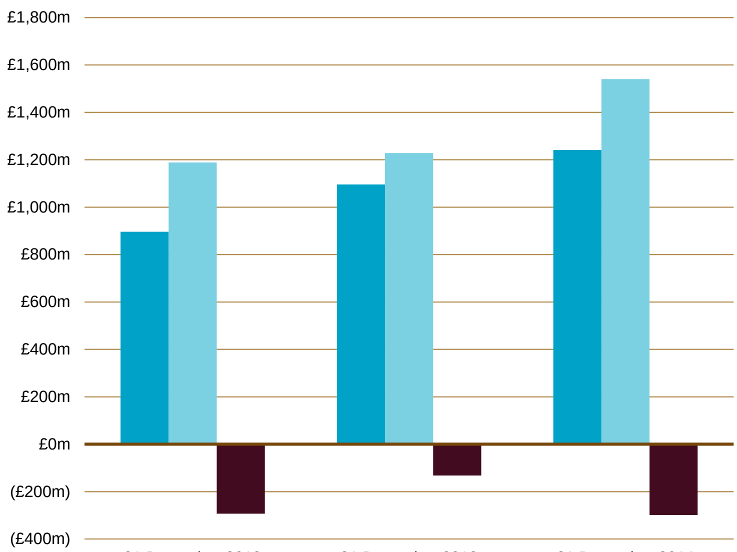
Church of England Funded Pensions Scheme (“the Scheme”) Actuarial report as at 31 December 2014

This report is addressed to the Church of England Pensions Board (“the Board”) as Trustee of the Scheme and is the second actuarial report since the completion of the actuarial valuation as at 31 December 2012. The purpose of this report is to provide the Board with an indication of how the funding position developed between 31 December 2012 and 31 December 2014.

We have undertaken this work assuming that there are no specific decisions for you to take as a result of this report. Appendix 1 sets out further details of the scope of our work.

1. Estimate of funding position as at 31 December 2014

I set out in the table below my estimate of the ongoing funding position as at 31 December 2014 with figures at 31 December 2013 and 31 December 2012 for ease of comparison:



	31 December 2012	31 December 2013	31 December 2014
Market value of assets	£896m	£1,096m	£1,241m
Technical Provisions	£1,189m	£1,228m	£1,540m
Deficit	£293m	£132m	£299m

In practice market conditions have been very volatile since the last actuarial valuation as at 31 December 2012 and the chart below shows a broad estimate of the development of the deficit from then until 31 December 2014. You will see that the deficit has varied between around £150m and £350m over the period and that we estimate that by 31 December 2014 the deficit was £299m. The chart illustrates how sensitive the funding position is to market movements, even over short time periods.

We have estimated the technical provisions as at 31 December 2014 by projecting forward the technical provisions as at 31 December 2012. Our projection allows for:

- changes in the financial assumptions used to calculate the technical provisions;
- interest on the technical provisions;
- an estimate of the effect of actual increases to pensions in payment since 31 December 2012;
- the accrual of additional benefits by active members over the period; and
- net payments into and out of the Scheme, as set out in the Scheme's unaudited financial statements.

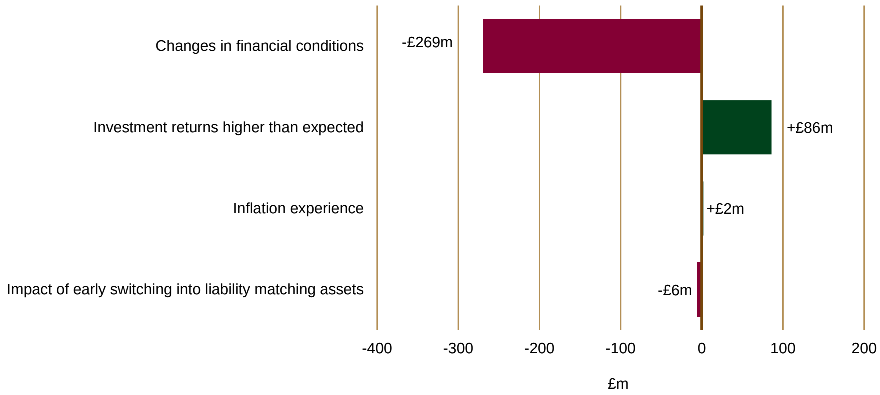
The asset figure above is taken from the Scheme's unaudited accounts for the year ending 31 December 2014.

We have assumed that all other experience over the period was in line with the assumptions. If the Scheme's experience was significantly different from the assumptions used or if there were significant events of which we are not aware, then the technical provisions based on a full actuarial valuation would be significantly different from those we have estimated.

Appendix 2 provides further detail on the data and assumptions that we have used in our calculations.

2. Change in funding position from 31 December 2013 to 31 December 2014

The estimated deficit as at 31 December 2013 (the date of the last actuarial report for the Scheme) was £132m. After allowing for interest on the deficit, the investment returns anticipated on the assets during the recovery plan, and for the contributions paid in excess of benefits accrual, the deficit at 31 December 2014 would have been £112m. The estimated deficit of £299m at December 2014 is therefore £187m less favourable than anticipated, and the main reasons for this are shown below.



“Changes in financial conditions” is the most material item and refers to a significant decrease in real gilt yields over the year, which has led to an increase in the Scheme’s technical provisions. This impact has been offset to some extent by investment returns being higher than anticipated.

“Impact of early switching into liability matching assets” refers to the impact on the calculation of the technical provisions of the approximately £100m of assets which were switched from the return-seeking asset pool into the liability-matching pool in the fourth quarter of 2014, ahead of the de-risking timetable anticipated under the Scheme’s statement of funding principles.

3. Next steps

The Board is required to provide a copy of this report to the employers within seven days of receiving it. Certain information in this report also needs to be included in the summary funding statement to members to be issued to members.

The next formal valuation is due with an effective date as at 31 December 2015.

+ Prepared as an attachment to an email at 16:05 on 27 July 2015

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27 July 2015

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The use of our work

Our work (including any calculations) has been provided to assist you and is only appropriate for the purposes described. Unless otherwise indicated, it is not intended to assist any other party nor should it be used to assist with any other action or decision.

Our work is provided for your sole use. It is confidential to you although we acknowledge that you are required to pass it to the employers and, on request, Scheme members. You should not provide our work, in whole or in part, to any third party other than the employers, Scheme members and your professional advisers for the purposes of the provision of services to you unless you have obtained our prior written consent to the form and context in which you wish to do so.

We accept no liability to any third party including the employers to whom our work has been provided (with or without our consent), unless the third party has asked us to confirm our liability to them, and we have done so in writing.

Professional Standards

Our work in preparing this document is subject to and complies with the Technical Actuarial Standard on reporting actuarial information (version 2), on data (version 1) and on modelling (version 1), together with the Pensions Technical Actuarial Standard (version 2)

Scope of work

We have undertaken this work on the basis 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 calculations in this report have been prepared in accordance with the requirements of the Pensions Act 2004; the Occupational Pension Schemes (Scheme Funding) Regulations 2005; and the Pensions Regulator's Code of Practice: "Funding defined benefits". We understand that the figures in this report will be included in the next summary funding statement sent to Scheme members.

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

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.

It is possible that the technical provisions may prove to be too low on account of any back–dated adjustment to benefits arising from equalisation or discrimination issues or from future legislation or court judgements.

Data and assumptions

1. Data used to estimate the technical provisions at 31 December 2014

We have based our calculations on the following data:

- the membership data provided for the actuarial valuation of the Scheme as at 31 December 2012 and summarised in our valuation report dated 3 September 2013;
- total estimated pensionable stipends of £184m for the year to 31 December 2013, and £186m derived from data provided by Peter Dickinson on 14 April 2014 and by Dan Taylor on 5 June 2015; and
- estimated figures of £27m and £30m in respect of net benefit cash flow out of the Scheme for the years to 31 December 2013 and 31 December 2014 respectively from data provided by Peter Dickinson on 14 April 2014 and by Dan Taylor on 5 June 2015.

2. Special events

We understand that over the period between 31 December 2012 and 31 December 2014, there were no material changes to the Scheme.

3. Assets at 31 December 2014

We have been provided with a copy of the unaudited Scheme accounts for the year ending 31 December 2014 and these give an asset figure of £1,241m, excluding AVCs.

It is possible that the final asset figure shown in the audited accounts could be different, which would affect the funding position at 31 December 2014 disclosed in this report.

4. Assumptions at 31 December 2014

Our calculations are based on the assumptions set out in the Board's statement of funding principles dated 3 September 2013, updated only to reflect changes in gilt yields between 31 December 2012 and 31 December 2014 and the impact of the accelerated de-risking carried out in the fourth quarter of 2014. Following this accelerated de-risking, we have assumed the proportion of post-retirement liabilities backed by liability-matching assets will be held at 33.33% until December 2019 after which the previously agreed de-risking will continue.

The key financial assumptions are set out below along with those at 31 December 2012 and 31 December 2013 for comparison. All non-financial assumptions are as set out in the statement of funding principles.

	31 December 2014	31 December 2013	31 December 2012
Investment returns			
Return-seeking assets	4.5% pa	5.7% pa	5.2% pa
Liability-matching assets	2.5% pa	3.7% pa	3.2% pa
Rate of RPI price inflation	3.2% pa	3.6% pa	3.2% pa
Rate of pensionable stipend increases	3.2% pa	3.6% pa	3.2% pa
Rate of pension increases			
RPI subject to a maximum of 5% pa	3.1% pa	3.4% pa	3.1% pa
RPI subject to a maximum of 3.5% pa	2.7% pa	2.9% pa	2.7% pa

5. Projections between 31 December 2012 and 31 December 2014

Sections 1 to 4 above describe the data and assumptions we have used to estimate the funding position as at 31 December 2014.

We have produced the figures calculated at other dates between 31 December 2012 and 31 December 2014 (as shown in Section 1 of this paper) using a more approximate method as they are for illustration only. In producing these figures, we have projected the technical provisions and asset figures as at 31 December 2012 on a daily basis to allow approximately for:

- investment performance, using certain index returns as a broad proxy for this;
- interest on the technical provisions;
- changes in the technical provisions due to changes in gilt yields;
- the accrual of additional benefits over the period; and
- deficit contributions and an estimate of other net payments into and out of the Scheme.

Figures on LCP Visualise for dates after 31 December 2014 are based on the updated 31 December 2014 position as set out in this paper.