

# The Church of England Funded Pensions Scheme (“the Scheme”)

Actuarial report as at 31 December 2022



*This report is addressed to the Church of England Pensions Board (“the Board”) as Trustee of the Scheme. It is the first actuarial report since the actuarial valuation as at 31 December 2021.*

Its purpose is to provide an estimate of the ongoing funding position as at 31 December 2022 and an indication of how the funding position has developed from 31 December 2021 to 31 December 2022.

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.

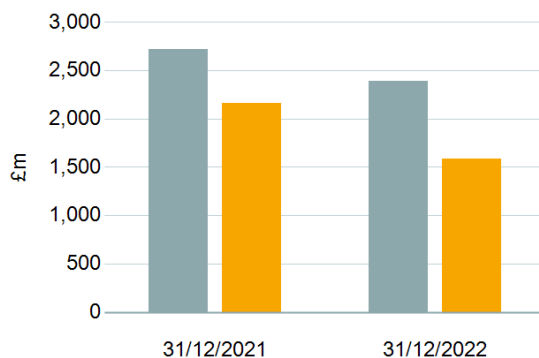


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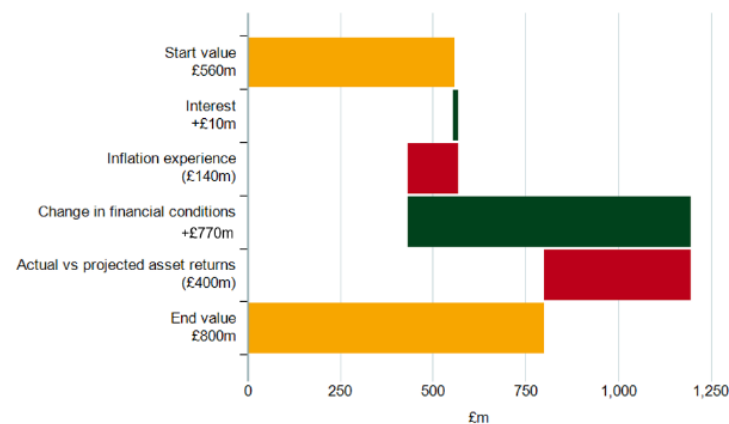
## Estimate of funding position at 31 December 2022



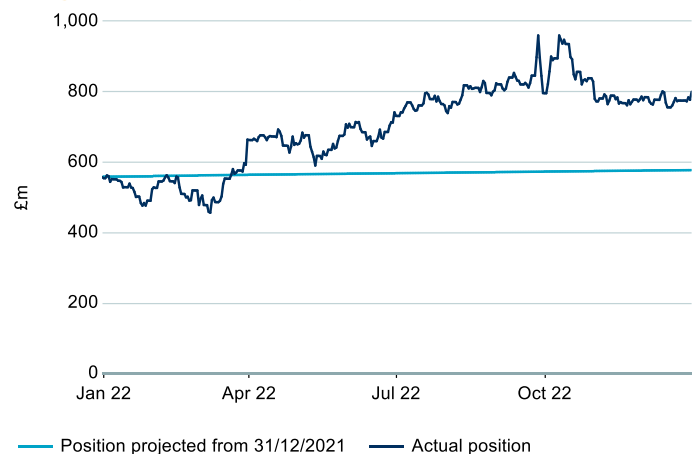
Asset value	£2,720m	£2,390m
Technical provisions	£2,160m	£1,590m
(Deficit) / Surplus	£560m	£800m

## Reasons for improvement over the year

The surplus increased by £240m over the period, and the main reasons for this are shown in the chart. The “change in financial conditions” refers to an increased expectation of investment returns compared to that assumed at December 2021. “Inflation experience” includes the discretionary pension increase granted in April 2023.



## Progression over the year



- The surplus has varied between about £450m and £960m over the year.
- 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 the Church of England Pensions Board (“Our Client”) in its capacity as 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 and, on request, to Scheme members. 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: General Actuarial Standards together with Technical Actuarial Standard 300: Pensions. 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 with an effective date as at 31 December 2023 and the next full actuarial valuation is due as at 31 December 2024.

## Method

We have estimated the technical provisions as at 31 December 2022 by projecting forward the technical provisions as at 31 December 2021. Our projection allows for:

- changes in the financial conditions;
- interest on the technical provisions;
- increases to pensions in payment;
- revaluation of deferred benefits since 31 December 2021, allowing for statutory revaluation and increases to pensionable stipends;
- the April 2023 pension increase agreed by the Board;
- 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 31 December 2022 based on the assets held at that date.

We have assumed that all other experience over the year 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 assets relating AVCs, for consistency with the technical provisions.

We have produced the figures calculated at other dates between 31 December 2021 and 31 December 2022 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 2021 and summarised in our valuation report dated 1 December 2022;
- estimated net benefit cash flow out of the Scheme of £61m for the year to 31 December 2022, from data provided by the Board; and,
- the Scheme's assets taken from the 31 December 2022 audited Annual Report and Financial Statements showing a value of £2,390m at 31 December 2022, excluding AVCs.

## Special events

We understand that there were no material changes to the Scheme during the period.

## Assumptions as at 31 December 2022

The key financial assumptions used have been set in line with the approach set out in the Board's Statement of Funding Principles dated 1 December 2022, allowing for the update to the Asset Led Funding discount rate as at 31 December 2022 summarised in the second table below. All non-financial assumptions are as set out in the Statement of Funding Principles.

Key financial assumptions	31 Dec 2021	31 Dec 2022
Retail Price Inflation (RPI)	3.6% pa	3.5% pa
Discount rate (see below)	2.7% pa	5.2% pa
<b>Rate of pension increases</b>		
RPI min 0%, max 5% pa	3.4% pa	3.4% pa
RPI min 0%, max 3.5% pa	2.9% pa	2.9% pa

Investment pool	Allocation %	Expected Return derivation	Expected return at 31 Dec 2022	Return haircut	Discount rate at 31 Dec 2022
Public Equity & Diversified Growth	35%	Gilt yield + 4.0% pa	7.9% pa	(2.0%)	5.9% pa
Diversified Income	33%	7.0% pa	7.0% pa	(1.9%)	5.1% pa
Traditional Credit	12%	AA bond yield	4.8% pa	(0.3%)	4.5% pa
Gilts and LDI	20%	Gilt yield	3.9% pa	Nil	3.9% pa
Diversification benefit					0.1% pa
<b>Weighted average at 31 December 2022</b>					<b>5.2% pa</b>

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 adopted by the Scheme are due to be reviewed for the December 2024 valuation and will reflect the latest trends at that time, including the latest direct and indirect impacts of the Covid-19 pandemic.

Price inflation as measured by RPI over each future year is as derived from the LCP breakeven RPI curve.

Price inflation as measured by CPIH over each future year is calculated as the corresponding assumption for RPI for each future year less 0.8% pa until 2030, and then reducing to a gap of 0% pa from 2030 onwards.

Prepared on 18 December 2023

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