THE CHURCH OF ENGLAND
PENSIONS BOARD

To 'policy' contacts at participating Responsible Bodies

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
- our May 2021 update report at https://www.churchofengland.org/media/24952.

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.

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Registered Charity No 236627

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:

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

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.

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Appointed Scheme Actuary

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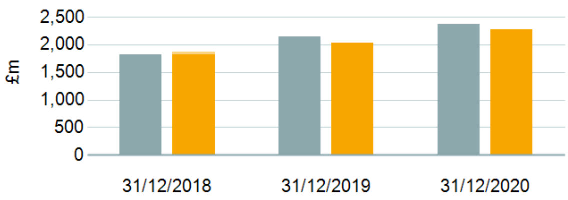
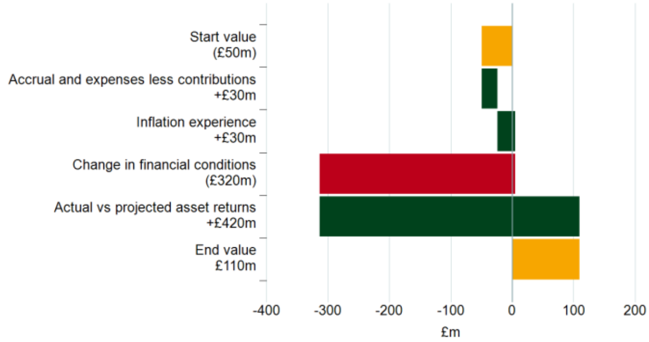
Estimate of funding position at 31 December 2020



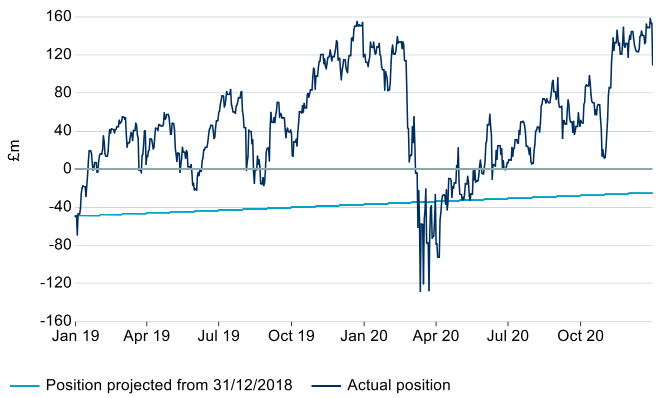
	31/12/2018	31/12/2019	31/12/2020
Asset value	£1,818m	£2,140m	£2,380m
Technical provisions	£1,868m	£2,020m	£2,270m
(Deficit) / Surplus	(£50m)	£120m	£110m

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 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.

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.

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

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

The mortality assumptions used in this report do not make any explicit allowance for the ongoing coronavirus crisis. The direct or indirect impact of coronavirus on future mortality trends is currently uncertain, with drivers that could lead to higher or lower life expectancies.

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 gilts. 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. For this report we have derived RPI as per the methodology used in the 31 December 2018 actuarial valuation, based on the relevant gilt yield curves as at 31 December 2020, ie reflecting market expectations as at that date. No CPI assumption is needed as there are no CPI-linked benefits.

Prepared on 25 August 2021