The Church of England Funded Pensions Scheme ("the Scheme")

Actuarial report as at 31 December 2019

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 2018.

Its purpose is to provide an estimate of the ongoing funding as at 31 December 2019 and an indication of how the funding position has developed from 31 December 2018 to 31 December 2019.

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 by 31 March 2021. We have provided a draft summary funding statement separately which incorporates the figures in this report.

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Appointed Scheme Actuary

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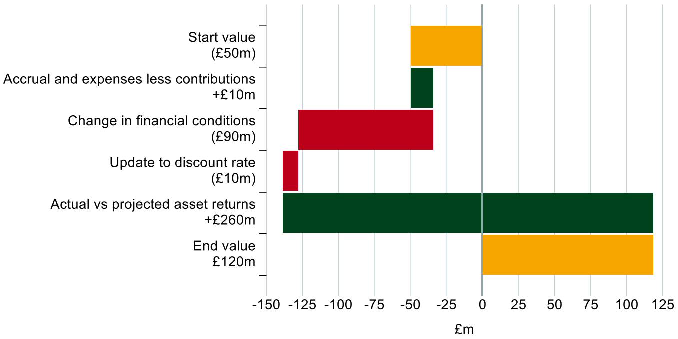
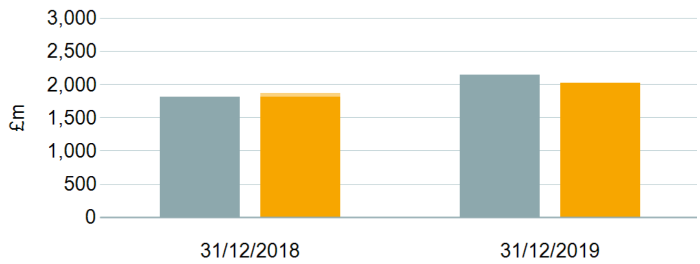
Why has the funding position changed from 31 December 2018 to 31 December 2019?



The funding position has improved by £170m over the year from a deficit of £50m to a surplus of £120m, and the main reasons for this are shown in the chart. The "Change in financial conditions" refers to a reduced expectation of future investment returns than was previously assumed at 31 December 2018.

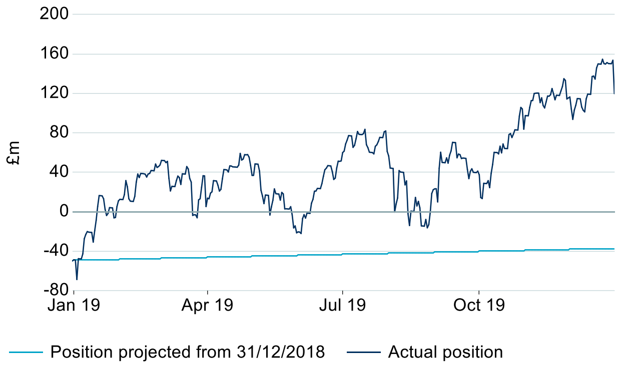
Estimate of funding position at 31 December 2019



	31/12/2018	31/12/2019
Asset value	£1,818m	£2,140m
Technical provisions	£1,868m	£2,020m
(Deficit) / Surplus	(£50m)	£120m

Since 31 December 2019, the Scheme's funding position has been extremely volatile, predominantly due to the effect of Covid-19 on financial markets. At the time of writing, the Scheme has seen most of its surplus eliminated and was in deficit for much of March, April and May 2020.

How is the Scheme doing compared to what was expected?



- The funding position has varied between a deficit of £70m and a surplus of £150m over the period.
- The chart illustrates how sensitive the funding position is to market movements, even over short time periods.

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: Principles for Technical Actuarial Work.

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 2020 and the next full actuarial valuation is due as at 31 December 2021.

Method

We have estimated the technical provisions as at 31 December 2019 by projecting forward the technical provisions as at 31 December 2018. Our projection allows for:

- changes in the financial conditions;
- interest on the technical provisions;
- increases to pensions in payment and an approximate allowance for revaluation of deferred benefits since 31 December 2018;
- an estimate of 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 updated discount rate as at December 2019 based on the assets held at that date.

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.

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 liabilities relating to defined contribution benefits including AVCs, for which the value is equal to the value of the corresponding assets.

We have produced the figures calculated at other dates between 31 December 2018 and 31 December 2019 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 2018 and summarised in our valuation report dated 6 December 2019;
- an estimated figure of £45.6m in respect of benefit cash flow out of the Scheme for the year to 31 December 2019, from data provided by the Board; and
- the Scheme's assets taken from the 31 December 2019 audited Annual Report and Financial Statements showing a value of £2,143m.

Special events

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

Assumptions as at 31 December 2019

The key financial assumptions used have been set in line with the approach set out in the Board's Statement of Funding Principles dated 6 December 2019, as agreed by the Board following my paper of 25 March 2020. All non-financial assumptions are as set out in the Statement of Funding Principles.

Key financial assumptions	31 December 2018	31 December 2019
Retail Price Inflation (RPI)	3.4% pa	3.2% pa
Discount rate (see below)	3.2% pa	2.7% pa
Rate of pension increases		
RPI min 0%, max 5% pa	3.2% pa	3.1% pa
RPI min 0%, max 3.5% pa	2.7% pa	2.6% pa

Investment pool	*Allocation %*	*Expected Return derivation*	*Expected return*	*Return haircut*	*Discount rate*
Equity & Diversified Growth Pools	35%	Gilt yield + 4.0% pa	5.2% pa	(2.0%) pa	3.2% pa
Diversified Income	30%	4.5% pa	4.5% pa	(1.3%) pa	3.2% pa
Traditional credit	20%	AA bond yield	2.1% pa	(0.3%) pa	1.8% pa
Gilts and LDI	15%	Gilt yield	1.2% pa	Nil	1.2% pa
Diversification benefit					+0.1% pa
Weighted average at December 2019:					**2.7% 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 Scheme's projected benefit cashflows.

The mortality assumptions used in this report do not make any explicit allowance for the ongoing coronavirus crisis. The direct or indirect impact of coronavirus on future mortality trends is currently uncertain, with drivers that could lead to higher or lower life expectancies.

In September 2019, the UK Statistics Authority announced the ONS's intention to adjust the RPI formulae so that the RPI is equal to the CPIH from no later than 2030. On 11 March 2020, the Government launched a consultation on whether this change should be made up to five years earlier and on the details of the transition. This latest consultation does not change the expectation that the RPI measure of inflation will reduce significantly in the future. For this report we have derived RPI as per the methodology used in the 31 December 2018 actuarial valuation, based on the relevant gilt yield curves as at 31 December 2019, ie reflecting market expectations as at that date.

Prepared on 23 July 2020