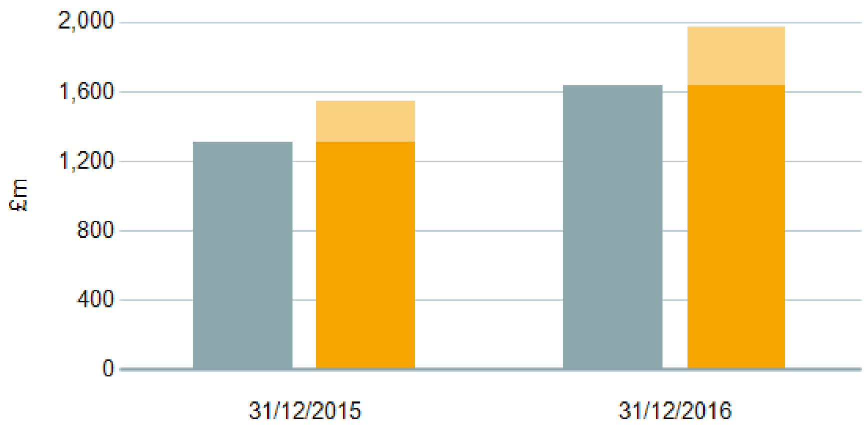
Church of England Funded Pensions Scheme (“the Scheme”)
Actuarial report as at 31 December 2016

This report is addressed to the Church of England Pensions Board (“the Board”) as Trustee of the Scheme and is the first actuarial report since the completion of the actuarial valuation as at 31 December 2015. Its purpose is to provide you with an estimate of the ongoing funding position as at 31 December 2016 and an indication of how the funding position has developed from 31 December 2015 to 31 December 2016.

1. Estimate of funding position as at 31 December 2016

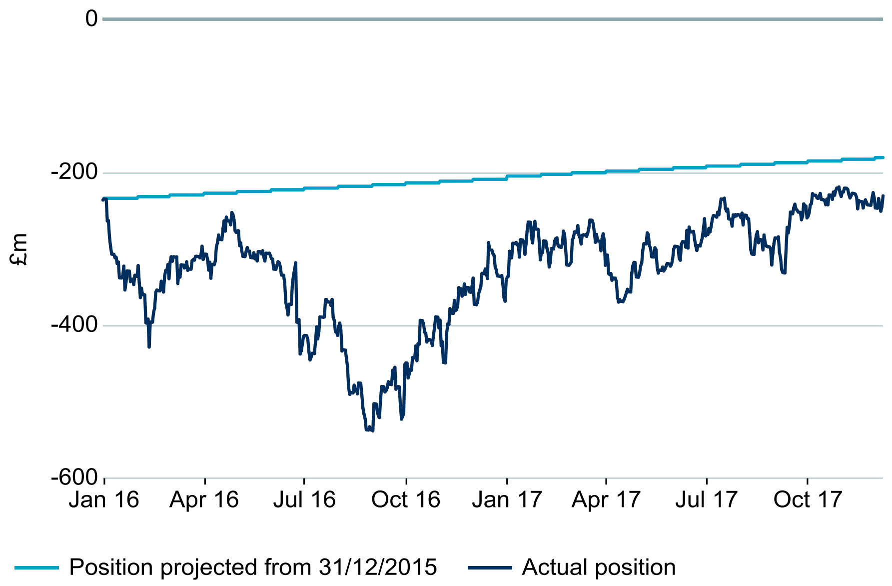
I set out in the table and chart below my estimate of the ongoing funding position as at 31 December 2016, with figures at 31 December 2015 for ease of comparison.



	31/12/2015	31/12/2016
Asset value	£1,308m	£1,629m
Technical provisions	£1,544m	£1,970m
(Deficit) / Surplus	(£236m)	(£341m)

In practice, market conditions have been volatile since 31 December 2015 and the chart below shows a broad estimate of the development of the deficit since then, together with the position had experience been in line with assumptions adopted for the previous valuation.

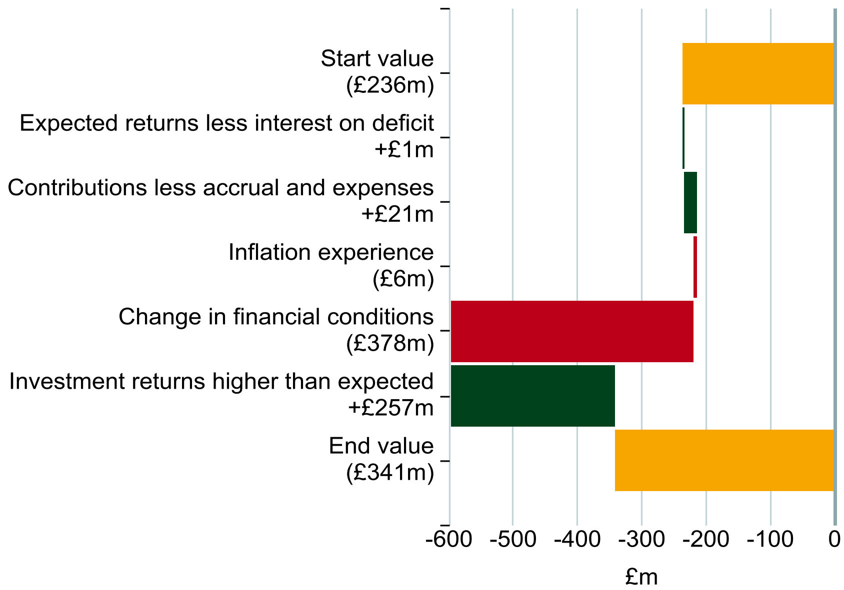
It shows that the deficit has varied between about £236m and £540m over the period and that by 31 December 2016 the deficit had increased to about £341m. However, the estimated deficit had subsequently reduced to around £230m at 30 November 2017. It illustrates how sensitive the funding position is to market movements, even over short time periods.



Appendix 2 provides details of the method, data and assumptions that we have used in our calculations.

2. Change in funding position from 31 December 2015 to 31 December 2016

The deficit increased by £105m between 31 December 2015 and 31 December 2016 and the main reasons for this are shown below.



The change in financial conditions is the impact of the 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 higher than expected investment returns and contributions.

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 be issued to members.

The next actuarial report is due with an effective date as at 31 December 2017 and the next full actuarial valuation is due as at 31 December 2018.

Prepared as an attachment to an email at 11:59 on 22 December 2017

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22 December 2017

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Professional Standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 300: Pensions.

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.

Method, data and assumptions

1. Method

We have estimated the technical provisions as at 31 December 2016 by projecting forward the technical provisions as at 31 December 2015. Our projection allows for:

- changes in the financial assumptions;
- interest on the technical provisions;
- increases to pensions in payment / revaluation of deferred benefits since 31 December 2015;
- the accrual of additional benefits over the period; and
- net payments out of the Scheme, as set out in the Scheme's audited financial statements.

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.

2. Data used to estimate the technical provisions as at 31 December 2016

We have based our calculations on the following data:

- the membership data provided for the actuarial valuation of the Scheme as at 31 December 2015 and summarised in our valuation report dated 21 December 2016; and
- benefit cash flows of £38.9m for the year to 31 December 2016 as set out in the Scheme's audited financial statements.

3. Special events

We understand that over the period between 31 December 2015 and 31 December 2016 there were no material changes to the Scheme.

4. Assets as at 31 December 2016

We have been provided with a copy of the audited Scheme financial statements for the year ending 31 December 2016 and these give an asset figure of £1,629m, excluding AVCs.

5. Assumptions as at 31 December 2016

We have based our calculations on the assumptions set out in the Board's statement of funding principles dated 21 December 2016, updated only to reflect changes in gilt yields between 31 December 2015 and 31 December 2016.

The key financial assumptions are set out below along with those at 31 December 2015 for comparison. All non-financial assumptions are as set out in the statement of funding principles.

	31 December 2016	31 December 2015
Rate of return from gilts	1.8% pa	2.6% pa
Price inflation		
Retail Price Inflation (RPI)	3.5% pa	3.2% pa
Rate of pensionable stipend increases	3.5% pa	3.2% pa
Investment returns		
Matching assets	1.8% pa	2.6% pa
Return-seeking assets	3.8% pa	4.6% pa
Rate of pension increases		
RPI, maximum 5% pa, minimum 0% pa	3.3% pa	3.1% pa
RPI, maximum 3.5% pa, minimum 0% pa	2.8% pa	2.6% pa

All financial assumptions are term-dependent and calculated by reference the relevant gilt yield curves. The rates above are approximate single-equivalent rates, weighted by reference to the Fund's projected benefit cashflows.

4. Projections between 31 December 2015 and 31 December 2016

Sections 1 to 4 above describe the data and assumptions we have used to estimate the funding position as at 31 December 2016.

We have produced the figures calculated at other dates between 31 December 2015 and 31 December 2016 (as shown in Section 1 of this paper) using a more approximate method as they are for illustration only.