This report is addressed to the Church of England Pensions Board as Trustee of the Fund and is the first actuarial report since the actuarial valuation as at 31 December 2019.

Its purpose is to provide an estimate of the ongoing funding as at 31 December 2020 and an indication of how the funding position has developed from 31 December 2019 to 31 December 2020.

The table to the right summarise our estimates of the funding position in each section of the Fund at 31 December 2020.

I have also provided further details for each section on the following pages.

The Board is required to share this report with the employers participating in the Fund within seven days of receiving it. Some of the information in this report also needs to be included in the next summary funding statement for members.

### Defined Benefits Scheme

<table>
<thead>
<tr>
<th>Scheme</th>
<th>31 December 2019</th>
<th>Surplus / (Deficit) £m</th>
<th>31 December 2020</th>
<th>Surplus / (Deficit) £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>426.6</td>
<td></td>
<td>452.8</td>
<td></td>
</tr>
<tr>
<td>Ongoing basis</td>
<td>437.8</td>
<td>(11.3)</td>
<td>481.9</td>
<td>(29.1)</td>
</tr>
</tbody>
</table>

### PB Classic

<table>
<thead>
<tr>
<th>Scheme</th>
<th>31 December 2019</th>
<th>Surplus / (Deficit) £m</th>
<th>31 December 2020</th>
<th>Surplus / (Deficit) £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>147.8</td>
<td></td>
<td>161.2</td>
<td></td>
</tr>
<tr>
<td>Ongoing basis</td>
<td>152.6</td>
<td>(4.8)</td>
<td>174.4</td>
<td>(13.2)</td>
</tr>
<tr>
<td>Security basis</td>
<td>157.1</td>
<td>(9.3)</td>
<td>180.7</td>
<td>(19.5)</td>
</tr>
</tbody>
</table>

### PB14

<table>
<thead>
<tr>
<th>Scheme</th>
<th>31 December 2019</th>
<th>Surplus / (Deficit) £m</th>
<th>31 December 2020</th>
<th>Surplus / (Deficit) £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>26.3</td>
<td></td>
<td>34.4</td>
<td></td>
</tr>
<tr>
<td>Ongoing basis</td>
<td>20.8</td>
<td>5.5</td>
<td>27.2</td>
<td>7.2</td>
</tr>
<tr>
<td>Accrued pools</td>
<td>24.0</td>
<td>2.3</td>
<td>31.4</td>
<td>3.0</td>
</tr>
</tbody>
</table>

As a reminder:

- The position for all sections is valued on an ongoing basis, which includes a prudent allowance for future investment returns in excess of gilts and for discretionary increases and bonuses where appropriate.

- For PB Classic, we also value the benefits on a "security basis", making no allowance for future discretionary bonuses and assuming all the assets are switched into gilts. The security valuation is used as a key measure when deciding whether to grant future discretionary bonuses.

- For PB14, we also compare the level of "accrued pools", the total level of members’ accounts including bonuses granted to date, against the level of assets. This is used as a key measure when deciding whether account values should be reduced for transfer values.

---

**Use of our work**

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with the Church of England Pensions Board as Trustee of the Church Workers Pension Fund (“Our Client”). This work is only appropriate for the purposes described and should not be used for anything else. It is subject to any stated limitations (eg regarding accuracy or completeness). Unless otherwise stated, it is confidential and is for your sole use, although we acknowledge that you are required to pass it to the employer sponsoring the Fund. You may not provide this work, in whole or in part, to anyone else without first obtaining our permission in writing. We accept no liability to anyone who is not Our Client. If the purpose of this work is to assist you in supplying information to someone else and you acknowledge our assistance in your communication to that person, please make it clear that we accept no liability towards them.

**Professional Standards**

This report is part of the work in connection with the valuation of the Fund. 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. Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work. Under the terms of our professional guidance this work has been reviewed by Stephen Davies (a qualified actuary and LCP partner). We are satisfied that this complies with our professional requirements and that the degree of independence of the reviewing actuary is appropriate.
Church Workers Pension Fund
Defined Benefits Scheme ("the DBS")

The following charts set out an estimate of the ongoing funding position of the DBS section of the Fund as at 31 December 2020 and an indication of how the funding position has developed from 31 December 2019 to 31 December 2020.

Further details of the method, data and assumptions are set out on pages 5 and 6.

Why has the funding position changed from 31 December 2019 to 31 December 2020?

The figures may not sum due to rounding

The deficit increased by £17.8m over the period, and the main reasons for this are shown in the chart. The change in financial conditions item is primarily driven by a drop in gilt yields and includes a review of the CPI assumption in light of RPI reform.

• Since 31 December 2019, the estimated funding position has varied between a deficit of £87m and a surplus of £15m over the period. At the time of writing the adverse experience over the year to 31 December 2020 has more than reversed.

• The chart illustrates how sensitive the funding position is to market movements, even over short time periods.
Church Workers Pension Fund
PB Classic

The following charts set out an estimate of the ongoing and security funding positions of the PB Classic section of the Fund as at 31 December 2020 and an indication of how the funding position has developed from 31 December 2019 to 31 December 2020.

Further details of the method, data and assumptions are set out on pages 5 and 6.

Why has the funding position changed from 31 December 2019 to 31 December 2020

The deficit increased by £8.4m over the period, and the main reasons for this are shown in the chart. The change in financial conditions item is primarily driven by a drop in gilt yields and includes a review of the CPI assumption in light of RPI reform.

Variability in funding position to 25 May 2021

- Since 31 December 2019, the estimated funding position on the ongoing basis has varied between a deficit of £35m and a surplus of £5m over the period.
- The funding position on the security valuation basis, has varied between a deficit of £50m and a surplus of £5m over the period.

The chart illustrates how sensitive the funding position is to market movements, even over short time periods.
The following charts set out an estimate of the ongoing and security funding positions of the PB 14 section of the Fund as at 31 December 2020 and an indication of how the funding position has developed from 31 December 2019 to 31 December 2020.

Further details of the method, data and assumptions are set out on pages 5 and 6.

Why has the funding position changed from 31 December 2019 to 31 December 2020?

The surplus on the funding valuation basis increased by £1.7m over the period, and the main reasons for this are shown in the chart. For the PB14 section, the drop in gilt yields over the period that acted to reduce the assumption for future investment returns is offset by a reduction in the assumed future discretionary bonuses and so the ongoing position is unaffected.
Scope

We have prepared the calculations in this report in accordance with the requirements of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

We have undertaken this work assuming 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 next actuarial report is due with an effective date as at 31 December 2021 and the next full actuarial valuation is due as at 31 December 2022.

Method

We have estimated the technical provisions as at 31 December 2020 by projecting forward the technical provisions as at 31 December 2019. Our projection allows for:

- changes in the financial conditions;
- interest on the technical provisions;
- increases to pensions in payment and revaluation of deferred benefits since 31 December 2019;
- the accrual of additional benefits over the period; and
- net payments out of the sections of the Fund.

In addition, we have allowed for:

- a PB Classic discretionary bonus of nil at 31 December 2020; and
- a PB 14 bonus of 6.0% applied with effect from 1 April 2020.

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

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.

RPI Reform

In November 2020, the Government and UK Statistics Authority confirmed that the RPI formula will be replaced by the CPIH formula from 2030, with no compensation for holders of index-linked gilt.

From 2030, when RPI will be calculated in line with CPIH, we might expect a reduction of around 1% pa with the gap between RPI and CPI expectations reduced significantly.

The current Statement of Funding Principles assumed a gap of 0.8% pa between RPI and CPI inflation as at 31 December 2019; to be reviewed at subsequent dates in the light of RPI reform.

As agreed with the Board; in calculating our estimate of the funding position as at 31 December 2020, we have reduced this gap to 0.1% pa from 2030. We have also reduced the assumption for the volatility of RPI inflation from 1.8% pa to 1.5% pa.

- The estimated impact of updating these inflation assumptions for the DBS section is an increase to the technical provisions liabilities as at 31 December 2020 of about £5m, as shown in the chart on page 2.
- For PB Classic, updating the RPI inflation volatility assumption has resulted in an increase to the technical provisions liabilities as at 31 December 2020 of about £1m, as shown in the chart on page 3.
- The PB 14 section is unaffected by the change to the CPI assumption.

We have produced the figures calculated at other dates between 31 December 2019 and 31 December 2020 (and beyond that date) using a more approximate method as they are for illustration only.

Data

We have used the following data:

- the membership data provided for the actuarial valuation of the Fund as at 31 December 2019 and summarised in our valuation report dated 31 March 2021;
- net benefit cash flows for the year to 31 December 2020 based on the draft Church Workers Pension Fund annual report and accounts for the year to 31 December 2020 of:
  - £12.3m in respect of DBS;
  - £5.7m in respect of PB Classic;
  - £0.9m in respect of PB 14;
- in allowing for benefit accrual over the year, for the DBS section of the Fund we have assumed payroll of £7.6m for the year to 31 December 2020 and an average Future Service Contribution Rate of 35% across the membership. For the PB Classic and PB 14 sections, we have allowed for benefit accrual based on contributions paid over the year to 31 December 2020 as set out in the draft Church Workers Pension Fund annual report and accounts of:
  - £5.5m in respect of PB Classic;
  - £6.7m in respect of PB 14;
PB Classic

Key financial assumptions | 31 December 2019 | 31 December 2020
--- | --- | ---
Rate of return from gilts | 1.20% pa | 0.60% pa
Retail Price Inflation (RPI) | 3.20% pa | 3.10% pa

Discount rates (margin over gilts)

Post-retirement for post 1997 0.00% pa pensions | | 0.00% pa
Post-retirement for pre 1997 3.50% pa pensions | | 3.50% pa
Pre-retirement | 3.50% pa | 3.50% pa

Rate of pension increases

Bonuses granted | 3.20% pa | 3.10% pa
RPI min 0%, max 5% pa | 3.10% pa | 3.00% pa
RPI min 0%, max 2.5% pa | 2.10% pa | 2.20% pa

PB 14

Key financial assumptions | 31 December 2019 | 31 December 2020
--- | --- | ---
Rate of return from gilts | 1.20% pa | 0.60% pa

Investment returns (margin over gilts) | 3.50% pa | 3.50% pa
Future bonuses (margin over gilts) | 2.00% pa | 2.00% pa
Expense allowance | 0.50% pa | 0.50% pa

All financial assumptions are term-dependent and calculated by reference to the relevant gilt yield curves. The rates above are approximate single-equivalent rates, weighted by reference to each section’s projected benefit cashflows.

Special events

We understand that there were no material changes to the audited accounts could be different, which would affect the funding positions as at 31 December 2020 disclosed in this report.

Assumptions as at 31 December 2020

The key financial assumptions used for each section have been set in line with the approach set out in the Board’s Statement of Funding Principles dated 25 March 2021 (with the exception of the inflation assumptions as at 31 December 2020 as outlined earlier in this report).

All non-financial assumptions are as set out in the Statement of Funding Principles.

Defined Benefits Scheme

<table>
<thead>
<tr>
<th>Key financial assumptions</th>
<th>31 December 2019</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of return from gilts</td>
<td>1.20% pa</td>
<td>0.60% pa</td>
</tr>
<tr>
<td>Retail Price Inflation (RPI)</td>
<td>3.20% pa</td>
<td>3.20% pa</td>
</tr>
<tr>
<td>Consumer Price Inflation (CPI)</td>
<td>2.40% pa</td>
<td>2.50% pa</td>
</tr>
</tbody>
</table>

Discount rates (margin over gilts)

Post-retirement | 0.65% pa as at 31 December 2019 linearly reducing to 0.2% pa as at 31 December 2034 | 0.65% pa as at 31 December 2019 linearly reducing to 0.2% pa as at 31 December 2034 |
Pre-retirement | 2.50% pa | 2.50% pa |

Rate of pension increases

RPI min 0%, max 5% pa | 3.10% pa | 3.10% pa |
RPI min 0%, max 2.5% pa | 2.10% pa | 2.20% pa |

Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 20154421) and in the EU (Regd. TM No 0002092583). All partners are members of Lane Clark & Peacock LLP. A list of members’ names is available for inspection at 95 Wigmore Street, London, W1U 1DQ, the firm’s principal place of business and registered office. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Ireland and - operating under licence - the Netherlands. © Lane Clark & Peacock LLP 2019

Prepared on 29 June 2021