2013 was 2.5% pa over the three years.
- The data includes increases granted at 1 January 2014.

Deferred members

Note: The deferred pension figures have been obtained by totalling members' deferred pensions as at the date of leaving.

Pensioners and dependants

Note:
- The pension figures have been obtained by totalling members' pensions in payment at the valuation date.

- Pensions in payment (in excess of GMPs where relevant) were increased on 1 January 2014, as required under the Rules, by 2.3% for all service.
- Pensions in payment (in excess of GMPs where relevant) were increased on 1 January 2013, as required under the Rules, by 3.2% for service prior to April 2006 and by 2.5% for service thereafter; except where the participating Employer had decided specifically not to limit increases to 2.5%, where the increase was 3.2% for all service.
- Pensions in payment (in excess of GMPs where relevant) were increased on 1 January 2012, as required under the Rules, by 2.6% for service prior to April 2006 and by 2.5% for service thereafter; except where the participating Employer had decided specifically not to limit increases to 2.5%, where the increase was 2.6% for all service.
- No discretionary increases were awarded.
- The data includes increases granted at 1 January 2014.

PBS

	Number		Average age		Pensions Purchased £'000 pa	
Active members	1,915	(1,135)	48	(48)	1,637	(1,269)
Deferred members	1,344	(917)	47	(48)	1,443	(1,072)
Pensioners and dependants	1,837	(1,494)	72	(73)	3,164	(3,104)
Total	5,096	(3,546)				

Active members

Note: The active pension figures are the pensions purchased at the valuation date, payable from normal retirement date.

Deferred members

Note: The deferred pension figures are the pensions purchased at the valuation date, payable from normal retirement date.

Pensioners and dependants

Note:

- The pension figures have been obtained by totalling members' pensions in payment at the valuation date.
- Pensions in payment (in excess of GMPs where relevant) were increased as follows:

Period in which contributions were paid	1 January 2014	1 January 2013	1 January 2012
Prior to April 1997	0.0%	0.0%	0.0%
Between April 1997 and March 2006	2.3%	3.2%	2.6%
From April 2006 onwards	2.3%	2.5%	2.5%

- No discretionary increases were awarded.

Consolidated revenue account

	DBS		PBS	
	£'000	£'000	£'000	£'000
Opening fund as 31 December 2010*		220,743		68,568
Income				
Employers' contributions	42,111		10,393	
Members' contributions	925		3,425	
Transfer values received	112		10	
Other income	327		131	
Total income		43,475		13,959
Expenditure				
Pensions	(18,817)		(9,675)	
Lump sum commutations	(5,061)		(2,064)	
Other benefit payments	(96)		(359)	
Transfer values paid	(374)		(718)	
Other expenses	(1,936)		(1,704)	
Total expenditure		(26,284)		(14,520)
Change in value of investments		59,671		19,129
Closing fund at 31 December 2013		297,500		87,136

* amounts shown in audited accounts, less £408,000 from the DBS and £137,000 from the PBS in respect of the Church Army section, which ceased to be an employer on 30 September 2010.

Investment strategy and composition of assets

The table below sets out the benchmark asset allocations under the Board's investment strategy as at the valuation date and the actual holdings as at the valuation date.

	Benchmark holding	Market value at 31 December 2013	
Asset type	**%**	**£'000**	**%**
Equities			
UK	14	53,811	14
Global	44	174,885	45
Bonds			
Index-linked gilts	25	88,324	23
Corporate bonds	7	26,382	7
Property	5	21,524	6
Infrastructure	1	2,691	1
Global Tactical Asset Allocation	3	13,453	3
Cash and net current assets	1	3,566	1
Total assets	100	384,636	100

Note: Over the period since the previous valuation, the average rate of return earned on the assets was approximately 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 returns above gilts

	DBS		PBS	
	% pa	**Surplus/ (Deficit) £m**	**% pa**	**Surplus/ (Deficit) £m**
Actual rate used	2.0	(12.9)	3.0	0.5
Higher rate	3.0	(0.4)	4.0	7.8
Lower rate	1.0	(27.4)	2.0	(8.4)
No credit	0.0	(44.4)	0.0	(32.6)

Key assumptions used for assessing solvency

We have based our estimate of the Fund'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.

We have included allowances for the insurance company's costs in administering the benefits of £1.7m for the DBS and £2.2m for the PBS, and separately we have included provisions of £5.6m for the DBS and £2.3m for the PBS in respect of expenses that would be incurred by the Board in winding up the Fund.

Financial assumptions

Assumption	DBS % pa	PBS % pa
Non pensioners		
Discount rate	3.3	3.3
Rate of price inflation (RPI)	3.7	3.8
Rate of price inflation (CPI)		
Pension increases in line with RPI:		
- subject to a minimum of 0% pa and a maximum of 5% pa	3.6	3.7
- subject to a minimum of 0% pa and a maximum of 2.5% pa	2.4	2.4
Pensioners		
Discount rate	3.4	3.3
Pension increases in line with RPI:		
- subject to a minimum of 0% pa and a maximum of 5% pa	3.5	3.5
- subject to a minimum of 0% pa and a maximum of 2.5% pa	2.4	2.4

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.

Key documents

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: **Church Workers' Pension Fund**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 December 2013 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustee of the scheme and set out in the Statement of Funding Principles dated 31 March 2015.

Signature: ....

Date: 31 March 2015

Name: Aaron Punwani

Qualification: FIA

Address: 95 Wigmore Street
London
W1U 1DQ

Name of employer: Lane Clark & Peacock LLP

The Church Workers Pension Fund ("the Fund")
Statement of Funding Principles

The Church of England Pensions Board, the Trustee of the Church Workers Pension Fund, has produced this statement of funding principles and it is designed to comply with Section 223 of the Pensions Act 2004.

It sets out:

- our policy for assessing the "technical provisions" – that is the amount of money the Fund should aim to hold, from time to time in order to make provision for the Fund's liabilities; and
- how we intend to achieve the objective of holding this amount of money in the Fund (this is known as meeting the "statutory funding objective").

This statement has been prepared as part of the Fund's actuarial valuation as at 31 December 2013. We have taken advice from the scheme actuary, Mr Aaron Punwani FIA, when drawing up this statement and have consulted with the employers who sponsor the Fund.

1. Technical provisions

We have decided that the technical provisions should be calculated using the method and assumptions set out in the Appendix.

We chose this method and these assumptions in consultation with the employers, as required by law. In arriving at them, we took advice from the scheme actuary and took account of various relevant factors (in particular the ability of the employers to support the Fund).

2. Recovery plan

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

Deficit contributions have been set for individual employers, reflecting the deficit within their individual pool. For most employers, contributions were set with the objective of eliminating the deficit within no more than five years from 1 April 2015; however for some employers a longer period was set, but in no cases was the period more than seventeen years from 1 April 2015. The periods were set after considering the financial strength of the employers and their ability to pay the resulting contributions.

The assumptions underlying the recovery plan are set out in the Appendix.

3. Discretionary benefits

In the Pension Builder Scheme, increases to benefits are granted through bonus declarations on a discretionary basis.

In setting the technical provisions we allow for:

- future bonuses in line with RPI price inflation, in the case of Pension Builder Classic section benefits; and
- Future bonuses in line with CPI price inflation (capped at 2.5% pa) plus 3.5% pa, in the case of Pension Builder 2014 section benefits.

Under Rule 10 of the Fund's rules the Trustee may at their discretion increase, or provide additional, benefits from the Defined Benefit Scheme. In setting the technical provisions we make 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 employers

The Trustee does not currently anticipate making any payments to the employers even if this were permitted under the terms of the Pensions Act 2004 unless the actuary were to advise that, without any further contributions, the assets were likely to be more than sufficient to meet all of the targeted benefits.

5. Contributions other than from the employers who sponsor the Fund or the members

There are no arrangements in place for any contributions to be paid to the Fund other than from the employers and members.

6. Cash equivalent transfer values

Under legislation, the Trustee may reduce transfer values to take account of the funding level of the Fund.

If all members of the Defined Benefits Scheme had requested transfer values at the last valuation date, the assets of the Defined Benefits Scheme would have been sufficient to pay everyone.

In the Pension Builder Scheme, the Board has recently updated the transfer value basis used for the Pension Builder Scheme. Under the new transfer value basis, the assets as at 31 December 2014 would be broadly enough to pay full transfer values to everyone at that time. Therefore, we have decided not to reduce transfer values, although we will keep the matter under review.

7. Reviewing the valuation position and this statement

We will normally commission a full actuarial valuation every three years. Under Rule 12.8 we can request full valuations more frequently than every three years and we may do so, for example if, having considered advice from the scheme actuary, we are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions.

This statement replaces the previous statement, which was signed on 10 June 2014.

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 31 March 2015.

Signed on behalf of the Trustee

Name: Bernadette J. Kenny

Position: CEO

Date: 31 March 2015

The Church Workers Pension Fund

Statement of Funding Principles

Actuarial method and assumptions

The method and assumptions for calculating the technical provisions for the Defined Benefits Scheme and the Pension Builder Scheme are set out below. The assumptions based on market conditions as at each valuation date will be recorded in the relevant section (shown in italics below).

1. Defined Benefits Scheme

Actuarial method

Projected unit method for all employers.

Assumptions

The technical provisions are calculated on the following key assumptions.

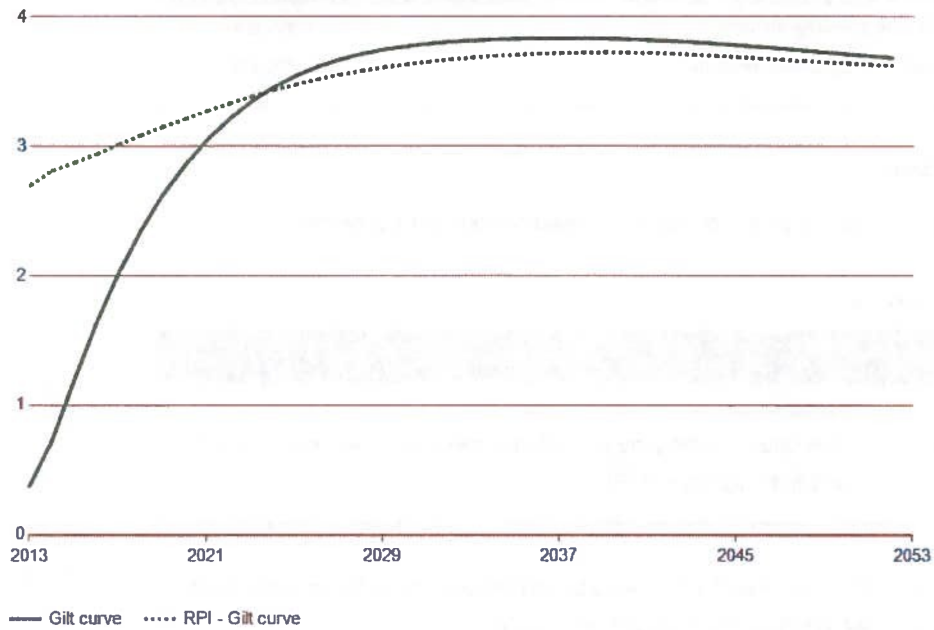
Gilt return and price inflation assumptions

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.
- Price inflation as measured by the Consumer Prices Index ("CPI") over each future year is calculated as the corresponding assumption for RPI less 0.7% pa.

For illustration, as at the valuation date, the assumptions for the return on gilts and RPI were as shown in the chart below:

Gilt returns and implied RPI as at 31 December 2013



For the purposes of illustration, as at the valuation date the single equivalent average rates (weighted by the projected future benefit cashflows) were:

	Rate
Gilt returns	*3.6% pa*
RPI	*3.6% pa*
CPI	*2.9% pa*

Investment returns

Projected future benefit payments (as described below) are discounted on rates derived as described below:

- the future investment strategy will be at any time to hold a portfolio of equities and gilts (invested 25% in equities and 75% in gilts) to back the Life Risk Section and a portfolio of equities for individual employer pools; and
- advance credit is taken for an additional return on the equity portfolio over the return from gilts of 2.0% pa (net of investment management expenses) in each future year.

- The resulting discount rates based on the single equivalent average gilt returns were:

	Discount rate
Employer pools – ie pre-retirement	*5.6% pa*
Life Risk Section – ie post-retirement	*4.1% pa*

Other assumptions

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

- Pension increases

Pension increase	Assumption
Fixed	At the rate specified in the rules
Inflation-linked	At a rate reflecting the provision of the rules, the expected RPI and the volatility of RPI

For illustration, as at 31 December 2013, the assumed rates of pension increase based on the single equivalent average RPI and CPI rates were:

Pension increase	*Assumption*
CPI subject to a minimum of 0% pa and a maximum of 3.0% pa	*2.4% pa*
RPI subject to a minimum of 0% pa and a maximum of 2.5% pa	*2.3% pa*
RPI subject to a minimum of 0% pa and a maximum of 5% pa	*3.4% pa*

- No allowance for discretionary pension increases.

- General increases in pensionable salaries at CPI plus 1.2% pa.

- Deferred pension revaluation

Revaluation rate	Assumption
Guaranteed minimum pensions (GMPs)	At the required statutory rate
Pensions in excess of GMP	In line with CPI over the period to retirement subject to a cap of 5% pa or 2.5% pa, as per the benefits offered by each individual employer

As at 31 December 2013, the single equivalent average assumed rates of revaluation were:

Revaluation rate	*Assumption*
CPI subject to a maximum of 5% pa	*2.9% pa*
CPI subject to a maximum of 2.5% pa	*2.5% pa*

- No allowance for the withdrawal of active members.
- All retirements of non-pensioners to take place at the earliest age at which an element of their pension is payable unreduced.
- Non-pensioners do not choose to commute any of their pension on retirement.
- For pre-retirement mortality:
  - Nil
- For post-retirement mortality:
  - 95% of the S2NMA and S2NFA tables; and
  - projected from 2007 in line with the CMI 2013 core projections with a long-term annual rate of improvement of 1.5% (males) / 1.5% (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.
- Expenses and Pension Protection Fund levies are paid from the assets of the Fund.

2. Pension Builder Scheme

Actuarial method

Projected unit method.

Assumptions

The technical provisions are calculated on the following key assumptions.

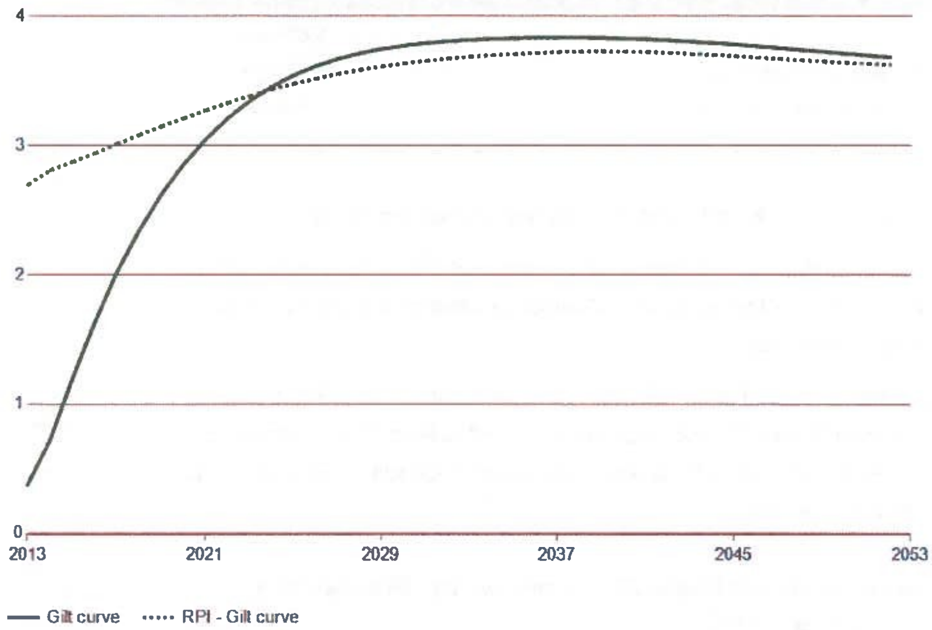
Gilt return and price inflation assumptions

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.
- Price inflation as measured by the Consumer Prices Index ("CPI") over each future year is calculated as the corresponding assumption for RPI less 0.7% pa.

For illustration, as at the valuation date, the assumptions for the return on gilts and RPI were as shown in the chart below:

Gilt returns and implied RPI as at 31 December 2013



For the purposes of illustration, as at the valuation date the single equivalent average rates (weighted by the projected future benefit cashflows) were:

	Rate
Gilt returns	*3.6% pa*
RPI	*3.6% pa*
CPI	*2.9% pa*

Investment return and benefit increase assumptions

Future benefit payments are discounted on rates derived from the following assumptions:

- the future investment strategy will be at any time to hold a portfolio of gilts to back pensions in payment with guaranteed pension increases (ie those benefits accruing post 5 April 1997). All other benefit payments are backed by a portfolio of equities; and
- advance credit is taken for an additional return on the equity portfolio over the return from gilts of 3.0% pa (net of investment management expenses) in each future year.

As at 31 December 2013, the resulting discount rates based on the single equivalent average gilt returns were:

	Discount rate
Pre-retirement	*6.6% pa*
Post-retirement for pre 1997 pensions	*6.6% pa*
Post-retirement for post 1997 pensions	*3.6% pa*

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

- future bonuses applicable to non-pensioner benefits and to pensions in payment in respect of contributions before 6 April 1997 will be granted in line with RPI in the Pension Builder Classic section;
- pension increases in respect of contributions paid between 6 April 1997 and 6 April 2006 in the Pension Builder Classic section will be RPI subject to a maximum of 5% pa and in respect of contributions paid after 6 April 2006 will be RPI subject to a maximum of 2.5% pa; and
- future bonuses in the Pension Builder 2014 section will be CPI subject to a maximum of 2.5% pa plus 3.5% pa.

For illustration, as at 31 December 2013, the assumed rates of pension increase in the Pension Builder Classic section, based on the single equivalent average RPI rate were:

Pension increase in Pension Builder Classic section	Assumption
Bonuses granted prior to retirement	*3.6% pa*
Bonuses granted post retirement for pre 1997 pensions	*3.6% pa*
RPI subject to a minimum of 0% pa and a maximum of 2.5% pa	*2.3% pa*
RPI subject to a minimum of 0% pa and a maximum of 5% pa	*3.4% pa*

Other assumptions

- An expense loading of 2.5% of the technical provisions in respect of non-pensioners and 0.5% in respect of pensioners, in the Pension Builder Classic section.
- For pre-retirement mortality:
  - Nil
- For post-retirement mortality:
  - 95% of the S2NMA and S2NFA tables; and

- projected from 2007 in line with the CMI 2013 core projections with a long-term annual rate of improvement of 1.5% (males) / 1.5% (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.

The Church Workers Pension Fund ("the Fund") Recovery Plan

The actuarial valuation of the Fund as at 31 December 2013 revealed the following:

- **a deficit of £12.9m in the Defined Benefits Scheme ("DBS")**
- **a surplus of £0.5m in the Pension Builder Scheme ("PBS").**

In accordance with Section 226 of the Pensions Act 2004, the Trustee of the Fund has prepared this recovery plan, after obtaining the advice of Mr Aaron Punwani FIA, the scheme actuary.

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

Many employers are paying additional deficit contributions calculated to eliminate the deficit in their pool within five years from 1 April 2015. For other employers, deficit contributions are calculated to eliminate the deficit by no later than 31 March 2032. Some employers are paying no deficit contributions because their pools were in surplus at 31 December 2013.

The individual amounts to be paid were set out in the individual employer reports dated 30 July 2014, and are summarised in the Schedule of Contributions dated 31 March 2015.

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

The deficit is expected to be eliminated by 31 March 2032. This is based on the following assumptions:

- Technical provisions are calculated according to the method and assumptions set out in the Fund's Statement of Funding Principles dated 31 March 2015.
- The return on existing assets and new contributions during the period are as adopted for the calculation of the technical provisions.

This recovery plan was prepared on 31 March 2015.

Signed on behalf of the Trustee

Name: Bernadette J Kenny

Position: CEO

Date: 31 – 3 – 15