

To all employers participating in the Baptist Pension Scheme's DB Plan

**The Baptist Pension Scheme ("the Scheme") – Defined Benefit ("DB") Plan
Update on risk reduction and future employer Deficit Recovery Contributions**

This email is being sent to you jointly from the Baptist Union and the Trustee of the Scheme as a participating employer in the Defined Benefit section of the Baptist Pension Scheme. It sets out some very positive news on the future of the Scheme's DB Plan and your contributions to it.

Buy-in policy

We are very pleased to announce that we have signed an agreement with the insurance company Just Group ("Just") to secure DB Plan members' pension benefits. This agreement is referred to as a 'buy-in policy'. It follows a similar agreement with Just in 2019 that covered most pensions in payment at that time. The combined agreements mean that Just are now providing financial backing for all DB pensions provided through the Scheme's DB Plan.

Deficit Recovery Contributions (DRCs)

The costs of such policies are largely driven by financial markets and these have moved substantially in the Scheme's favour, particularly over the course of the last few months. As a result, this transaction takes the Scheme out of a shortfall position for the first time in two decades. Although risks remain, the Baptist Union and the Trustee have agreed that deficit recovery contributions from each participating employer in the DB Plan will reduce to just £1 per month from August 2022.

We are sure you will be pleased to hear this news. We have set out more information below and answered some immediate questions you might have but we appreciate there are more questions that will arise. The Trustee and the Baptist Union are considering the implications for the future management of the Scheme and will provide further information in the next few months.

How does this affect benefits to members of the DB Plan?

We want to reassure you that the purchase of this new buy-in policy does not change the benefits members or their dependants are currently entitled to receive from the DB Plan. The Trustee continues to be responsible for the DB Plan and the benefits members receive will continue to be paid from the Scheme for the time being. The Trustee has written to every DB Plan member to explain the agreement and reassure them on this point.

Who are Just?

Just is a well-established publicly listed UK Insurance Company who specialise in taking over pension scheme liabilities and all the risks associated with them. The Trustee is already familiar with Just, following the similar transaction in 2019.

Just is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and the Trustee obtained advice about the finances of Just as part of reaching agreement. In the extremely unlikely event of Just becoming insolvent, member benefits will be protected under the Financial Services Compensation Scheme (FSCS).

How does a buy-in work?

Under the Trustee's two buy-in policies with Just (the new one and the one from 2019), the Trustee has paid a premium to Just in exchange for which Just has taken responsibility for meeting the cost of pension benefits due from the DB Plan in the future. Securing benefits in this way reduces the risk that the DB Plan is adversely affected by movements in financial markets, changes in life expectancy or other external factors beyond the Trustee's control.

The 'buy-in' is an important step towards setting up individual pension arrangements (or "annuities") for each member of the DB Plan. This is known as a 'buy-out'. Once this exercise is complete it will be Just, and not the Trustee, who is responsible for looking after the DB Plan pension benefits. This process is anticipated to complete in the next couple of years and we will keep you updated on progress.

Before the buy-out can be completed there is a lot of work to be done on behalf of the Scheme to ensure members are treated fairly, residual investments are managed down, expenses are controlled, risks are removed and the Scheme continues to meet regulatory requirements. The Trustee and the Baptist Union are working collaboratively in these areas. Until the buy-out and wind-up are complete not all risks relating to the DB Plan are removed, for instance the Trustee is currently working through a process of confirming all benefits due post wind-up which may result in additional costs.

How does this affect the finances of the DB Plan?

The Trustee has sold most of the DB Plan's investment assets and used the proceeds to pay the initial premium for the insurance policy from Just. Unfortunately, there are some investment assets remaining that could not be sold immediately, and these will be disposed of over the coming months. A portion of the premium for the insurance policy was deferred to account for the anticipated timeline for these disposals.

Because the Just policies cover the overwhelming majority of the DB Plan's liabilities the risks to employers are substantially reduced. However, there remain elements of the DB Plan's finances that are uncertain prior to the completion of the buy-out process. The uncertainties include:

- the sale values that will be achieved in disposal of the residual investment assets;
- the costs of operating the DB Plan until the completion of the buy-out process;
- the costs of the buy-out process itself; and
- the cost of making any amendments to the DB Plan to enable the buy-out to proceed.

At the current time, we expect the assets of the DB Plan will be sufficient to cover all the costs and liabilities that remain. However, it is possible that if things turn out worse than anticipated that further funds will be needed from employers.

What does this mean for future contributions?

The Trustee and the Baptist Union have agreed that DRCs will reduce to £1 per month for each employer from the August 2022 payment until June 2026. Currently, we do not anticipate reinstating the requirement to pay full DRCs in the future but we cannot rule that out at this stage. Participating employers remain responsible for providing a share of any additional funds that the DB Plan may require in future. That is why we are maintaining the direct debit deductions at £1 per month for the time being.

As part of the agreement to reduce contributions in this way, the Baptist Union has agreed to put £3m aside in an escrow account which could be used to provide additional funds to meet the liabilities of the Scheme if required. This additional money helps to provide further security to the Scheme.

The monthly contributions will continue to be publicised via 4MyStaff on or around the 10th of every month, you will therefore be able to view the new reduced contribution rate on 10th August 2022.

Does this affect the Defined Contribution (“DC”) Plan within the Scheme?

The DC Plan continues to operate as normal. Employer and member contributions to the DC Plan will be collected in full each month as before and funds will continue to accrue for active members. The ‘buy-in’ agreement with Just relates only to the DB Plan.

What about cessation events?

Despite the change in shortfall position, the Scheme still operates under a legislative regime that has strict rules about cessation events (triggered when an employer does not have any active members participating in the DC Plan). The processes set out on the Scheme website ([Baptist Pensions | Cessation Events](#), [Baptist Pensions | Periods of Grace and Interim Ministers](#)) should still be followed in terms of notifications, periods of grace, interim members etc. We will provide further information on this area in due course.

Any cessation events that took place prior to 1 July 2022 still have to be processed on the basis of the shortfall position that applied prior to the buy-in transaction being completed. Debts which have been notified to you as being due remain payable.

The Automated Monthly Debt Estimates facility will be suspended for the time being, but employers should continue to contact the Scheme administrator promptly if they expect to experience a cessation event. An administrative charge will apply for processing cessation events for the time being, even though there is no shortfall.

What else do I need to know?

This is a major step forward in the journey to removing any risk of employer debts arising for DB Plan employers and we are thankful that we are able to remove the employer contribution burden at this point. However, we are not fully there yet. Please be patient as we work through the process and provide more information in the next few weeks and months.

Yours sincerely

Chris Maggs
Moderator of the Scheme’s Trustee Board

Tim Jackson
Moderator for the Baptist Union’s Employers’ Group