PENSIONS QUESTIONS AND ANSWERS
FOR EMPLOYEES WHO ARE MEMBERS
OF THE YMCA PENSION AND ASSURANCE PLAN

Q: What is being recommended?

A: The recommendation is that the current final salary pension scheme ("the Plan") will close to new members and new "accruals". This means firstly that no more employees will be able to join it. Secondly, employees who are currently members will have their benefits frozen at the levels that have currently been earned. They will not be able to earn or "accrue" any additional pension for future service within the Plan.

Q: Who is making the recommendation?

A: The Plan is administered by the Trustee of the YMCA Pension and Assurance Plan, which is a corporate body. The directors of the Trustee are appointed or elected by the three National Councils (England, Scotland and Wales), by employers and by APS on behalf of members. The Trustee has a responsibility to consult with the Principal Employer of the Plan, who in this case is YMCA England. The Trustee and the Principal Employer are making the recommendation together.

Q: How would my pension be affected?

A: The pension benefits that have already been earned for you within the Plan up until the time it closes would be protected. It would not be possible for any more benefits to be earned for future years of service. So any estimates of what your pension might have been had you continued working for the YMCA to age 65 would be invalid. Your pension from the Plan may be very much less than might have been the case. You may need to think very seriously about how you would provide a comfortable pension for yourself and any dependants you may have. The alternative arrangements that may be put in place by your employer may help (see below).

Q: How much pension will I get?

A: This depends upon your length of service, your salary and other factors. You have been provided with an annual statement that estimates the amount of pension that has been earned up to that point. Updated schedules will be issued as normal in September. You would still be entitled to the proportion of final salary at retirement earned up to the date of closure, assuming that you remain employed by the YMCA to age 65. Arrangements by which you can retire early on a reduced pension or take some of the pension as a lump sum payment would continue. You are advised to seek independent advice on the implications that a reduced pension may have on your financial plans for retirement.

Q: Why are you proposing that the Plan be closed?

A: The Trustee has a responsibility to ensure as far as possible that the existing rights of members and pensioners are protected. In recent years a number of factors have combined which together might make it very difficult for employers to meet their obligations if the Plan were to continue. Briefly, these factors are:

- A very large deficit in the Plan, mainly because people are living longer, pay increases have been higher than assumed and investment returns have not been as high as expected;
- A greatly increased regulatory burden for pension schemes, which actually makes it very difficult for multi-employer schemes like ours to operate;
- New regulations which mean that YMCAs with very few active members of the Plan may be at significant financial risk if those employees leave, unless the Plan is closed for all;
- The likelihood that the risks and costs of continuing with the Plan will increase even more in the future.

The risks of continuing with the Plan are so serious that they could cause some YMCAs to go out of business. The Trustee and the Principal Employer believe that this would not be in the best interests of members and pensioners and that if nothing is done it might put the benefits of members at risk.

The Trustee and the Principal Employer have considered the options and have taken professional advice about what can be done. They have very reluctantly come to the opinion that the only safe option is to take the drastic step to close the Plan.

These factors are affecting many organisations that have provided a final salary pension package to their staff. There are now only three companies in the FTSE 100 who continue to offer a defined benefits pension scheme to new employees. You may recently have seen or heard of the highly publicised case of Rentokil which has become the first FTSE 100 Company to announce that it is closing its pension scheme to new accruals as well. Other charities have also been closing their schemes.

A full explanation of the background is set out in the information document that accompanies this paper. Extra copies of the information document can be obtained from the address shown below if required.

Q: Why have we not heard about the Plan being in trouble before?

A: What has brought this to a head is the valuation of the Plan that has to be carried out every three years. The latest of these was calculated as at 1st May 2005, although the valuation process means that it was some months after the valuation date before the results were known. The 2005 valuation has revealed the full impact of the factors set out above, including for example new tables being used which reflect the fact that everyone is living longer.

The valuation in 2002 was the first time that the calculations showed a deficit and changes were made to the Plan at that time to try and pay the deficit off while keeping the Plan open. Members and employers were informed about the background and were consulted about those changes, the main ones of which were to increase the normal retirement age from 63 to 65 and to increase members' contributions to 8% of salary.

Despite these steps, the situation has become far worse since 2002, although this is due to factors outside of the control of the Trustee.

Q: Have our investments been managed properly?

A: Yes, we believe that they have. In 2004 the Trustee, on the basis of professional advice, made changes to the investment strategy of the Plan which reflected good practice in the sector. This involved changing the profile of the investment portfolio to reduce risk and to better match the investments against the Plan's liabilities. One of the investment managers was also changed after carrying out a full tendering and review process. Since then, the investments have performed in line with the markets. However, the markets as a whole have not done as well as was assumed at the time of the valuation in 2002. It is very unlikely that a different investment strategy could have done much better, without exposing the Plan to unacceptably high risks.

Q: Why can't the Plan Trustee simply decide to increase the employers' and employees' contributions to meet the shortfall in funding?

A: The current contribution levels are 14.4% of gross salary from the employer and 8% from employees. This level of contribution is already high in comparison to the schemes operated by other organisations. In order to ensure that the Plan is fully funded the total contribution level would need to rise to about 34%. Following consultation between the Trustee and the Principal Employer, it is clear that a contribution at this level could not be afforded by employers or employees, especially given the other risks.

Q: Why can't the Trustee change the structure of the Plan to reduce benefits but keep the Plan open in some form, or close the Plan to new members but keep it open for existing members?

A: The Trustee and the Principal Employer have looked into these options. Although changes could be made that would significantly reduce the costs of keeping the Plan open, the benefits would be very significantly reduced. Also, a number of YMCAs would remain at significant financial risk because of the new regulations. Finally, any kind of defined benefits scheme is at risk from negative developments in the future and it is believed that, given the large deficit that already exists, taking on any additional risk would not be in the best interests of the members or their employers.

Q: What happens about my contributions to the Plan?

A: As has already been said, contributions up to the date the Plan closes would earn future benefits. Should the Plan close, employee contributions (8% of salary) would no longer be payable to the Plan and so your net salary would go up. You should then consider whether you should put some of this extra money into any alternative Plan that your employer may provide (see below) or into a personal pension plan.

Q: Can I transfer the money I have already saved in this Plan to a new one?

A: Currently if you have less than two years pensionable service, you can seek a refund of your contributions, subject to fulfilling HM Customs and Revenue requirements. If your pensionable service is greater than two years, subject to the Plan rules, you can request a transfer to another approved pension scheme. However the value of any transfer will be reduced, on professional advice, to reflect the financial state of the fund.

Q: Is it not the case that my pension is part of my contract?

A: This is not something that the Trustee or the Principal Employer can advise on in the context of these documents. If you have concerns in relation to this then you should discuss them with your employer.

Q: What alternatives will be offered?

A: This is up to your employer. There are employment laws that require your employer to provide access to at least a basic "stakeholder" pension, if they have five or more employees. Your employer may also wish to consider offering something better.

Very often, when employers no longer offer a final salary scheme they will offer a defined contributions scheme instead. Defined contribution schemes are also known as money purchase schemes. Under defined contribution schemes contributions are paid into a fund by the employer and the employee and these are invested with the proceeds from the contributions and investments being used to buy a pension, called an annuity, at retirement.

The three National Councils are considering whether to offer employers the opportunity to join a group defined contributions scheme. There will be separate communications and updates about this.

Q: What do you mean when you say the suggestion is for the Plan to close?

A: By this we mean that the Plan would close to new members and new accruals, i.e. it would not be possible for new people to join or for existing members to earn additional rights to benefits. But the Plan would remain open for current pensioners and for existing members for the rights that they have already earned.

Q: I have made some additional voluntary contribution payments in order to boost my pension. What happens to these?

A: Contributions that you have made in the past would continue to form part of your accrued benefits. You would no longer be able to contribute to the AVC facility and the value of your fund would be determined on the date of closure of the Plan. However this value may change over time as it is subject to the movement in the stock market.

Q: What happens to the life assurance cover that protects members of the Plan? I have a mortgage – do I need to get separate life cover now?

A: The Plan provides the following Life Assurance benefits to active members of the Plan:

4 times salary death in service benefit; 25% of salary as a pension to your spouse or dependant children up to the age of 18 years and a refund of your contributions. Apart from the refund of contributions all these benefits will cease when the Plan closes.

The Plan also offers a Life Assurance arrangement for YMCAs who wish to provide life cover for those staff not in the pension Plan. This currently provides twice salary as a death in service benefit. It will be up to your employer to decide what life cover, if any; they wish to offer their staff.

You are advised to seek independent advice on the implications that reduced life assurance cover might have on your private financial arrangements (e.g. mortgage protection).

Communication documents and other background papers in relation to these issues are available for review. These include the Information Document, Q&As for employers, members and pensioners, the Trust Deed and Rules of the Plan, letters from the Plan's actuary, etc. A website has been set up to enable these to be viewed, this can be found at:

www.pensions.ymca.org.uk

For other queries please contact:

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