

To:
Active Members
Chairs and Chief Executives of Participating YMCAs

4th April 2006

Dear Colleague

In January of this year the Principal Employer and Trustee wrote to Participating YMCAs and the APS wrote to active members, outlining the issues effecting the YMCA Pension and Assurance Plan as a result of the latest actuarial evaluation. As promised in those letters I am now writing in order to update you on the consultation meetings and any further developments. I also enclose at Annex A the feedback form we said we would provide to help both participating YMCAs and active members consider and report their views. You are reminded that the closing date for return of final comments is 26 April 2006. This is to enable the Trustee and Principal Employer to be able to consider the comments received in order for a final decision to be taken.

An electronic version of this letter and the response form is available on the web site:
www.pensions.ymca.org.uk

Additional Information & Feedback

1. Consultation Meetings

Six consultation meetings have taken place, to which active members have been invited. A total of 202 individuals attended such presentations. There were also six consultation meetings with Participating YMCAs which 149 individuals attended. This represented 79 participating YMCA's, of which 71 are active, i.e. currently have members contributing into the scheme and 8 participating YMCAs that have no current active members, but have liabilities to the fund (Dormant).

2. Recommendation to Close the Final Salary Scheme

In the information document we indicated that the recommendation was that the Scheme be closed. It is clear that some people have not fully grasped what this means. What has been recommended is that the Scheme, from the 1st July 2006, is closed to all new entrants and to future accrual of service, but that the link to salary will be maintained. This means that someone who has 26 years of pensionable service at the 1st July 2006, but still has another 10 years to go until they reached the normal retirement age, will not see their pensionable service of 26 years increase. However, because the link to final salary would remain, any increase in their salary through till the date they retire would be taken into account in calculating their pension. However, any such increase in their salary would only be taken into account for as long as they stay with their current YMCA employer. If they moved to another YMCA employer this link with the final salary would be broken.

We have been advised that by retaining the link with final salary, then the scheme will not be deemed to be closed in the eyes of the Regulator. I will explain the implications of this further on in this letter.

3. Full Buyout

One of the implications in the scheme not being “closed” in the eyes of the Regulator is that the risk to a Participating YMCA of triggering their full buyout costs still exists. The full buyout cost is calculated by the Scheme actuary. He determines what the total liabilities are to each employer and what it would cost to go to the market and secure everyone’s pension entitlement by purchasing an insurance policy called an annuity. The cost to do this to cover everyone in the scheme, based on the service history at the 1st May 2005, is £119 million. However, at the 1st May 2005 we also had £34 million pounds worth of assets. Therefore, the net cost to the Scheme and to all the participating YMCAs is £85 million. There are 106 active participating YMCAs, of which 30 have only one active member and a further 19 have two active members. These participating YMCAs currently face the risk of triggering full buyout if all their active members leave YMCA Pension Fund Assurance Plan. However, there is a current safeguard in place through the Group Life Assurance arrangements.

4. Group Life Assurance

Under the YMCA Pension Scheme’s Trust Deed and Rules, participating YMCAs have the option to purchase a straight twice salary life cover for those members of staff who are not in the final salary scheme. This arrangement is called the YMCA Group Life Assurance scheme. Currently where a participating YMCA still has only one or two active members in the Final Salary Scheme and has a number of members in the Group Life Scheme, if those active members leave the final salary scheme then this does not trigger the full buyout costs. This is because that participating YMCAs still has members of staff in the Group Life Assurance scheme. However, the Department for Work and Pensions have been unhappy with this provision being available to Pension Schemes and have been looking to remove the right for pension schemes to offer this type of Group Life arrangement. The Department for Work and Pensions have recently passed the issue on to the Pensions Regulator to determine under regulation. Therefore, we may be faced sometime in the near future with the Pensions Regulator announcing that Group Life Assurance can no longer be linked to pensions schemes. If this were to be the case then those participating YMCAs with few active members could face a heightened risk of triggering a full buyout if all their members of the final salary scheme withdrew from the scheme.

5. YMCAs with no current active members but with a liability to the fund (Dormant).

Of the 166 participating YMCAs in the scheme some 60 of these are dormant. This does not mean that these participating YMCAs have no activities; it simply means that they have no current active members in the scheme, but have liabilities to the scheme in respect of the service of staff in the scheme who worked for them in the past. You will recall that in the communication document, it was felt inequitable that these participating YMCAs were not contributing towards the deficit. Currently the deficit is met through the combined 22.4% contribution rate from participating YMCAs and members only. Therefore, the Trustee is still of a mind to address this anomaly by collecting the share of liabilities attributable to such dormant YMCAs,

6. Allocation of Deficit

I wrote to participating YMCAs back in January indicating that the Trustee had instructed the scheme’s Actuary to calculate the deficit for each YMCA based on the following criteria:

1. for active members: the deficit would be attributable to their current employer, irrespective of service history elsewhere.
2. for deferred members – to be attributed to the participating YMCA that they left and became a deferred member, again irrespective of past service history elsewhere.
3. Pensionable members: to be attributable to the participating YMCA that the individual became a pensioner from, again irrespective of service history elsewhere.

This means that where active member has 26 years of pensionable service history with four different participating YMCAs, all the deficit attributable to that individual will be allocated to their current employer.

Throughout the presentations a number of representatives from participating YMCAs felt that this was not a fair mechanism with which to allocate the deficit. It was felt more appropriate to allocate the deficit to the participating YMCAs based on the number of years that an individual had worked for that participating YMCA. One of the challenges in allocating the deficit in this way is the time and resource it would take to verify the service records for 1800 members across 166 participating YMCAs. Once that exercise was complete, the actuary has indicated that it would take between 12 and 14 weeks to calculate the deficit for each participating YMCA and the cost would be almost £10,000.

However, I have agreed to take to the next meeting of the Trustee on the 19th April 2006, the views expressed on this matter in order that the Trustees can consider it.

7. Pension Service Verification Exercise

As mentioned above I wrote to all participating YMCAs asking them to verify the service histories of those individuals that were attributable to them. There are a number of participating YMCAs who have yet to respond to this request and, therefore, I would be grateful if they could do so by the end of April 2006 at the latest. Failure to respond will mean that the records that I hold will be the basis on which I will calculate the deficit in the event that the Principal Employer and Trustee decide to proceed with the recommendation.

8. Collection of the deficit

I must stress that no decision has yet been taken to close the scheme to new entrants and future accrual of service. But if such a decision is taken I will work with the scheme's actuary to re-calculate the deficit based on the Pension Service History Exercise, and will look to issue invoices from the 1st July 2006. A number of participating YMCAs have indicated that they cannot or will not pay the amount due. The Trustee has a legal duty to collect this and failure on behalf of the participating YMCA to make such payment will ultimately result in that participating YMCA being reported to the Pension Regulator. In the event that this happens the Pension Regulator has the power to enforce the payment under regulation, even if that means the disposal of property in order to achieve this. The Trustee would be in breach of their duties if they did not report any failure by a participating YMCA to meet their payment obligations. Currently it is being proposed that the deficit will be collected over a 13 year period. However, the Regulator has also announced that for pension schemes that have valuations that start from September 2005, they are looking to see a maximum period of repayment of 10 years. There is still the possibility that the Regulator may call in the YMCA Pension and Assurance Plan in order to justify the 13 year period.

9. Current Contributions

If the current recommendation to close the scheme is agreed, the current contribution rate of 8% from members and 14.4% from participating YMCAs would cease at the end of June 2006.

10. Financial Reporting Standard 17 (FRS17)

A number of participating YMCAs have asked for guidance on what they need to include in their year end accounts. The English National Council has been working with their auditors in order to provide clear guidance on this. In the near future a communication will be issued to all participating YMCAs on what they need to do to satisfy this reporting requirement.

11. Pension accounts for year ended 30th April 2005

There has been a delay within the Pension Department in issuing the abridged version of these to all members. Therefore, I have agreed that these will be available from the Pension Dept's website, www.pensions.ymca.org.uk However, if anyone requires a paper copy, can you please email Isabel Kaye at the Pensions Department on Isabel.kaye@england.ymca.org.uk.

12. Ongoing actuarial valuations

It was reported at the consultation meetings that the scheme will still be required to have 3 yearly actuarial valuations. Therefore the actuary will calculate the value of the assets and the liabilities in the same way as he has done up until now. The implication of this is that the funding of the scheme may well improve resulting in a reduced deficit. But should the funding position be adversely affected by these valuations, the deficit could increase. One of the concerns expressed at a number of the consultation meetings was the potential domino effect of participating YMCAs dissolving because they do not have sufficient assets to meet their liabilities. In such a situation any liabilities would remain in the pension pot and be redistributed amongst the remaining participating YMCAs.

13. Voluntary Withdrawal

Some participating YMCAs, which have a small or manageable deficit, are considering voluntarily withdrawing from the Pension Scheme and thereby triggering a full buyout payment. A number of YMCAs have asked me to calculate the full buyout figure. At the moment I am not in a position to do this unless I have written confirmation from the participating YMCA that this is the route they wish to explore and that they are prepared to pay for the cost of the actuary to calculate this. However, I have advised YMCAs that a ball park figure can be estimated by taking the percentage of their YMCA's liability and applying it to the net full buyout costs of £85 million. The resulting figure will give an estimate of what their full buyout cost would be as at 1st May 2005. To this figure must be added any additional change in their deficit related to accrued benefits from the 1st May 2005 until the date that they withdraw. Based on such a figure the Pension Department would then go to the market to get a price for securing these benefits through the purchase of an annuity. If the price of such an annuity is greater than the full buyout figure then the participating YMCA would be liable for the difference in cost. In electing to go for a full buyout participating YMCAs would no longer be subject to any fluctuations in the deficit as a result of future actuarial evaluations. However the link to final salary would be broken and all scheme members within the participating YMCA would become deferred members. **Participating YMCAs should take appropriate advice on this.**

14. Reducing the risk of triggering a full buyout

A number of suggestions arose from the consultation meetings on reducing such a risk. A number of participating YMCAs are looking to encourage eligible employees to join the YMCA Pension and Assurance Plan, before the scheme closes, given that the link to final salary will be retained. Each participating YMCA may need to take HR advice on their current policy on who is eligible to join the scheme. In certain situations, new members may be discretionary entrants and be subject to conditions on entry. Others are bringing forward plans that they already had in working more closely with other participating YMCAs in relation in mergers or other such arrangements. Clearly the more members a participating YMCA has in the final salary scheme the less the risk there is of triggering a full buyout.

15. Breaking the link with final salary

One of the reasons the Principal Employer and Trustee have not recommended that the link to final salary be broken is that the legal advice to the Trustee states:

- 1) They do not have the power within the Trust Deed and Rules to break such links;
- 2) To achieve such removal of the link would require the express consent of every active member.

Throughout the consultation meetings held with both members and participating YMCAs, there was an overwhelming support for avoiding having to take such a step.

16. Alternative arrangements

Participating YMCAs have now received a communication from the National Councils outlining the proposals for alternative pension and life cover arrangements.

17. What next?

As I said at the beginning no decision has yet been taken. The Trustee meets on the 19th April to sign off the actuary evaluation and to consider the views expressed at the consultation meetings. The Principal Employer meets on the 29th April and it is at that meeting where they will receive a report on the consultation meetings, any feedback from this letter and make a recommendation to the Trustee on whether the Scheme closes on the basis of the original recommendation or is restructured in a different way. The Trustee then meets again on the 4th May to receive the recommendation of the Principal Employer, and if agreed, begins to put into place the mechanism for implementing any recommendation.

Following the meeting of the Trustee on the 4th May I will write to you again providing you with an update. However, in the meantime if you have any queries I would be grateful if you would contact me by email at paul.smillie@england.ymca.org.uk.

Yours sincerely

Paul Smillie
Company Secretary
The YMCA Pension Plan Trustee Ltd

**YMCA PENSION & ASSURANCE PLAN (the Plan)
CONSULTATION – PARTICIPATING YMCAs and ACTIVE MEMBERS - RESPONSE FORM**

To be returned:

by e-mail to: paul.smillie@england.ymca.org.uk

by post to:

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Company Secretary

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YMCA England

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- 1. Do you have any alternative proposals to the recommendation to close the Plan to new members and new accruals, in the light of circumstances described in the written information provided and at the consultation meetings?**

- 2 If you have answered 'Yes', please indicate how this will address the issue of the deficit as outlined in the actuarial valuation?**

If Active Member - Name..... Date.....

If responding on behalf of a participating YMCA - Name of YMCA.....

Your Name..... Position held.....

Date