Church Workers Pension Fund (CWPF)

Investment journey since the last valuation

March 2022

Overview

CWPF is made up of three sections. As a reminder, these are:

1. Defined Benefit Scheme (DBS) – *final salary*
2. Pension Builder Classic (PB Classic) – *deferred annuity*
3. Pension Builder 2014 (PB 2014) – *cash balance*

Each section has its own tailored investment strategy. We have been evolving the strategies since the last valuation at 31 December 2019. Here is an update on what has happened since then.

1. Defined Benefit Scheme

The DBS is split into the General Fund and the Life Risk Section. The General Fund is made up of segregated pools for each employer. The Life Risk Section is a pooled fund out of which we pay pensions and life risk benefits.

Life Risk Section – Buy-in with Aviva

During the consultation on the 2019 valuation, 92% of employers supported our proposed policy to take opportunities when they arise, to reduce investment and longevity risk in scheme. With strong investment performance since the last valuation, in February 2022 we were pleased to conclude a c.£160m **'pensioner buy-in'** with Aviva. This means the pensions for everyone who retired before 13 August 2021 are now insured through this buy-in, or the previous buy-in we completed with Prudential in 2013. Importantly, we were able to do this without adding any strain on funding.

A buy-in is an investment decision Trustees undertake to secure an income stream from an insurer that exactly matches the pensions that need to be paid. In CWPF's case, this improves the covenant and achieves security for all members.

It is also good news for employers. At each valuation we assess the funding of the Life Risk Section, and in the event of a deficit, a 'levy' is drawn from each employer pool, and potentially requires additional employer contributions. The buy-in significantly reduces the risk that we will need to draw a levy on the employers at future valuations.

To recap, at the last valuation we were £26m short of the cost of fully insuring the LRS, which increased to £35m at the height of the pandemic, but strong investment returns since, along with attractive buy-in pricing provided an opportunity to act.

By partnering with Aviva through this buy-in, we intend to work closely together on ethical investment.

General Fund

The return-seeking assets in the General Fund have performed well overall since the last valuation. This means that, at the time of writing, some employer pools are likely to be in surplus, and deficits in others will have reduced.

As part of the forthcoming valuation process, we would like to seek employers' views on implementing 'de-risking triggers' within the General Fund. This means that if certain funding targets are met, we would automatically switch underlying assets to reduce market volatility risk and potentially 'lock-in' good performance. This could be by increasing our allocation to matching assets, or hedging against interest and inflation risk.

2. PB Classic

For the first time since 2011, we are pleased to confirm we have declared a discretionary pension increase of 3% from 1 January 2022. This is as a result of the funding level in PB Classic exceeding 105%.

Our current increase policy is as follows:

If the security level (the amount we need to pay everyone's pension, without any future discretionary increases) is,

- between 105% and 110%, we will add an increase of at least 1%.
- above 110%, we aim to match RPI.

With the security level reaching about 109% last year, the Trustees therefore decided not to fully match RPI.

Members who earned pension after April 1997 are protected by compulsory pension increases, but increases to pensions earned before this are discretionary.

During 2021 we reviewed our strategy for 'hedging' interest and inflation risks. This review took advantage of strong investment performance to increase the allocation to liability matching assets, to 'lock-in' an element of the funding improvement. This should increase the possibility of adding future increases.

3. PB 2014

This year, we expect to add a bonus to PB 2014 accounts of 10.2%. We will add 0.85% a month from April 2022. Again, this reflects the strong investment performance for 2021. The agreed bonus policy for PB 2014 is as follows:

- Our starting point is the percentage investment return over the calendar year, after investment expenses
- From this we deduct 0.75% for administration costs
- After this, if the return is above 10%, we will hold back the excess over 10% to cover the cost of guaranteeing members' accounts will not fall in value, and improve the chances of bonuses in years when our investment returns are not as strong
- We round the bonus up, so it is divisible by 12 so we can add it to accounts monthly.

We will review the investment strategy for PB 2014 as part of the next valuation.

CWPF valuation as at 31 December 2022

The next valuation is based on data at the end of this year i.e. 31 December 2022. We will have 15 months from this date to complete the valuation.

The valuation will be of great interest to employers in the Defined Benefit Scheme. The valuation process determines the updated future service contribution rates and any deficit funding payments. While it is too early to give a definite steer, if current market conditions persist to the end of the year, the valuation is likely to show improved funding levels for most employers, but future service contribution rates will increase.

DBS valuation workshops

Once again, we will be offering a series of virtual workshops later this year in preparation for the valuation outcome.

19 October workshop (2pm to 3.30pm) – we will run through how the DBS works, consider the role employer covenant (financial strength) plays, and update on developments since the last valuation, with particular focus on the regulatory environment.

8 November workshop (2pm to 3.30pm) – a deeper dive into the key assumptions, the impact they have on the results, and an opportunity for employers to give views from their organisation. It will also introduce some ideas around de-risking.

To book your place, please email joel.ryan@churchofengland.org

These workshops are in advance of the valuation and a full consultation that will take place in 2023 based on provisional results. This will include a consultation on future de-risking opportunities.