PENSION AND ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

Statement of Funding Principles

1. **Status**

This statement was prepared by the Trustee on 4 March 2009 for the purposes of the actuarial valuation as at 1 September 2008 after obtaining the advice of Diana Simon, the actuary to the Scheme.

2. **The statutory funding objective**

This statement sets out the Trustee's policy for ensuring that the statutory funding objective is met. The statutory funding objective is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

3. **Funding objectives in addition to the statutory funding objective**

None

4. **Calculation of the technical provisions**

4.1 Technical Provisions

The technical provisions are the amount that will be needed to pay the scheme benefits that relate to service up to the valuation date, if the assumptions made are borne out in practice. The assumption is that the Scheme will continue as a going concern with benefits being met from the Scheme as they fall due.

4.2 Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

4.3 Investment Strategy

The choice of the discount rates needs to have regard to the investment strategy of the Scheme. The current investment strategy for the Scheme is set out in the Scheme's Statement of Investment Principles and is reproduced in Appendix 1.

4.4 Assumptions

The discount rate assumptions are determined in the light of the current strategic asset target weighting for each asset class.

Details of the actual economic assumptions to be used to calculate the technical provisions at the valuation date are set out in Appendix 2. Details of the demographic assumptions at the valuation date are set out in Appendix 3.

The following principles are to be applied to determine the economic assumptions:

- **Discount rate:** The discount rate used to value the liabilities both in the period to retirement and after retirement is determined with reference to the yield on gilts at the valuation date with adjustment to allow for the expected outperformance over gilts allowing for the Scheme's investment strategy.

- **Inflation:** The inflation assumption is derived from the difference between the yield on fixed interest gilts and index linked gilts at the valuation date.

- **Pension increases:** Pensions in payment are assumed to increase annually by the rate of inflation capped at 5% pa for benefits accrued prior to 6 April 2005 and capped at 2.5% pa for benefits accrued on or after 6 April 2005. Pensions which accrued prior to 1 September 1998 for members who joined the Scheme prior to 1 December 1997 increase at 5% pa. Deferred pensions are assumed to increase at the rate of inflation capped at 5% pa over the period of deferment for service prior to 6 April 2009 and with a 2.5% pa cap for service from 6 April 2009.

- **Pensionable Salary increases:** Pensionable Salaries are assumed to increase at the rate of inflation plus a salary increase adjustment. Sample rates are included in Appendix 3 to this statement.

The other assumptions will be as follows:

- **Mortality:** Standard published tables of mortality have been adopted. These tables allow for expected future improvements in longevity. Sample rates and the details of the tables are included in Appendix 3 to this statement.

- **New entrants:** The valuation method assumes that the membership of the Scheme remains stable. It assumes that people who leave the Scheme are replaced by new joiners, such that the age and sex profile of the membership remains broadly unchanged.

- **Leaving service:** Allowance has been made for withdrawals from service prior to Normal Pension Dates by means of an age related scale. Sample rates are included in Appendix 3 to this statement.

- **Retirement:** Members who joined the Scheme prior to 1 December 2007 are assumed to retire at age 62 other than female members who did not elect for a pension age of 65 in 1991 who are assumed to retire at age 60. All other members are assumed to retire at age 65.

- **Age difference of dependants:** Allowance will be made for an age differential between the member and their spouse.

- **Percentage with spouse benefits at death:** An allowance will be made for members without spouse benefits at death.

- **Commutation**: No allowance will be made to reflect the terms of commutation.

- **Management Expenses**: Allowance will be made for the expected expenses of the Scheme.

5. **Employer contributions**

The contributions payable by the Employers are assessed by calculating the cost of future benefit accrual using the same assumptions as for the technical provisions plus an estimate of the expenses (excluding investment-related expenses) reduced by the contributions made by members, adjusted by the amounts needed to eliminate any shortfall or surplus relative to the technical provisions.

6. **Policy on discretionary increases and funding strategy**

Pensions may be increased from time to time once in payment by an amount over and above the guaranteed rate of increases set out in the Rules, having regard to the financial position of the Scheme, at the discretion of the Trustee after consultation with the actuary and with consent of the Methodist Council.

Advance provision is not to be made for any discretionary increases for the purpose of calculating the technical provisions. If discretionary increases to benefits are to be made, the Trustee's current policy would be to request immediate additional contributions to meet the cost of such increases.

7. **Period within which and manner in which a failure to meet the statutory funding objective is to be rectified**

The Trustee and the Methodist Council have agreed that any funding shortfalls identified at an actuarial valuation should be eliminated by the payment of additional contributions. The level and period over which these additional contributions are to be paid will be agreed between the Trustee and the Methodist Council. In determining the actual recovery period at any particular valuation the Trustee's principles are to take into account the following factors:

- the Rules of the Scheme;
- the size of the funding shortfall;
- the business plans of the Methodist Church and the other participating employers;
- the Trustee's assessment of the financial covenant of the Methodist Church and the other participating employers; and
- any contingent security offered by the Methodist Church or the other participating employers

The assumptions to be used in these calculations will be those set out above for calculating the technical provisions except that they may also take account of the expected investment out-performance of Scheme assets over the discount rate(s) used to calculate the technical provisions.

8. **Policy on reduction of cash equivalent transfer values (CETVs)**

The Trustee will ask the actuary to advise them at each valuation of the extent to which assets are sufficient to provide CETVs for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100 % of benefits in excess of the first priority slice (broadly those benefits which would be provided were the Scheme to be admitted to the Pension Protection Fund), the Trustee may reduce CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent.

If at any other time, after obtaining advice from the actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the actuary and will use the above criterion to decide whether, and to what extent, CETVs should be reduced.

9. **Payments to the Employers**

Payments to the Employers are not permitted under the rules of the Scheme unless the Scheme is being wound up and all of the benefits have been provided for.

10. **Frequency of valuations and circumstances for extra valuations**

The Scheme's first actuarial valuation under Part 3 of the Pensions Act 2004 is being carried out as at the effective date of 1 September 2008 and subsequent valuations will, in normal circumstances, be carried out every three years thereafter. An actuarial report on developments affecting the Scheme's funding level will be obtained as at each intermediate anniversary of that date.

The Trustee may call for a full actuarial valuation instead of an actuarial report when, after considering the actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions. However, the Trustee will consult the Methodist Council before doing so.

This statement has been agreed by the Methodist Council:

Signed on behalf of the Methodist Council

Name:

Position:

Date:

This statement was agreed by the Trustee at their meeting on 4 March 2009:

Signed on behalf of the Trustee of the Pension and Assurance Scheme for Lay Employees of the Methodist Church

Name:

Position: Trustee

Date:

This statement has been agreed by the Trustee after obtaining actuarial advice from me:

Signed:

Name: Diana Simon, FIA

Position: Actuary to the Pension and Assurance Scheme for Lay Employees of the Methodist Church

Date:

APPENDIX 1

Current investment strategy

The long term target asset allocation is as follows:

Benchmark Asset Allocation	Long Term Benchmark Asset Allocation %
Equity type investment	60
Bond type investment	35
Property type investment	5
Cash	0

APPENDIX 2

Economic Assumptions as at the Valuation Date

Valuation date	1 September 2008

Discount Rate

The discount rate used to value the liabilities (before adjustments) is determined based on the annualised yield on the FTSE 20 year all coupon gilt index at the valuation date.

Inflation

The inflation assumption is derived from the difference between the annualised yield on the FTSE 20 year all coupon gilt index and the average annualised yield on the over 5 years index linked gilt indices on the valuation date assuming 0% and 5% inflation.

Market Conditions at the valuation date

Annualised Yields on 29 August 2008:	% pa
20 Year All Stocks Index	4.6
Over 5 Years Index-Linked Gilt Index (0% inflation)	0.71
Over 5 Years Index-Linked Gilt Index (5% inflation)	0.59

Economic Assumptions

Type of Assumption	% pa
Implied inflation assumption	4.0
Salary Increase Adjustment	1.0
Pensionable Salary increases	5.0
Pre-retirement discount rate	7.1
Post retirement discount rate	5.1
Deferred pension increases	
Service to April 2009	4.0
Service from April 2009	2.5
Pension increases	
Fixed 5%	5.0
Pre April 2005	3.9
Post April 2005	2.5
Management expenses (as a percentage of Pensionable Salaries)	3.5

APPENDIX 3

Demographic Assumptions as at the Valuation Date

Illustrative death rates

Mortality prior to retirement: probability of death within one year

Age **X**	**Male death rate q_x** **AMC00**	**Female death rate q_x** **AFC00**
20	0.000464	0.000194
25	0.000485	0.000230
30	0.000531	0.000295
35	0.000626	0.000408
40	0.000820	0.000604
45	0.001208	0.000949
50	0.001963	0.001550
55	0.003400	0.002600
60	0.006064	0.004433
65	0.010875	0.007628

Mortality in retirement (normal health): probability of death within one year

Age **x**	**Male death rate q_x** **105% PNMA00 including medium cohort improvement factors with a 1.25% pa underpin**	**Female death rate q_x** **105% PNFA00 including medium cohort improvement factors with a 0.75% pa underpin**
60	0.004511	0.003135
65	0.008650	0.005435
70	0.014108	0.009890
75	0.024350	0.017319
80	0.045454	0.031912
85	0.088529	0.063795
90	0.159557	0.123580
95	0.239196	0.206837
100	0.328881	0.315591
105	0.418809	0.418419

Life expectancy implied by the tables for a person currently aged 65 is 21.9 years for a male and 23.9 years for a female. Life expectancy implied by the tables for a person currently aged 45 at age 65 is 24.3 years for a male and 25.4 years for a female.

Current age x	Promotional salary scale
20	44
30	64
40	79
50	93
60	103

Withdrawal from service	
Current age **x**	**Percentage of leaving the Scheme within 1 year**
20	11
30	6
40	4
50	0
60	0

Age difference of dependants

Male members are assumed to be, on average, two years older than their spouses or civil partners. Female members are assumed to be, on average, two years younger than their spouses or civil partners.

Percentage of members with spouse/dependant benefits

Actives and Deferreds: 90% of male members and 75% of female members are assumed to have spouse/dependants benefits at retirement or earlier death

Pensioners: Based on actual marital/dependency status

Commutation

No allowance