Church Workers Pension Fund
Actuarial report as at 31 December 2014

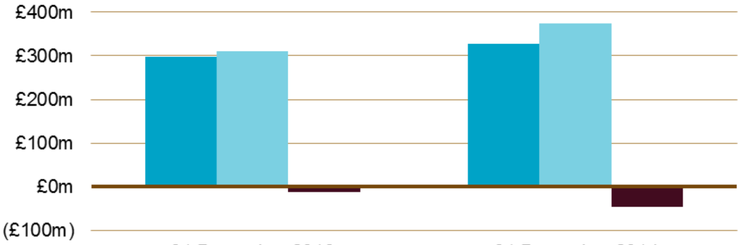
This report is addressed to the Church of England Pensions Board ("the Board") as Trustee of the Scheme and is the first actuarial report since the completion of the actuarial valuation as at 31 December 2013. The purpose of this report is to provide the Board with an indication of how the funding position developed between 31 December 2013 and 31 December 2014 for both the Defined Benefit Scheme ("the DBS") and the Pension Builder Scheme ("the PBS").

We have undertaken this work assuming that there are no specific decisions for you to take as a result of this report. Appendix 1 sets out further details of the scope of our work.

1. Estimates of funding position as at 31 December 2014

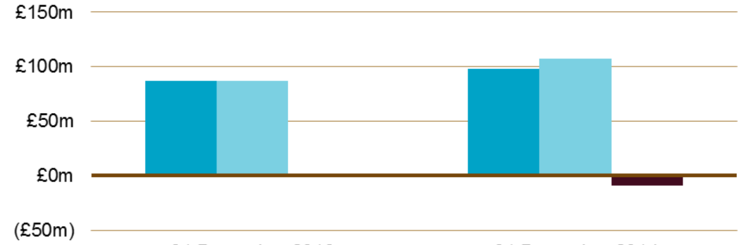
I set out in the chart below my estimate of the ongoing funding position as at 31 December 2014 for both the DBS and PBS with figures at 31 December 2013 for ease of comparison:

DBS funding position



	31 December 2013	31 December 2014
Market value of assets	£297.5m	£327.3m
Technical Provisions	£310.4m	£373.5m
Deficit	(£12.9m)	(£46.2m)

PBS funding position



	31 December 2013	31 December 2014
Market value of assets	£87.1m	£98.1m
Technical Provisions	£86.6m	£107.5m
Deficit	£0.5m	(£9.4m)

We have estimated the technical provisions as at 31 December 2014 by projecting forward the technical provisions as at 31 December 2013.

Our projection allows for:

- changes in the financial assumptions used to calculate the technical provisions;
- interest on the technical provisions;
- an estimate of the effect of actual increases to pensions in payment and to accrued benefits not yet in payment since 31 December 2013;
- the accrual of additional benefits by members over the period; and
- net payments into and out of the Fund, as set out in the Fund's unaudited financial statements.

The asset figures above are taken from the Fund's unaudited accounts for the year ending 31 December 2014.

We have assumed that all other experience over the period was in line with the assumptions. If the Fund's experience was significantly different from the assumptions used or if there were significant events of which we are not aware, then the technical provisions based on a full actuarial valuation would be significantly different from those we have estimated.

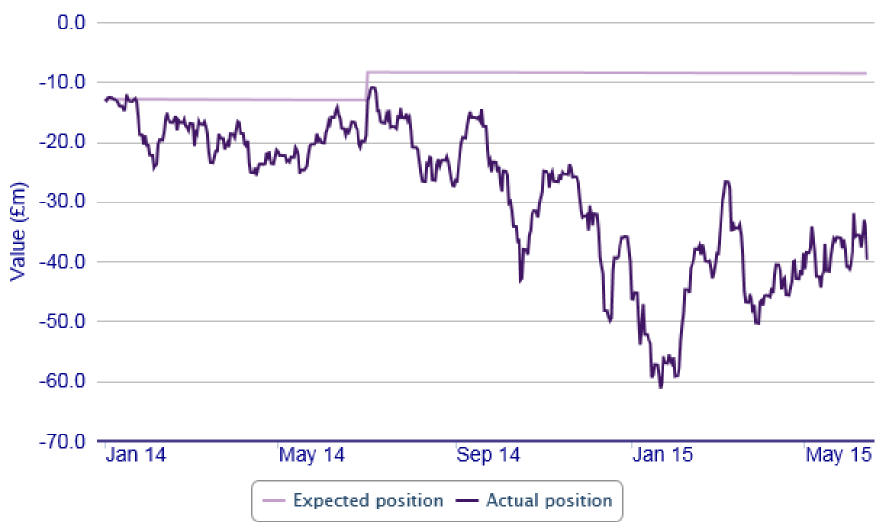
In practice, market conditions have been very volatile since the last actuarial valuation as at 31 December 2013 and we have considered the development of the position since then separately for the DBS and PBS in sections 2 and 3 below.

Appendix 2 provides further detail on the data and assumptions that we have used in our calculations.

2. DBS development since 31 December 2013

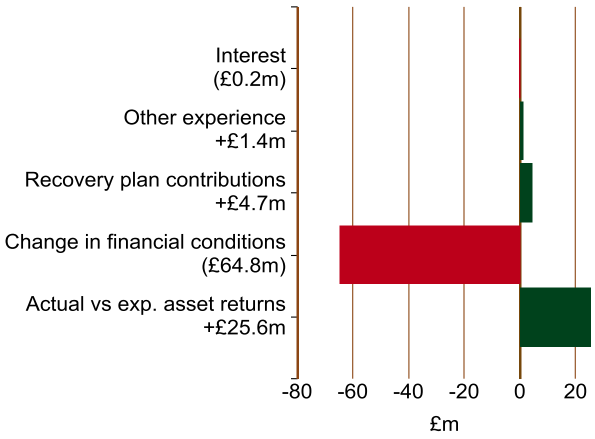
The chart below illustrates how sensitive the funding position is to market movements, even over short time periods.

Projection of DBS deficit since 31 December 2013



You will see that the DBS deficit has varied between around £10m and £60m since 31 December 2013. We estimate that at 31 December 2014 the deficit in the DBS was **£46.2m**.

The DBS deficit as at 31 December 2013 (the date of the last actuarial valuation of the Fund) was £12.9m. The estimated DBS deficit of £46.2m at December 2014 is therefore £33.3m higher and the main reasons for this are shown below.



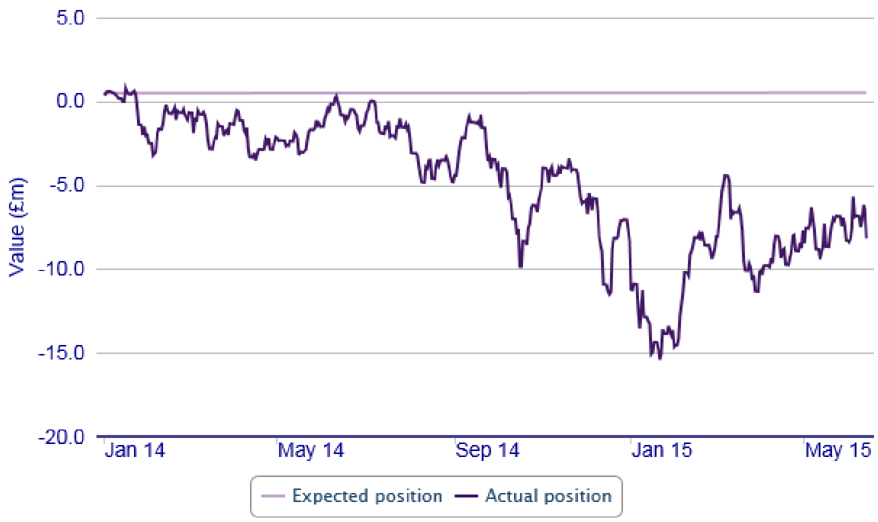
"Changes in financial conditions" is the most material item and refers to a significant decrease in real gilt yields over the year, which has led to an increase in the DBS's technical provisions. This impact has been offset to some extent by investment returns being higher than anticipated.

3. PBS development since 31 December 2013

In projecting the PBS position, we have allowed for benefits accrued in the PB2014 sub-section, which was opened shortly after the date of the last actuarial valuation.

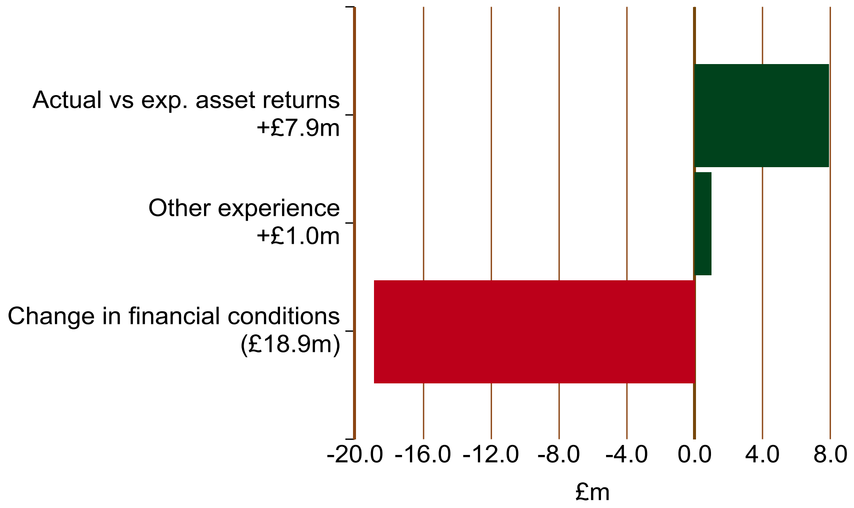
The chart below illustrates how sensitive the funding position is to market movements, even over short time periods.

Projection of PBS funding surplus / deficit since 31 December 2013



You will see that the PBS deficit has varied between a surplus of £0.5m and a deficit of £15m since 31 December 2013. We estimate that at 31 December 2014 the deficit in the PBS was **£9.4m**.

The PBS surplus as at 31 December 2013 (the date of the last actuarial valuation of the Scheme) was £0.5m. The estimated PBS deficit of £9.4m at December 2014 is therefore £9.9m worse and the main reasons for this are shown below.



Again, "Changes in financial conditions" is the most material item and refers to a significant decrease in real gilt yields over the year, which has led to an increase in the PBS's technical provisions. This impact has been offset to some extent by investment returns being higher than anticipated.

4. Next steps

The Board is required to provide a copy of this report to the employers within seven days of receiving it. Certain information in this report also needs to be included in the summary funding statement to members to be issued to members.

The next formal valuation is due with an effective date as at 31 December 2016.

Prepared as an attachment to an email at 16:20 on 24 July 2015

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24 July 2015

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Professional Standards

Our work in preparing this document 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).

Scope of work

We have undertaken this work on the basis that there are no specific decisions for you to take as a result of this report. Please contact me if you do intend to take some specific actions on receiving this report, as it may then be appropriate for me to provide additional advice.

The calculations in this report have been prepared in accordance with the requirements of the Pensions Act 2004; the Occupational Pension Schemes (Scheme Funding) Regulations 2005; and the Pensions Regulator's Code of Practice: "Funding defined benefits". We understand that the figures in this report will be included in the next summary funding statement sent to Fund members.

For the purpose of this report, and consistently with the valuation, we have excluded all liabilities relating to defined contribution benefits including AVCs, for which the value is equal to the value of the corresponding assets.

This report does not consider the solvency level of the Fund, either on a buy-out basis or on a basis relative to the compensation provided by the Pension Protection Fund. The cost of buying out benefits with an insurance company is likely to be significantly higher than the technical provisions.

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 judgements.

Data and assumptions

1. Data used to estimate the technical provisions at 31 December 2014

We have based our calculations on the membership data provided for the actuarial valuation of the Fund as at 31 December 2013 and summarised in our valuation report dated 31 March 2015, along with the following data, derived from the draft Scheme accounts provided by Dan Taylor on 5 June 2015:

For the DBS

- estimated benefit accrual of £4.7m for the year to 31 December 2014;
- estimated net benefit cash flow of £9.6m out of the DBS for the year to 31 December 2014.

For the PBS

- estimated benefit accrual of £6.6m for the year to 31 December 2014; and
- estimated net benefit cash flow of £4.4m out of the PBS for the year to 31 December 2014.

2. Special events

We understand that over the year to 31 December 2014, there were no material benefit changes to the Fund.

However, our projections allow for:

- the introduction of the PB 2014 benefit scale of the PBS in 2014; and
- the purchase of a buy-in contract covering 70% of the pensions in payment from the DBS section in February 2014.

3. Assets at 31 December 2014

We have been provided with a copy of the unaudited Scheme accounts for the year ending 31 December 2014 and these give an asset figure of £327.3m for the DBS and £98.1m for the PBS.

It is possible that the final asset figure shown in the audited accounts could be different, which would affect the funding position at 31 December 2014 disclosed in this report.

4. Assumptions at 31 December 2014

Our calculations are based on the assumptions set out in the Board's statement of funding principles dated 31 March 2015, updated only to reflect changes in gilt yields between 31 December 2013 and 31 December 2014. The key financial assumptions are set out below along with those at 31 December 2013 for comparison. All non-financial assumptions are as set out in the statement of funding principles.

4.1. DBS

	31 December 2014	31 December 2013
Gilt yield	2.5% pa	3.6% pa
Investment returns		
Return-seeking assets	4.5% pa	5.6% pa
Liability-matching assets	3.0% pa	4.1% pa
Rate of RPI price inflation	3.2% pa	3.6% pa
Rate of CPI price inflation	2.5% pa	2.9% pa
Rate of pensionable salary increases	3.7% pa	4.1% pa
Rate of pension increases		
RPI subject to a maximum of 5% pa	3.1% pa	3.4% pa
RPI subject to a maximum of 2.5% pa	2.2% pa	2.3% pa

4.2. PBS

	31 December 2014	31 December 2013
Gilt yield	2.5% pa	3.6% pa
Investment returns		
Pre-retirement	5.5% pa	6.6% pa
Post-retirement (for pre 97 pensions)	5.5% pa	6.6% pa
Post-retirement (for post 97 pensions)	2.5% pa	3.6% pa
Rate of RPI price inflation	3.2% pa	3.6% pa
Rate of discretionary bonuses pre-retirement	3.2% pa	3.6% pa
Rate of pension increases		
Discretionary bonuses (pre 97 pensions)	3.2% pa	3.6% pa
RPI subject to a maximum of 5% pa	3.1% pa	3.4% pa
RPI subject to a maximum of 2.5% pa	2.2% pa	2.3% pa

5. Projections between 31 December 2013 and 31 December 2014

Sections 1 to 4 above describe the data and assumptions we have used to estimate the funding position as at 31 December 2014.

We have produced the figures calculated at other dates between 31 December 2013 and 31 December 2014 (as shown in Section 1 of this paper) using a more approximate method as they are for illustration only. In producing these figures, we have projected the technical provisions and asset figures as at 31 December 2013 on a daily basis to allow approximately for:

- investment performance, using certain index returns as a broad proxy for this;
- interest on the technical provisions;
- changes in the technical provisions due to changes in gilt yields;
- the accrual of additional benefits over the period; and
- deficit contributions and an estimate of other net payments into and out of the Scheme.

We have also rebased our calculations at 31 December 2014 to allow for the updated position as set out in this paper.