Church Workers Pension Fund (“the Fund”)

Actuarial report as at 31 December 2021

This report is addressed to the Church of England Pensions Board as Trustee of the Fund and is the second 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 2021 and an indication of how the funding position has developed from 31 December 2020 to 31 December 2021.

Consistent with the approach taken by the Board in administering and funding the Fund, we have considered the positions separately for each of the following sections:

- the Defined Benefits Scheme;
- Pension Builder Classic; and
- Pension Builder 2014.

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.

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Partner
Appointed Scheme Actuary

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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 full actuarial valuation is due as at 31 December 2022.

Method

We have estimated the technical provisions as at 31 December 2021 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 Fund.

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 sections 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

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.

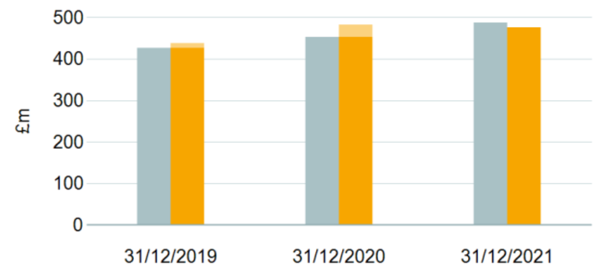
As agreed with the Board; in calculating our estimate of the funding position from 31 December 2020 onwards, we have reduced this gap to 0.1% pa from 2030. We have also reduced the assumption for the volatility of RPI inflation from 1.8% pa to 1.5% pa. The estimated impact of updating these inflation assumptions was reflected in the annual report as at 31 December 2020.

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 Paul Meredith (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.

Defined Benefits Scheme (DBS)

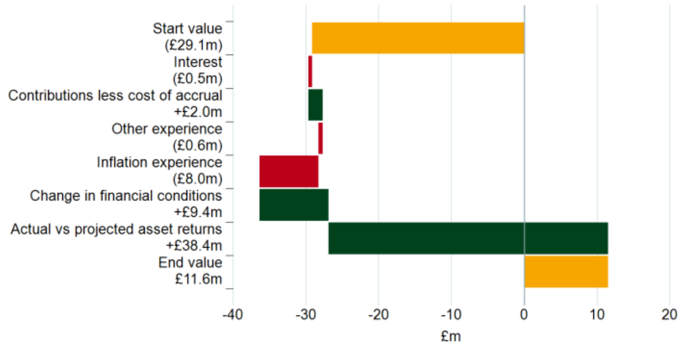
Estimate of DBS funding position at 31 December 2021



	31/12/2019	31/12/2020	31/12/2021
Asset value	£426.6m	£452.8m	£487.6m
Ongoing funding	£437.8m	£481.9m	£476.1m
(Deficit) / Surplus	(£11.3m)	(£29.1m)	£11.6m

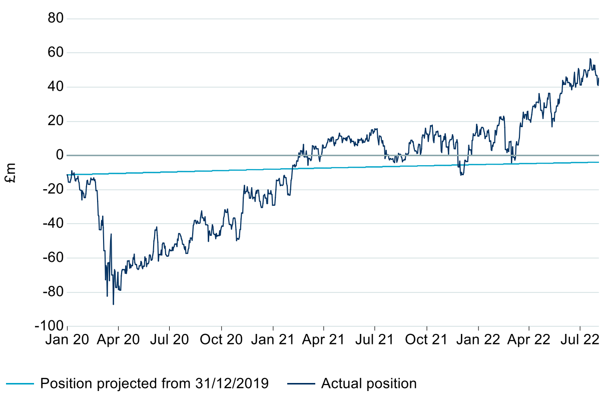
Why has the DBS funding position changed from 31 December 2020 to 31 December 2021?

The position improved by £40.7m over the period, and the main reasons for this are shown in the chart.



The figures may not sum due to rounding

How are we doing compared to what was expected?



Since 31 December 2019, the estimated funding position has varied between a deficit of £87m and a surplus of £57m over the period.

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

Data (DBS)

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;
- cash flow information from the Church Workers Pension Fund annual report and accounts as at 31 December 2020 and 31 December 2021:
    - net benefit cash flows of £12.3m for the year to 31 December 2020 and £12.9m for the year to 31 December 2021;
- in allowing for benefit accrual over the period we have assumed:
    - payroll of £7.1m for the year to 31 December 2020 and an average Future Service Contribution Rate of 35% across the membership;
    - payroll of £6.6m for the year to 31 December 2021 and an average Future Service Contribution Rate of 42% across the membership;
- an audited value of the Fund's net assets as at 31 December 2021 from the Church Workers Pension Fund annual report and accounts for the year to 31 December 2021, showing a total asset figure for the DBS of £487.6m.

Special events (DBS)

We understand that there were no material changes to the DBS during the period to 31 December 2021.

In February 2022, the Board agreed a £160m buy-in with Aviva. In combination with the 2014 buy-in with Prudential, this insures all pensions in the DBS for those who retired before 13 August 2021.

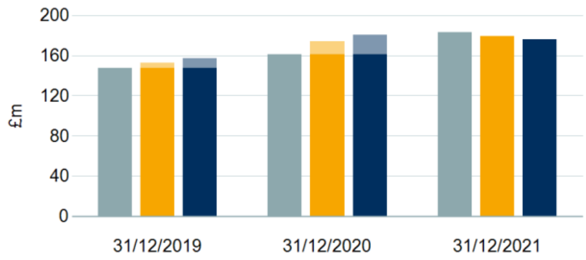
We have approximately allowed for this transaction in our projections from 18 February 2022 onwards (assuming that the assets and insured liabilities were equal to the price paid for the policy at the date of purchase and projecting forwards in a manner consistent with the liabilities.

Pension Builder Classic (PB Classic)

The Board considers two valuation measures in respect of PB Classic.

- The "ongoing" valuation is used for funding purposes and assumes future bonuses are in line with RPI inflation and that return-seeking assets deliver 3.5% pa in excess of gilt returns.
- The "security" valuation is used as a key measure when deciding whether to grant future discretionary bonuses and makes no allowance for future discretionary bonuses, assuming all the assets are switched into gilts.

Estimate of the PB Classic ongoing and security positions at 31 December 2021

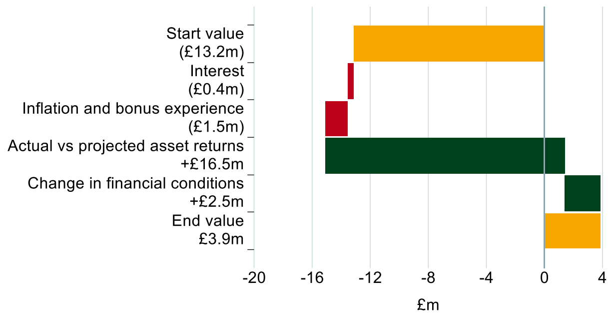


(Deficit) / Surplus	31/12/2019	31/12/2020	31/12/2021
Ongoing basis	(£4.8m)	(£13.2m)	£3.9m
Security basis	(£9.3m)	(£19.5m)	£7.4m

Why have the positions changed from 31 December 2020 to 31 December 2021?

Ongoing funding

The ongoing funding position improved by £17.1m over the period, and the main reasons for this are shown in the chart.



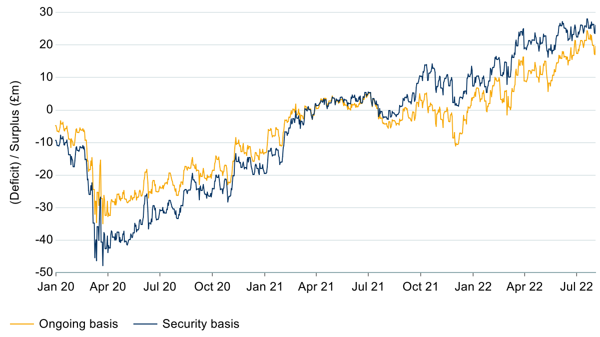
The figures may not sum due to rounding

Security valuation

The security position improved by £26.9m over the period. The main reasons for this are consistent with the chart above, other than:

- a larger impact from the 2022 discretionary bonus granted as no future bonuses are assumed in the security measure; and
- a larger actual vs projected asset returns item as the assumed investment returns allowed for no outperformance over gilt returns.

Variability in position to 3 August 2022



- Since 31 December 2019, the estimated funding position on the ongoing basis has varied between a deficit of £35m and a surplus of £24m over the period.
- The funding position on the secuity valuation basis has varied between a deficit of £50m and a surplus of £28m over the period.

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

Data (PB Classic)

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;
- cash flow information from the Church Workers Pension Fund annual report and accounts as at 31 December 2020 and 31 December 2021:
  - net benefit cash flows of £5.7m for the year to 31 December 2020 and £5.0m for the year to 31 December 2021; and
  - we have allowed for benefit accrual based on contributions paid of £5.5m over the year to 31 December 2020 and £7.5m over the year to 31 December 2021;
- an audited value of the Fund's net assets as at 31 December 2021 from the Church Workers Pension Fund annual report and accounts as at 31 December 2021, showing a total asset figure for the PB Classic of £183.1m.

Bonus experience and special events

The Board granted a PB Classic discretionary bonus of nil at 31 December 2020 and of 3% at 31 December 2021.

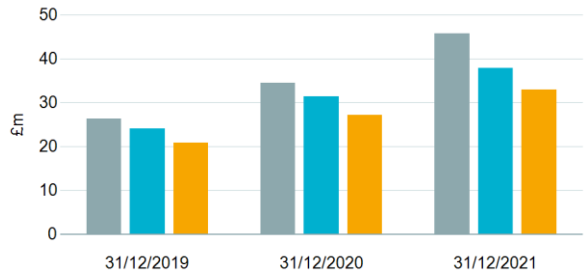
We understand that there were no other material changes to the PB Classic section of the Fund during the period.

Pension Builder 2014 (PB 14)

We have included an update on the PB 14 funding position on the following measures:

- The "funding valuation" assumes future bonuses are in line with investment returns, less 1.5% pa to reflect the bonus policy at the valuation date. Investments are assumed to deliver 3.5% pa in excess of gilt returns; and
- The "accrued pools" basis measures the total level of members' accounts including bonuses granted to date.

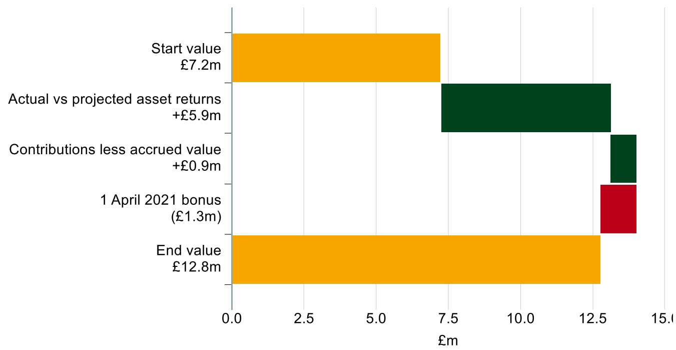
Estimate of PB 14 funding position at 31 December 2021



(Deficit) / Surplus	31/12/2019	31/12/2020	31/12/2021
Accrued pools	£2.3m	£3.0m	£7.9m
Funding valuation	£5.5m	£7.2m	£12.8m

Why have the positions changed from 31 December 2020 to 31 December 2021?

Funding valuation



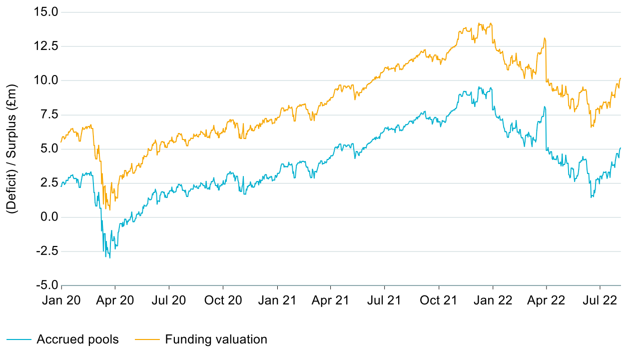
The figures may not sum due to rounding

The surplus increased by £5.6m over the period, and the main reasons for this are shown in the chart.

Accrued pools

The surplus on an accrued pools measure (comparing assets to the total level of members' accounts including bonuses granted to date) increased by £4.9m over the period. The main reasons for this are broadly in line with the chart above other than there is no funding gain from contributions received (as contributions are reflected at their full value under this measure).

How are we doing compared to what was expected?



- The surplus on the funding valuation basis has varied between about £13.2m and £0.5m over the period.
- The funding position on the accrued pools basis has varied between a surplus of £8.1m and a deficit of £3.0m over the period.

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

Data (PB 14)

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 of £0.9m for the year to 31 December 2020 and £1.1m for the year to 31 December 2021 from the Church Workers Pension Fund annual report and accounts as at 31 December 2020 and 31 December 2021;
- we have allowed for benefit accrual based on contributions paid of £6.7m over the year to 31 December 2020 and £6.9m over the year to 31 December 2021 from the Church Workers Pension Fund annual report and accounts as at 31 December 2020 and 31 December 2021.
- an audited value of the Fund's net assets as at 31 December 2021 from the Church Workers Pension Fund annual report and accounts for the year to 31 December 2021, showing a total asset figure for the PB 14 of £45.8m.

Bonus experience and special events

The Board granted PB 14 discretionary bonuses as follows, which are included in the above figures:

- with effect from 1 April 2020 of 4.8% applied to contributions paid prior to 31 December 2017 and 10.2% applied to contributions paid in 2018; and
- a PB 14 bonus with effect from 1 April 2021 of 6.0%;

In addition, the Board granted a PB 14 discretionary bonus of 10.2% with effect from 1 April 2022, which is not included in the figures shown here.

We understand that there were no material changes to the PB 14 section of the Fund during the period.

Assumptions as at 31 December 2021

The key financial assumptions used 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 from 31 December 2020 onwards as outlined earlier in this report). All non-financial assumptions are as set out in the Statement of Funding Principles.

DBS

Key financial assumptions	31 December 2019	31 December 2020	31 December 2021
Rate of return from gilts	1.20% pa	0.60% pa	1.10% pa
Retail Price Inflation (RPI)	3.20% pa	3.20% pa	3.60% pa
Consumer Price Inflation (CPI)	2.40% pa	2.50% pa	3.00% pa
Discount rates *(margin over gilts)*			
Post-retirement	0.65% pa as at 31 December 2019 linearly reducing at 0.2% pa as at 31 December 2034	0.65% pa as at 31 December 2019 linearly reducing at 0.2% pa as at 31 December 2034	0.65% pa as at 31 December 2019 linearly reducing at 0.2% pa as at 31 December 2034
Pre-retirement	2.50% pa	2.50% pa	2.50% pa
Rate of pension increases			
RPI min 0%, max 5% pa	3.10% pa	3.10% pa	3.40% pa
RPI min 0%, max 2.5% pa	2.10% pa	2.20% pa	2.30% pa

PB Classic

Key financial assumptions	31 December 2019	31 December 2020	31 December 2021
Rate of return from gilts	1.20% pa	0.60% pa	1.00% pa
Retail Price Inflation (RPI)	3.20% pa	3.10% pa	3.60% pa
Discount rates *(margin over gilts)*			
Post-retirement for post 1997 pensions	0.00% pa	0.00% pa	0.00% pa
Post-retirement for pre 1997 pensions	3.50% pa	3.50% pa	3.50% pa
Pre-retirement	3.50% pa	3.50% pa	3.50% pa
Rate of pension increases			
Bonuses granted	3.20% pa	3.10% pa	3.60% pa
RPI min 0%, max 5% pa	3.10% pa	3.00% pa	3.40% pa
RPI min 0%, max 2.5% pa	2.10% pa	2.20% pa	2.30% pa

PB 14

Key financial assumptions	31 December 2019	31 December 2020	31 December 2021
Rate of return from gilts	1.20% pa	0.60% pa	1.10% pa
Investment returns *(margin over gilts)*	3.50% pa	3.50% pa	3.50% pa
Future bonuses *(margin over gilts)*	2.00% pa	2.00% pa	2.00% pa
Expense allowance	0.50% pa	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 the relevant sections projected benefit cashflows.

Prepared 2 November 2022