SEVENTH-DAY ADVENTIST CHURCH
British Isles Headquarters

30 September 2013

Office of the Executive Secretary

British Union Conference of Seventh-day Adventists
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TO: Employees of the Trans-European Division, British Union Conference, North and South England Conferences, and subsidiary Institutions who are members, or prospective members, of the Seventh-day Adventist Retirement Plan.

Re: THE SEVENTH-DAY ADVENTIST RETIREMENT PLAN ('THE PLAN')

Proposed changes to your pension benefits

The British Union Conference of Seventh-day Adventists ('the Church' or 'we') recently conducted an extensive review of the pension benefits it offers to members of the Plan ('members' or 'you'). As a result we propose to change the future pension arrangements of members who are currently earning benefits under the Plan ("active members") or those who could do so in the future ("prospective members"). We have not made a final decision as we must first consult active and prospective members about the proposed changes.

Accordingly, in this letter, we outline:

- what we are proposing (see 1 below);
- why we are making the proposal (see 2 below);
- how the proposal affects you (see 3 below);
- how the proposal will affect special categories of members (see 4 below); and
- how you can find out more and comment on the proposal (see 5 below).

Because the proposed changes would apply only to benefits earned from 1 January 2014, they will not affect members who are already receiving a pension ("pensioners") or members who are no longer active members but are not yet pensioners ("deferred members"). So this letter is not being sent to them.

We have also discussed the proposal with the trustees of the Plan ("the Trustees") who have agreed, in principle, that if the Church wishes to implement the proposed changes after consulting members, they will cooperate with the Church to implement them.

1. THE PROPOSAL

We are proposing to close the Plan to all accrual of benefits with effect from 31 December 2013. After that date, you will no longer earn any benefits under the Plan. However, your existing benefits will be preserved in the Plan and you will be offered new pension arrangements.

When you retire, the Plan will pay you the benefits you have earned up to 31 December 2013. However, some ancillary features of those benefits will necessarily change. Those are set out in 3 below.

From 1 January 2014, you will be enrolled in the Church's new group personal pension plan ("the GPP"). The GPP is a money purchase pension scheme, which is sometimes called a defined contribution (DC) pension scheme. The terms of the GPP are outlined in 3 below.

2. REASONS BEHIND THE PROPOSAL

Preparing for a comfortable retirement is important, and the Church is committed to helping all its employees do so through its pension benefits. In order to be sustainable, these must be designed to be both valuable to employees yet affordable to the Church. The current Plan is a non-contributory one which puts all the funding requirement on the Church and none on the employee. The proposed changes are intended to:

a. help manage the increasing costs and risks of the Plan

The Church has reached its decision primarily because of the increasing costs of funding the Plan and the resulting financial burden that these costs – together with the risks of further increases – place on the Church. The liabilities of the Plan have more than tripled in magnitude over the past decade, partially due to the addition of new joiners to the Plan. But the most significant reason is the effect of economic and demographic pressures outside of the Church's and Trustees' control, such as higher life expectancy, lower investment returns and legislative changes. The costs are also becoming harder to forecast and so more difficult to manage.

So, the Plan places growing pressure on the Church's finances. These cost pressures and the associated risks are no longer affordable for the Church. There is a risk that the additional costs (of the order of 10's of £millions) could have an impact on staffing and Church activities in the future. This problem cannot be allowed to get worse.

The Church is not alone: the majority of employers have been affected by these pressures and have needed to make changes to their pension provision. Around 30% of companies in the UK have closed their defined benefit ("DB") retirement schemes to future accrual. Of the remainder, the majority plan to close their schemes to future accrual of benefits over the coming years and move their employees into 'money purchase' (DC) arrangements.

b. allow the Church to meet its auto-enrolment obligations

A further driver for making the proposal now is the requirement that the Church comply with its 'auto-enrolment' responsibilities from the end of this year. These arise because the government has introduced new legislation in order to encourage saving for retirement. Employers will have to automatically enrol their employees into a suitable workplace pension arrangement. This is called "auto-enrolment". For the Church, these legislative requirements start on 1 January 2014.

The new law gives employers choices about the way in which they can implement auto-enrolment. The Church needs to ensure that the pension arrangements provided to staff are sufficient to pass a certain standard and to meet those auto-enrolment requirements in a way that is affordable. Different tests apply to schemes which promise certain benefits (like the Plan) and money purchase (DC) schemes (such as the GPP). The Church has been advised that the Plan's benefits would have needed to be enhanced by an estimated 15%-30% to pass the auto-enrolment test that applies for DB schemes. The Church could not afford such an increase in costs. But the level of contributions required to meet the test for money purchase (DC) schemes is lower. We therefore propose the move to the GPP.

The Church also considered whether to introduce a 'money purchase (DC) underpin' to meet the auto-enrolment requirements through the existing Plan without needing to enhance the level of the benefits currently provided. Whilst this solution would avoid the estimated 15%-30% increase in the Plan's benefits and funding costs, the Church has decided not to pursue this option further due to the additional administrative complexity and management cost it would introduce. Furthermore, it would not deal with the primary issue at hand of the Plan's cost pressure and risk burden that is driving the proposal to close the Plan.

3. EFFECT OF THE PROPOSALS

i. Benefits under the Plan

The closure of the Plan to future accrual means that active members of the Plan will cease to accrue benefits under the Plan and will become deferred pensioners. The Plan will not be wound up. Instead it will continue to operate as a closed plan, paying benefits to members as they become due. We will continue to fund the Plan so that it can meet its obligations.

However, the proposed closure will affect some features of the benefits to which members are entitled for service up to the Closure Date (31 December 2013).

a. Final salary link

Currently, when an active member retires, your pension is calculated by reference to your pensionable salary at or close to retirement ("the final salary link"). Following closure, you will become a deferred member. The benefits of deferred members are calculated when they leave and increased up to their retirement by reference to inflation (measured by reference to increases in the consumer price index subject to an overall limit of 5%pa on any part of pensions accrued prior to 6 April 2009 and an overall limit of 2.5%pa on any part pensions accrued thereafter ('deferred revaluation')).

So, on the closure of the Scheme, the pension which active members earn up to the Closure Date should be increased by reference to inflation (subject to a limit), rather than linked to future salary levels. That means that active members would get slightly different benefits to those which were promised.

Which would be better for members depends on individual circumstances. But the Church has decided that it should honour the original promise. So, whilst active members remain in the employment of the Church the final salary link will be retained.

b. Death in service - lump sum benefit and spouse's pension

Currently, if you die while in service as an active member, a lump sum is payable equal to your 80% of your Package Salary. In addition, your spouse receives a pension of half of your prospective pension (based on final pensionable salary at the date of death and your expected service calculated to normal retirement date).

If you die whilst a deferred pensioner (as you will be from 1 January 2014), no lump sum would be payable. Furthermore, a deferred pensioner's spouse would only receive a pension of half the member's deferred pension at the date of death. As is explained in 3(i)a above, whilst you remain employed by the Church your pensionable pay will remain linked to your actual salary. This will also apply to the death in service spouse's pension following closure.

However, this death in service spouse's pension will only be measured by reference to pensionable service to the Closure Date. So, following closure, the younger you are if you were to die before retirement, the smaller your spouse's pension will be as a proportion of your final pay.

In view of these reductions in death benefits under the Plan, the Church proposes that a higher lump sum benefit will become payable if you were to die before retirement whilst still in the service of the Church. This is described under 3(ii)b below.

ii. Going forwards – the GPP

For service after the Closure Date, active members will be invited to join our GPP. In the GPP, members have their own personal fund. Contributions are made to the member's fund by both the employer and the employee. Those contributions and the investment return on them are rolled up and used to purchase benefits when the member retires. So the pension the member receives from the GPP when they retire will depend on:

- the contributions they and the Church pay into the member's personal fund;
- the investment performance of the member's personal fund (after charges); and
- the cost of buying a pension with an insurance company when they retire.

They will of course also receive their deferred benefits from the Plan as described in 3(i)a above.

a. Member contributions:

After the Closing Date, the Church will pay 6% of your "DC Pensionable Salary" to the GPP for each employee who agrees to pay 3% of their DC Pensionable Salary to the GPP. DC Pensionable Salary will be your Package Salary, excluding London and regional weighting, travel and personal allowances. This is normally notified to employees in January each year.

The Church appreciates that currently, you do not pay any contributions to the Plan, and that to start to do so will result in a reduction in your net pay. Therefore, the Church proposes to give staff who are members of the GPP an additional increase in earnings from the Closing Date to offset their new pension contribution. This will be equal to 3% of your DC Pensionable Salary but this compensatory allowance will not form part of your Package Salary or DC Pensionable Salary. It is intended that this temporary compensatory allowance will be merged into regular salary over time.

b. Death benefits:

In addition, the Church will provide additional death benefits from the Closing Date. On the death of employees who are members of the GPP, a lump sum death benefit equal to 4 times DC Pensionable Salary, plus the amount of their personal fund becomes available to pay benefits to the member's family and dependents. This replaces the current death in service lump sum benefit from the Plan which is equal to 80% of your Package Salary.

This will be in addition to the spouse's pension payable from the Plan if you were to die before retirement, as described in 3(i)b above.

iii) Tax free cash

Members are allowed by law to withdraw up to 25% of their accumulated personal fund in the GPP as a tax free cash lump at retirement (with the remaining value of the personal fund being used to buy a pension income with an insurance company).

This is different to the current practice under the Plan whereby members are allowed to convert ("commute") part of their Plan pension into a tax free cash lump sum at retirement (with a resulting reduction to their Plan pension). This option will remain in place for members with a deferred pension under the Plan at retirement.

4. OTHER CATEGORIES OF MEMBER

The Church recognises that some categories of members will be affected by the Closure in particular ways. So the Church proposes some changes to ameliorate those adverse effects. These are set out below.

(a) Members in a Waiting period

At the moment a new employee has to wait two years before becoming entitled to join the Plan. But once that employee has joined the Plan and accrued two years pensionable service, the two year waiting period is added to their pensionable service for the purpose of ascertaining benefits.

So, when the Plan is closed, employees of the Church currently in the waiting period will no longer be able to join the Plan. Moreover, those who have already joined but have not yet accrued two years' pensionable service will not have the benefit of the addition of their two year waiting period once they have completed four years' employment with the Church.

The Church proposes to offset those losses for those who remain in its employment for four years. So:

i. any employees in the waiting period (under two years employment) at the Closure Date will be auto-enrolled in the GPP from the Closure Date. If they remain continuously employed by the Church up to their fourth anniversary of employment, it will make an additional contribution to the GPP for them. That contribution will be equal to the amount that it would have contributed for that Member up to the Closure Date if the GPP had been in place during that period.

ii. active members who have not accrued two years pensionable service at the Closure Date (i.e. employees with two to four years of employment), will be auto-enrolled in the GPP from the Closure Date, and will be awarded two years' additional pensionable service in the Plan if they remain continuously employed by the Church up to their fourth anniversary of employment.

(b) Older Members

Members close to retirement will have less time to take action to make up for the loss of accrual over the remaining period to normal retirement date. The Church proposes to provide an augmentation on retirement for these members aged 60 or more at the Closure

Date up to the age of 65 (or an earlier retirement date). In effect, such members will continue to accrue benefits on the existing basis. Members will be required to transfer their accumulated GPP pension pots into the Plan on retirement in return for these augmentations.

(c) Members entitled to an early payment option

An active member who has 35 years of pensionable service can elect to take benefits at a normal retirement age of 62 rather than 65, without any reduction because it is paid early. On closure of the Plan, members with long service will cease to have that option. The Church proposes that this option is retained, so that members will be able to draw their deferred pensions from age 62 (or such later age, up to 65, on completing 35 years' continuous employment by the Church) without any reduction for early payment (ie for this purpose, treating employment by the Church after the Closure Date as if it continued to be pensionable service).

(d) 'Trickle-in' members

Under a transfer agreement of 2001, the Trustees agreed to assume the liabilities of members of the Church's previous pension arrangements (for pre-April 1998 employment). It was agreed that those 'trickle-in' members become members of the Plan as each member reaches their retirement date (subject to a number of conditions). That arrangement will not be affected by the Closure. The obligation to pay the benefits of "trickle-in" members will be assumed by the Plan at the same time and subject to the same terms as under the existing arrangements.

5. NEXT STEPS

We are committed to consulting members about their views. From 1 October 2013 we will start a formal consultation exercise, which will run for at least 60 days (until 30 November 2013), giving you the opportunity to raise any questions and feedback any comments and concerns you may have and to ensure that you understand the proposed changes.

We will not make any final decision on the proposal until we have considered the feedback received in the consultation period. After the consultation has ended we will review everyone's observations and make a final decision about the proposed changes. We will let you know the final outcome at the start of December 2013. If the changes are to be implemented, this would give you time to further understand the impact of the changes in advance of the proposed effective date of 1 January 2014 after which you will be issued with a statement of your deferred pension entitlement under the Plan.

We will also be writing to you again during the consultation period with further details of the new GPP arrangement.

Responding to this consultation

We appreciate that pensions is a complex subject and there can be a lot to take in if you are going to understand the proposed changes and what they mean to you. In order to help you, you can ask questions and give your feedback on the proposals to:

- plockham@adventist.org.uk

- Pr Paul Lockham, Executive Secretary, British Union Conference of Seventh-day Adventists, Stanborough Park, Watford. WD25 9JZ

We will respond to your questions either individually or collectively as the responses dictate.

Whilst it is always a difficult decision to make changes to pension benefits, our aim in proposing this change is to ensure we can continue to offer a suitable pension arrangement at an affordable costs.

Yours sincerely

Paul Lockham

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Executive Secretary