PENSIONS QUESTIONS AND ANSWERS
FOR YMCAS WHO WERE OR ARE PARTICIPATING EMPLOYERS IN 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: 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 and their implementation place participating YMCAs which want to withdraw or have very few members at significant financial risk.
- The likelihood that the risks and costs of continuing with the Plan will increase even more in the future.
- If the Plan continued in its current form, the likely combined contribution rate for participating YMCAs and members would be around 34%. (The current combined rate is 22.4%)

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: What would happen if the Plan continued?

A: In the short term, either contribution rates from YMCAs and employees would have to rise dramatically (from 22.4% to approximately 34%) or the Plan would have to be restructured to significantly reduce costs. Even if this was done, the Plan would continue to be at risk from external events, with the possibility of low stock market returns, more increases in life expectancy, etc. The Plan already has a deficit of £26 million, which is large relative to the size of the YMCA Movement. If the Plan continues the risk is that the deficit would grow.

Also, participating YMCAs with very few members of the Plan would be at additional risk. If these members left their employment, even if this only created a temporary vacancy, under the guidelines issued by the Pension Regulator this would be deemed to be a withdrawal from the Plan. These new regulations from 2nd September 2005 require that participating employers which withdraw or are deemed to have withdrawn from the Plan are obliged to pay their share of the Plan's liabilities normally on a full buyout basis. This is much more expensive than allocating the deficit on an ongoing basis. The sums involved could be very significant relative to the size of the YMCA – enough to have a dramatic impact on the YMCA's operational plans and in severe cases to actually cause it to close.

Q: We would like to continue the Plan – is that possible?

A: Yes, in theory it would be possible to continue the Plan but that would leave the Plan and participating YMCAs open to the very significant risks that have been described. The power to change the structure of the Plan rests with the Trustee, with the agreement of the Principal Employer, and they are recommending closure of the Plan as a way of limiting the risks.

Q: Why can't the Trustee change the structure of the Plan to reduce benefits but keep the Plan open in some form?

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 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: Is this situation the responsibility of the Principal Employer, and not ours?

A: The financial responsibilities rest with all YMCAs who are or were participating in the Plan. The Trust Deed and Rules (which are standard for this kind of scheme) make it clear that the role of the Principal Employer is about being consulted by the Trustees in Relations to proposed changes.

Q: What will our costs be? How will they be calculated? What if I think the calculations are incorrect?

A: If the suggestion that the Plan be closed is confirmed, the following will apply:

- If you are a participating YMCA, after the date of closure you will no longer need to pay the employer contributions to the Plan (currently 14.4% of pensionable salary).
- Your YMCA will have a proportion of the deficit allocated to it and you will be notified of what annual contribution is required from you to pay it off. This amount may be more than the current 14.4% of pensionable salary.
- In addition, your YMCA will have to pay a contribution to the ongoing costs of the Plan, which include professional fees and the Pension Protection Fund levy, which is being introduced by the government.

Work is ongoing by the Trustee to allocate the deficit and calculate contributions to ongoing costs and you will be written to separately about this. Any questions or concerns about the calculations should be addressed to the Trustee at the contact details shown at the foot of this document.

Q: This is very short notice to be making the change. Why don't you wait until 2007 to give more time to budget for the changes?

A:. The Trustee has a legal responsibility to agree a schedule of contributions and implement them by 26th July 2006, on the basis of the 2005 valuation. So by then, according to the professional advice we have received, the contributions must be increased to 34% of salary, or the benefits must be restructured (or some combination), or the Plan must be closed

Q: We have no budget for this – so what can we do? This will have long-term effects on our financial situation – what happens if the cost is impossible for us to meet?

A: Initially, if you have active members you would make savings through not having to make contributions and this may help to partially offset the other costs. We recognise that these developments may create significant financial difficulties for some YMCAs. But the Trustee has a statutory obligation to collect any deficit.

If you genuinely believe that the costs cannot be sustained by your YMCA, then we strongly recommend that you seek professional help and advice about restructuring your YMCA's finances, from your own financial advisers or from your National Council. We also strongly recommend that you notify the Trustee of any difficulties you foresee as soon as possible.

Q: We were not aware of us having any active members right now– so we don't understand why we have got this letter?

A: Under the rules of pension schemes, the financial obligations of participating employers do not end when they have paid their contributions and/or when an active member leaves their employment. If the contributions made prove to be sufficient to fund the pension of past employees who were members of the Plan, then no further call will be made on the employer. But if there is a shortfall, then the Trustee has a responsibility to ask that employer to make it up.

That is the situation here. The deficit has arisen in relation to all members, including those who are deferred (i.e. not active but with pension rights earned historically) and some pensioners, not just the active members. So the Trustee has to collect a proportion of the deficit from YMCAs who do not have active members at present, but did so at some time in the past.

This is all set out in the Trust Deed and Rules and the "Deed of Participation" document which set out the terms under which a YMCA participates in the Plan.

Q: Will this affect the contractual terms and conditions of service of our employees who are members of the Plan?

A:. Both the Principal Employer and the Trustee recognise that participating YMCAs will need to consider how implementing the changes might affect contracts of employment. We anticipate that participating YMCAs will wish to carry out a consultation process with their employees. Guidance will be available from the National Councils about this

Q: Do we have to communicate with our employees about this?

A: All YMCAs may choose as a matter of good practice to communicate about this with their employees who are affected members. We understand that the new pensions regulations require larger employers (over 150 employees) to consult with their staff. YMCAs which fall into this category will be contacted separately about this.

YMCAs may have staff who are eligible to join the Plan but have not yet applied to become a member. Where this is the case, the YMCA will need to ensure that those staff are advised of the proposals and are kept informed of developments. (This will be covered in the guidance issue by the National Council).

Q: Will there be something to replace the Plan?

A: 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: The Plan also provided life cover to active members, what happens to this?

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

4 times salary death in service benefit; 25% of salary as a pension to the member's spouse or dependant children up to the age of 18 years and a refund of their 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 who are not active members. This currently provides twice salary as a death in service benefit. It is the intention of the Trustee to continue to offer this.

It will be for each YMCA to determine what life cover, if any, they wish to offer their staff, including whether or not they wish to use the Life Assurance arrangement.

Q: Will this have an impact on people already receiving a pension and their relatives?

A: No. The benefits already accrued by existing pensioners will not be affected and their pensions will continue to be paid to them or their relatives.

Q: What do you mean when you say the recommendation 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: Where can I get more information and support?

A: For more information, please contact the Trustee at the contact details shown below. For support, we recommend that you contact your own professional advisers. The staff of your National Council may also be able to help.

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:

Paul Smillie
Company Secretary
The YMCA Pension Plan Trustee Ltd
YMCA
Lisieux Way
Taunton TA1 2LB

E-mail: paul.smillie@england.ymca.org.uk Tel/Fax: 01823 325860

Prepared by the Trustee and the Principal Employer

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