PENSION LETTERHEAD

To: Chairs and Chief Executives of Participating YMCA's

24 August 2006

Dear Colleague

This letter is a follow up to my letter of 31 July, and as promised I can now provide you with an update on various issues related to the YMCA Pension and Assurance Plan ("the Scheme")

1 Deficit Allocation

The last Actuarial Valuation as at 01 May 2005 revealed a deficit in the Scheme's assets compared with its projected liabilities which required funding by way of specific contributions from participating YMCAs ("employers"). It was initially proposed that the allocation of these contributions should be on the "last employer" principle. During the consultation process a number of employers expressed concern about this basis for allocating the deficit. Therefore the Principal Employer asked the Trustee to withdraw this provisional allocation and to undertake a review, including the exploration of alternative methods.

The Trustee agreed to withdraw the provisional allocation and to undertake such a review and a sub-group of the Trustee Board was charged with undertaking the work. At a meeting held on 24 July, the Trustee agreed an alternative methodology and resolved to recommend it to the Principal Employer. The Board of the Principal Employer has now accepted and endorsed the Trustee recommendation.

Instead of the deficit being allocated on the basis of the "last employer" it will be allocated between the employers by whom a member was employed in the period beginning 1st May 1995. Calculation of the pro rata contributions will take into account two elements:

1. The length of service at each employer subsequent to 01May 1995.

2. Pensionable salary at 01 May 2006 and pensionable salary at the time of moving from one employer, to another inflated at 5% pa compound, up to 01 May 2006.

Examples of the precise application of this methodology are provided elsewhere in this letter.

The group looking at the allocation of the deficit considered seven options including last employer, through to allocating service history for all staff back to 1960.

Factors taken into account were:

- Employers have accepted the concept of final salary basis and joint and several liability since the establishment of the Scheme
- completeness and accuracy of service history records
- prior to 1999 "the Scheme" was not in deficit
- it is later employers who most benefit from the accumulated experience of an employee's career progression in the Movement; conversely the residual benefit of a former employee's service declines steeply over the years
- Allocation of the whole deficit relating to an active member to the current employer does not give any recognition to the benefits arising to earlier employers from that member's service with them
- under the ongoing basis of funding, it is the employers who currently employ active members who contribute at a rate which the Actuary calculates as necessary to meet the full liabilities related to those members' total pensionable service in the "Scheme".
- in recent years average increases in pensionable salary have substantially exceeded actuarial assumptions
- there have been instances where employers have awarded large increases in salary in the last few years of employment
- the "Scheme" allows for most deferred pensions to increase at a rate of up to 5% pa until normal retirement date
- Recognition that any chosen basis of allocation will seem to advantage some employers at the expense of others – there is no one basis that will be perceived as fair to all employers.

These considerations led the Directors to a decision that an appropriate basis for allocation should be one where liability for employees' pensions is apportioned across recent service history rather than the last employer only.

The reason why the Directors of the Trustee chose a cut off date of 01 May 1995 is mainly related to data availability. They are confident that the data, once verified by employers will be accurate. However, they also believe there are sound reasons for allocating the deficit across employers of the most recent years; to go back any further would place an unreasonable burden on employers who long ago assumed there would be no further liability for a particular member's pension and that recent service of members provides some continuing benefit to the contributing YMCAs after the transfer as long as the cut-off is not too far in the past.

The application of the above principles is explained in the specific examples stated below:

1.1 **Members Leaving Pensionable Service prior to 01 May 1995**

Where someone left the "Scheme" as a pensioner, deferred member, or through death prior to the 01 May 1995, the element of the deficit attributable to those individuals or their spouses would still be allocated on the basis of the employer irrespective of the number of previous employers with whom that individual had pensionable service.

1.2 **Members joining the "Scheme" on or after 01 May 1995 and having not changed employers**

In such a situation then the deficit would be attributable to their current/last employer.

1.3 **Members joining the "Scheme" before 01 May 1995, but having moved employer since 01 May 1995**

As an illustration, take an individual who joined the Pension "Scheme" in 1990; is still a current active member and moved employer in 2000, then in this situation, the individual has 16 years of pensionable service. However, given the period May 1995 until May 2006 is 11 years pensionable service, they have $6/11^{th}$ with their current employer and $5/11^{th}$ from 1995 with their previous employer. The salary at date of leaving that employer would be taken into account, inflated by 5% per annum compound.

Member A - Liability	£100,000				
		Employer 1		Employer 2	Total
Actual	Start Date	1990	Start Date	2000	
	Date Moved	2000	End Date		
	Salary on leaving	£15,000	Salary at May 2006	£25,000	
For calculation	Start	1995	Start	2000	
	End	2000	End	2006	
	Pensionable Service	5 years	Pensionable Service	6 years	11 years
Inflation to May 2006	Years to May 2006	6	Years	0	
	Factor (5%pa)	1.05^6	Factor (5%pa)	1.05^0	
	Equals	1.3401	Equals	1.0000	
	Inflated Salary	£20,101	Inflated Salary	£25,000	
	Inflated salary X years of pensionable service	100,507	Inflated salary X years of pensionable service	150,000	250,507
	Percent	40.12%	Percent	59.88%	100.00%
Liability		£40,121		£59,879	

Please note these figures are rounded and do not take into account the Investment charge or expenses which would have to be added.

This principle would also apply to individuals who subsequent to 01 May 1995 left the "Scheme", but had pensionable service between 01 May 1995 and the date of leaving with two or more employers. However, in this case, the period of pensionable service may be different in that the length of pensionable service used to calculate the liability would be from 01 May 1995 to date of leaving pensionable service.

1.4 **Members joining after 01 May 1995 with more than one employer**
Where an individual joined the "Scheme" after 01 May 1995, but had more than one employer, then again the deficit would be allocated proportionately across both employers. The salary at date of leaving that employer would be taken into account, inflated by 5% per annum compound.

By way of illustration, an individual joined the "Scheme" in 1996, moved employer in 1997 and is still a current active member. Therefore this individual has 10 years pensionable service, one year with employer one and nine years with employer two.

1.5 **Unknowns**
Having allocated the deficit to employers, any allocation to "unknown" (e.g. a defunct employer or where the service history is unknown) will be allocated pro-rata to the deficit otherwise applicable to each employer, i.e. is put back in the pot and shared amongst the remaining employers.

1.6 **Future Period for Service History**
After the "Scheme" closes to new entrants and future accrual of service on 01 May 2007, the period of service used to calculate the deficit to each employer will be over a 12 year period i.e. May 1995 – May 2007. This will be subject to periodic review by the Trustee.

1.7 **Appeals**
The Trustee considered if appeals should be allowed and if so on what basis. It was decided that the only basis on which appeals would be considered would be queries related to questions of fact in respect of pensionable service. Any appeals would have a knock-on effect on other employers because if an employer didn't agree with the basis of allocation and wanted it to be revised for them, then some other employer would have to pick up the additional payment. For this reason appeals will only be considered with regard to verifying service history.

1.8 **Updated Valuation**
You will have picked up from previous correspondence that we have asked Legal and General to provide an updated valuation as at 01 May 2006. The Trustee expects to receive a report in early September. Payments due from May 2007 will be calculated on the basis of this updated valuation.

1.9 **Deficit Payments from 01 May 2007**
Having agreed the basis for allocating the deficit and having asked the Actuary to undertake an update of the valuation as at 01 May 2006, work will be undertaken within the Pensions Department to calculate the specific payment due from each employer from 01 May 2007. I will write to you again in early October 2006 with the overall results of the updated valuation and an indication of the monthly payment, both for the deficit and for the expenses, along with the service history of those individuals attributable to your YMCA. The monthly payments at that stage will only be an indicative figure subject to the verification of service history. Employers will then have four weeks with which to verify the service history so that final amended figures can be issued to employers by early December 2006.

I attach a timetable for this process.

1.10 **Recalculation of the Deficit**

The Trustee has agreed that when an individual becomes a deferred member, because they've left their employer on or after 01 May 2006, any recalculation of the deficit will only be undertaken at the triennial valuation. The reasons for this are that it would be extremely difficult to undertake this on an ongoing basis but also that the deferred member has an inflation element to their accrued pension so that the difference is likely to be minimal.

Where there is a death, either in deferment, in active service or as a pensioner, or the death of any dependants in receipt of a pension from the "Scheme" or where an individual seeks a refund, or a transfer out, the Trustee will seek to recalculate the deficit on an annual basis.

Clearly this needs to be tied in with the "Scheme" anniversary date of 01 May. We will recalculate the deficit and make any amendments to your invoices.

1.11 **Full Buyout**

A number of employers are actively opting for "full buyout".
As from the 24 July 2006, when an employer either voluntarily or otherwise triggers a full buyout, the basis for calculating this full buyout will be the new deficit allocation method outlined above.

1.12 **Transfers of business/activities or change of ownership of businesses**

It was agreed that the Trustee needed to be consistent on how it calculated the deficit for each employer. However the Trustee needs to be aware of situations where such transfers had been undertaken.
It was agreed that it was the responsibility of such parties to enter into joint discussions to clarify any legal agreements that covered such transfers and once agreement had been reached, approach the Trustee with a view to making any amendment to the deficit payments. It was hoped that such issues would be resolved prior to the Trustee issuing invoices for payment from 01 May 2007.

1.13 **Dormant YMCAs**

Where an employer became dormant prior to 01 May 1995 and has liabilities to the "Scheme", then the deficit will be allocated on the basis described in 1.1 above i.e. last employer.
Apart from those employers who have formally requested a full buyout prior to 24 July 2006, then the basis for allocating the deficit will be as described above. The current monies owed will continue to be collected till the end of April 2007. Any changes in the liabilities as a result of the revaluation and new basis for calculating the deficit will take effect from 01 May 2007.

2. **Approach to the Pensions Regulator**

A letter was submitted to the Pensions Regulator in May 2006, but we have only just received a response requiring further details.

The issues that were asked of the Pension Regulator for clarification are:

a) If we retain the link with final salary, whether the Pensions Regulator would deem the “Scheme” to still be open.
b) The risk to the employers [now 53] who have only one or two active members.
c) Their views on Group Life and whether this would provide a comfort for YMCA’s.

A meeting has been arranged for the 19 September with the Regulator where these and other issues will be discussed.

3. **Group Life**

Separate to our correspondence the Pension Regulator has now issued guidance notes in relation to Group Life. Our legal advisers have indicated that their interpretation of the guidance published by the Regulator indicates that it will be possible for pension schemes to continue to provide ‘life cover only’ benefits to employees who have been offered, but declined, membership of "the Scheme”. Therefore where an employer has an HR policy **to allow all staff to access** the “Scheme”, they can offer life cover to those individuals who have declined or opted out of signing the “Scheme”. **However the Regulator’s guidance also makes it clear that if an employee is not eligible to join the “Scheme”, then those employees cannot be covered for ‘life cover only’ benefits.**

Where an employer ceases to have any active members in the “Scheme” and is at risk of triggering a full buyout, it is important that the Trustee is aware of that employer’s policy on access to the “Scheme”. To assist the Trustee in this, please complete the attached form and return it to me by the 15 September.

It is also very important for employers to review their current policy for accessing the YMCA Pension and Assurance “Scheme”

We are in discussions with our legal advisers on what this may mean post 01 May 2007, where new entrants will no longer be eligible to join the “Scheme”.

Advice also states that it may be possible that where all staff are offered membership of the Defined Contribution “Scheme” and where membership of that is “sufficiently closely linked” to membership of the ‘life cover only’ arrangement, this may also provide comfort from triggering a full buyout. However there is a risk in this approach, since if a member is told that continued life cover is to be dependant on their joining the Defined Contribution “Scheme”, they may argue that this is a change to their terms of employment. This is one of the issues we are hoping to discuss with the Regulator in order to clarify what they mean by arrangements being "sufficiently closely linked".

4. **Average YMCA Salary Increases**

One of the assumptions within the actuarial valuation that had to be made was the average YMCA salary increases for those active members of the "Scheme" at the 01 May each year who are still active members at 30 April the following year. Over the last two valuations, the average salary increases have been over 6%. However there had been a downward trend, therefore the Trustee assumed that average increases would be 5.25% per year over the three year period up to the next valuation. We have now received the data from all the employer's that shows that if we excluded movements where people have gone from part-time to full-time or vice versa, the average salary increase for the last "Scheme" year has been 5.33% which is **0.08% above the assumption.**

Of the 465 active members to whom this applies, 37 members (8%) had either a decrease or a zero increase in pensionable earnings, 286 members (62%) had increases of over zero and up to 5.25% and 142 (31%) had increases of over 5.25%. Clearly, such an average increase being above the assumption will have a detrimental affect on the liabilities.

The Directors of the Trustee Company recognise that all these issues are likely to have a significant impact upon the financial resources of many employers. They have endeavoured to find solutions which are equitable and transparent. Inevitably there is an element of compromise which will not be to the advantage of everyone, even so they hope all employers will understand the proposed method of allocation as a reasoned and fair basis for sharing the deficit which now faces the "Scheme".

If you have any queries please don't hesitate to contact me at the address/email below.

Yours sincerely,

Paul Smillie
Company Secretary

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Somerset
TA1 2LB
Tel/Fax: 01823 325860
Email: paul.smillie@england.ymca.org.uk

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YMCA PENSION AND ASSURANCE PLAN
LIFE COVER ONLY BENEFITS (GROUP LIFE)

Name of YMCA Participating Employer ______________________________________

Do you currently offer the YMCA Group Life arrangement to those staff members not in the Defined Benefit Scheme?

Please tick as appropriate: YES ☐ NO ☐

If **NO**, and you require details of the Group Life arrangement, please contact:

Isabel Kaye
YMCA Pension and Assurance Plan
640 Forest Road
London
E17 3DZ

Are **ALL** staff invited to join the YMCA Defined Benefit Pension and Assurance Plan? **(irrespective of whether they take up the offer or not)**

YES ☐ NO ☐

Name: ____

Position in the Association: ______________________________

Date: ____

FORMS SHOULD BE RETURNED BY 15 SEPTEMBER TO:

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

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

YMCA Pension & Assurance Plan
DEFICIT ALLOCATION
Trustee Timetable
2006

JULY

Monday 31 July	Update communication with the participating YMCAs.

AUGUST/SEPTEMBER

w/c 21 August	Communicate to participating YMCAs on the basis for allocation of the deficit and other issues.
August & September	Service history checked within Pensions Department
w/c 04 September	Updated valuation received from Legal & General
w/c 11 September	Pensions Department begin calculation of each participating YMCA's liabilities and monthly payments due from 01 May 2007
Thursday 21 September	Pension Directors' Meeting

OCTOBER

w/c 02 October — Communication with each participating YMCA:-

1. Attaching service history and asking for verification by 31 October
2. Outlining provisional monthly payments due from 01 May 2007.

NOVEMBER

w/c 06 November	Re calculation of liabilities to participating YMCA's (if required)
w/c 27 November	Communication to participating YMCAs confirming amounts due from the 01 May 2007
30 November	Pension Directors' meeting