To ‘policy’ contacts at participating Responsible Bodies

Chair
Clive Mather
Chief Executive
John Ball

August 2021

Dear colleagues

The Church of England Funded Pension Scheme (CEFPS)

I attach the Annual Actuarial Report for CEFPS. The report gives a ‘snapshot’ update on how the funding level has developed between 31 December 2018 and the end of 2020.

The figures in the report are based on assumptions consistent with those used at 31 December 2018, and do not take into account membership experience since then. We will update these assumptions as part of the next full valuation.

We are sharing this with you as part of our role as CEFPS trustee. The report is for information. You do not need to do anything, but please let me know if you have any questions or comments.

Changes in the funding level

The chart on the bottom right of page 1 shows how volatile the funding level has been since the valuation. The deficit increased to £130m in March 2020. This was largely due to investment shocks following ‘lockdown’.

Since then the funding level has recovered well. The scheme is currently showing a notional surplus of about £260m (at 18 August 2021) but this continues to fluctuate. The chart in LCP’s report highlights how quickly the position can change. While volatility remains a key risk, the Asset Led Funding (ALF) methodology reduces this risk more than the previous ‘gilts plus’ methodology. For more information on ALF, you can read:

- the full 2018 valuation report at https://www.churchofengland.org/media/19235, and

Looking towards the next valuation

While the next full valuation is coming up at 31 December 2021, it is too early to draw conclusions or make assumptions about where we might land. To prepare for the valuation, we are running two workshops:

- On 14 September we will go into detail on how the valuation works and look at how covenant has developed over the last few years.
- On 2 November we will look at the key underlying assumptions and demographics which shape the results.
The workshops will be held virtually. If you would like to join, please email joel.ryan@churchofengland.org to reserve your place.

**Early indication of the valuation timetable**

We will talk through the valuation timetable in more detail at the workshops, but we expect the timetable to run as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date/Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation re-cap and covenant workshop</td>
<td>14 September 2021 (2pm to 4pm)</td>
</tr>
<tr>
<td>Assumptions workshop</td>
<td>2 November 2021 (10am to midday)</td>
</tr>
<tr>
<td><strong>Valuation date</strong></td>
<td><strong>31 December 2021</strong></td>
</tr>
<tr>
<td>Early update on funding level</td>
<td>February / March 2022</td>
</tr>
<tr>
<td>Consultation with Responsible Bodies</td>
<td>Spring and summer 2022</td>
</tr>
<tr>
<td>Valuation results confirmed (dependent on consultation responses)</td>
<td>Autumn 2022</td>
</tr>
<tr>
<td>Aim to sign off valuation</td>
<td>31 December 2022</td>
</tr>
<tr>
<td>Regulatory deadline to sign off valuation</td>
<td>31 March 2023</td>
</tr>
</tbody>
</table>

In the meantime, please let me know if you have any questions.

Yours sincerely

Peter Dickinson
Pensions Manager
The Church of England Funded Pensions Scheme (“the Scheme”)  
Actuarial report as at 31 December 2020

This report is addressed to the Church of England Pensions Board (“the Board”) as Trustee of the Scheme. It is the second actuarial report since the actuarial valuation as at 31 December 2018.

Its purpose is to provide an estimate of the ongoing funding position as at 31 December 2020 and an indication of how the funding position developed from 31 December 2018 to 31 December 2020.

The Board is required to share this report with the responsible bodies within seven days of receiving it. Some of the information in this report also needs to be included in the next summary funding statement to be issued to members. We have provided a draft summary funding statement separately which incorporates the figures in this report.

Aaron Punwani FIA 
Partner 
Appointed Scheme Actuary 
+44 (0)20 7432 6785 
Aaron.Punwani@lcp.uk.com

Estimate of funding position at 31 December 2020

Why has the funding position changed from 31 December 2018 to 31 December 2020? 
The funding position has improved by £160m over the period from a deficit of £50m to a surplus of £110m and the main reasons for this are shown in the chart. The “Change in financial conditions” refers to a reduced expectation of future investment returns compared to what was previously assumed at 31 December 2018.

How is the Scheme doing compared to what was projected?

• The funding position has varied between a deficit of £130m and a surplus of £160m over the period.
• The chart illustrates how sensitive the funding position is to market movements, even over short time periods.

Use of our work
This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with, Our Client, the Church of England Pensions Board, in its capacity as the Trustee of the Church of England Funded Pensions Scheme. 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 Scheme. 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 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. 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 Tom Lorenc (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.
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 as part of the full actuarial valuation as at 31 December 2021.

Method
We have estimated the technical provisions as at 31 December 2019 and 31 December 2020 by projecting forward the technical provisions as at 31 December 2018. Our projection allows for:

• changes in the financial conditions;
• interest on the technical provisions;
• increases to pensions in payment and an approximate allowance for revaluation of deferred benefits since 31 December 2018;
• an estimate of the accrual of additional benefits over the period;
• net payments out of the Scheme, as set out in the Scheme’s Statement of Funding Principles; and
• the updates to the discount rate at December 2019 and December 2020 based on the assets held at these dates.

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 Scheme’s Statement of Funding Principles. If the Scheme’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 Scheme, 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.

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

We have produced the figures calculated at other dates between 31 December 2018 and 31 December 2019 and between 31 December 2019 and 31 December 2020 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 Scheme as at 31 December 2018 and summarised in our valuation report dated 6 December 2019;
• an estimated figure in respect of net benefit cash flow out of the Scheme of £45.6m for the year to 31 December 2019 and £48.5m for the year to 31 December 2020, from data provided by the Board; and
• the Scheme’s assets taken from the 31 December 2020 audited Annual Report and Financial Statements showing a value of £2,378m at 31 December 2020, excluding AVCs.

Special events
We understand that there were no material changes to the Scheme during the period.
Assumptions as at 31 December 2020

The key financial assumptions used have been set in line with the Asset Led Funding (“ALF”) approach set out in the Trustee’s Statement of Funding Principles dated 6 December 2019, as agreed by the Board following my paper of 25 March 2020. All non-financial assumptions are as set out in the Statement of Funding Principles.

<table>
<thead>
<tr>
<th>Key financial assumptions</th>
<th>31 Dec 2018</th>
<th>31 Dec 2019</th>
<th>31 Dec 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Price Inflation (RPI)</td>
<td>3.4% pa</td>
<td>3.2% pa</td>
<td>3.2% pa</td>
</tr>
<tr>
<td>Discount rate (see below) 3.2% pa</td>
<td>2.7% pa</td>
<td>2.2% pa</td>
<td></td>
</tr>
<tr>
<td>Rate of pension increases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RPI min 0%, max 5% pa 3.2% pa</td>
<td>3.1% pa</td>
<td>3.1% pa</td>
<td></td>
</tr>
<tr>
<td>RPI min 0%, max 3.5% pa 2.7% pa</td>
<td>2.6% pa</td>
<td>2.6% pa</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment pool</th>
<th>Allocation %</th>
<th>Expected Return derivation</th>
<th>Expected return</th>
<th>Return haircut</th>
<th>Discount rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity &amp; Diversified Growth Pools</td>
<td>35%</td>
<td>Gilt yield + 4.0% pa</td>
<td>4.6% pa</td>
<td>(2.0%) pa</td>
<td>2.6% pa</td>
</tr>
<tr>
<td>Diversified Income</td>
<td>30%</td>
<td>4.2% pa</td>
<td>4.2% pa</td>
<td>(1.3%) pa</td>
<td>2.9% pa</td>
</tr>
<tr>
<td>Traditional credit</td>
<td>20%</td>
<td>AA bond yield</td>
<td>1.3% pa</td>
<td>(0.3%) pa</td>
<td>1.0% pa</td>
</tr>
<tr>
<td>Gilts and LDI</td>
<td>15%</td>
<td>Gilt yield</td>
<td>0.6% pa</td>
<td>Nil</td>
<td>0.6% pa</td>
</tr>
<tr>
<td>Diversification benefit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+0.1% pa</td>
</tr>
</tbody>
</table>

Weighted average at 31 December 2020: 2.2% 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 the Scheme’s projected benefit cashflows.

Prepared on 25 August 2021