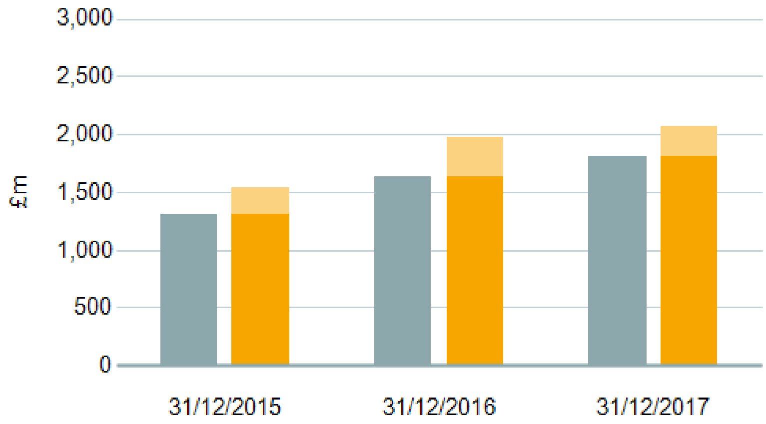
Church of England Funded Pensions Scheme (“the Scheme”)
Actuarial report as at 31 December 2017

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 2015. Its purpose is to provide you with an estimate of the ongoing funding position as at 31 December 2017 and an indication of how the funding position has developed from 31 December 2015 to 31 December 2017.

1. Estimate of funding position as at 31 December 2017

I set out in the table and chart below my estimate of the ongoing funding position as at 31 December 2017, with figures at 31 December 2016 and 31 December 2015 for ease of comparison.



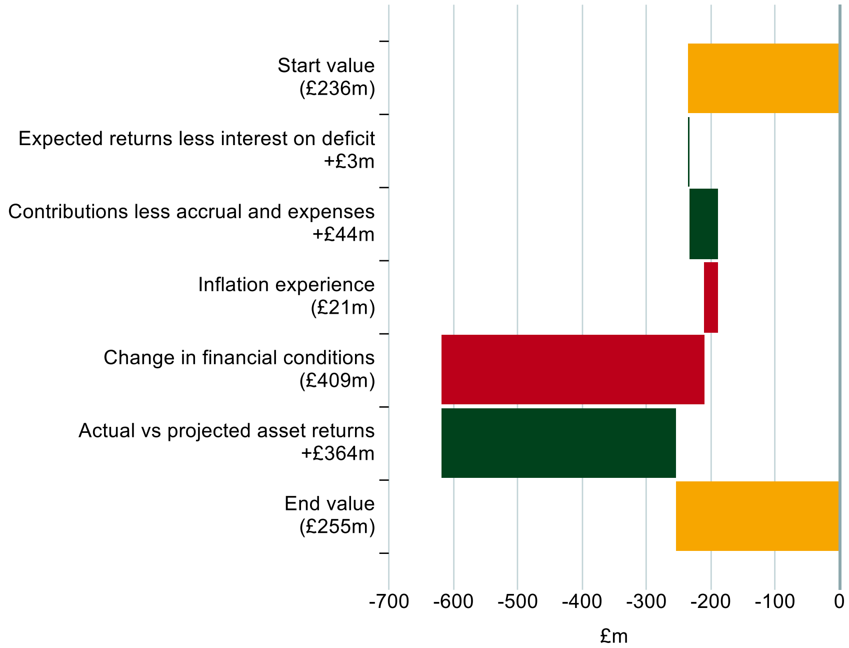
	31/12/2015	31/12/2016	31/12/2017
Asset value	£1,308m	£1,629m	£1,813m
Technical provisions	£1,544m	£1,970m	£2,068m
(Deficit) / Surplus	(£236m)	(£341m)	(£255m)

In practice, market conditions were volatile over the period.

Appendix 2 provides details of the method, data and assumptions that we have used in our calculations. As you know, the Board is considering an alternative methodology for deriving assumptions for the upcoming actuarial valuation as at 31 December 2018.

2. Change in funding position from 31 December 2015 to 31 December 2017

The deficit increased by £19m between 31 December 2015 and 31 December 2017 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 two years, 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 update will be the formal actuarial valuation that is due to be carried out as at 31 December 2018.

Prepared as an attachment to an email at 14:21 on 31 December 2018

Aaron Punwani FIA
Partner
Appointed Scheme Actuary

31 December 2018

Direct tel: +44 (0)20 7432 6785
Email: aaron.punwani@lcp.uk.com

95 Wigmore Street
London W1U 1DQ
www.lcp.uk.com

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with Our Client, the Church of England Pensions Board 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. 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 also make it clear that we accept no liability towards them.

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 2017 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 2017

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 and £39.6m for the year to 31 December 2016 and 31 December 2017 respectively, as provided by the Board.

3. Special events

We understand that over the period between 31 December 2015 and 31 December 2017 there were no material changes to the Scheme.

4. Assets as at 31 December 2017

We have been provided with a copy of the audited Scheme financial statements for the year ending 31 December 2017 and these give an asset figure of £1,813m, excluding AVCs.

5. Assumptions as at 31 December 2017

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 2017.

The key financial assumptions are set out below along with those at 31 December 2016 and 31 December 2015 for comparison. All non-financial assumptions are as set out in the statement of funding principles.

	31 December 2017	31 December 2016	31 December 2015
Rate of return from gilts	1.7% pa	1.8% pa	2.6% pa
Price inflation			
Retail Price Inflation (RPI)	3.4% pa	3.5% pa	3.2% pa
Rate of pensionable stipend increases	3.4% pa	3.5% pa	3.2% pa
Investment returns			
Matching assets	1.7% pa	1.8% pa	2.6% pa
Return-seeking assets	3.7% pa	3.8% pa	4.6% pa
Rate of pension increases			
RPI, maximum 5% pa, minimum 0% pa	3.2% pa	3.3% pa	3.1% pa
RPI, maximum 3.5% pa, minimum 0% pa	2.7% 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.