

To: Chairs and Chief Executives of Participating Employers in the
YMCA Pension and Assurance Plan in England, Scotland and Wales

c.c.: Pension Trustee Directors
National Secretaries of England, Ireland, Scotland and Wales
YMCA Regional Executive Officers in England

27 April 2007

Dear Colleague

Subject: Breaking the Link with Final Salary

1. **Background**

- 1.1 The YMCA Pension and Assurance Plan (the Plan) closes to new entrants and to future accrual of service from the 01 May 2007. The Pensions Regulator has also deemed the Scheme 'not closed' for Section 75 withdrawal event purposes because the link with final salary is being retained. Such members who remain in employment with their employer from the 01 May 2007 and who do not seek a refund of their contributions or transfer out form a new category of membership of the Plan, we shall call "semi-active" members.
- Currently under the Trust Deed and Rules of the Plan where someone leaves the Plan and retains their accrued pension benefit, their pension is calculated on their salary and service at the 01 May prior to the date they left. Thereafter their salary is no longer taken into account in calculating their pension. Such members are referred to as deferred members.
 - When someone leaves their employment with a Participating Employer after 01 May 2007, even if moving to another Participating Employer, then they will become a deferred member.
 - Semi-active members, although their service will cease to accrue from 01 May 2007, will continue to see their salary taken into account for calculating their pension up until they reach normal retirement age.
 - If we can break the link with final salary, a semi-active member would not see this salary link continue, but they would become a deferred member with service calculated up to 01 May 2007.
 - The Trust Deed and Rules of the Plan does not provide sufficient powers on its own to break the link with final salary. The Directors of the Pension Plan Trustee Company would therefore require confirmation from **all** Participating Employers that they have effected a change to the terms and conditions of employment of such semi-active members.
- 1.2 The Directors of the Pension Plan Trustee Company are currently working on a process to monitor the ability of Participating Employers to meet their pension liabilities.
- One of the main concerns is that Participating Employers having triggered a full buyout are not able to meet their pension liabilities, even after the disposal of all assets. The Plan operates under the multi-employer arrangement with joint and several liability. Therefore any such remaining liabilities become orphan liabilities and would be redistributed amongst the remaining Participating Employers. This

could inevitably result in increased monthly payments towards deficit and expenses from those remaining Participating Employers.
 This matter has been widely publicised and further information can be obtained from the YMCA pension's website www.pensions.ymca.org.uk

2. Risks

Participating Employers face the risk of triggering a Section 75 withdrawal event and being required to meet the full buyout figure in any one of the following events:

- 2.1 The Participating Employer no longer has any semi-active members.
- 2.2 The Participating Employer ceases to exist
- 2.3 The Participating Employer fails to meet the monthly payments and the debt is called in by the Regulator

As at 31 March 2007 there were 105 Participating Employers who had members of the Plan whose salary continued to accrue for pension purposes.
 Of these 105 Participating Employers:

Participating Employers	Number of Members
29	1
21	2
14	3

The net full buyout figure as at 01 May 2006 attributable to those Participating Employers is:

Participating Employers Number of Active Members	Net Full Buyout Figure
1	£7M
2	£6.5M
3	£7.5M

In the light of these figures there is a real risk that Participating Employers over the next few years will trigger a withdrawal event and be required to meet their net full buyout figure.

3. We need you to respond

In order to mitigate the greatest immediate risk of Participating Employers losing their last semi-active member. I am writing to you on an 'in principle basis' to gauge the mood of Participating Employers to the idea of breaking the link with final salary.

A number of Participating Employers have asked the National Council of YMCAs, as Principal Employer, to ascertain whether the Participating Employers would support the idea of breaking the link with final salary. Legal advice received by both the Trustee and the Principal Employer last year indicated that it would require the express consent of all these semi-active members of the Plan to what would be a change in their terms and conditions of employment. It would require the Participating Employers to effect these changes.

If all of the Participating Employers within the Plan decided to break the link then the risk of such Participating Employers triggering a Section 75 withdrawal event when they cease to have any semi-active members would be removed. However, this would need to take place at the same time for all Participating Employers. The risk of triggering a Section 75 withdrawal event however would remain for Participating Employers under points 2.2 & 2.3 above.

It is recognised that members of the Plan may find this difficult; however the following table, for illustrative purposes only, outlines the possible impact on a semi-active member's pension in different scenarios:

	Pension at Normal Retirement Age
Link with Final Salary retained and salary increases by 2.75% per annum	£12,796 per annum
Link with Final Salary broken and accrued pension increases by inflation of 3.25% per annum	£14,137 per annum
Link with Final Salary retained and salary increases by 5.25% per annum	£17,927 per annum
Link with Final Salary broken and accrued pension increases by inflation of 5% per annum	£18,191 per annum

For Illustrative Purposes Only

Assumptions

1. The member stays with their current employer till normal retirement age (NRA) at 65.
2. The member is aged 50, has 15 years' service and a salary of £35,000 as at 01 May, 2008.
3. Where salary link is retained the pension is calculated on the average salary in the last three years.

One cannot accurately predict over the 15 year period how salaries may increase or what the rise in the rate of inflation may be, however under the Trust Deed and Rules the maximum increase allowed where the link with final salary is broken is 5% per annum.

Clearly more detailed communication would need to be provided to Participating Employers and members of the Plan, but in the first instance I would be grateful if you could reply to Paul Smillie, whose contact details are listed below, stating whether, in principle, you agree further consideration should be given to breaking the link with final salary.

Paul Smillie
 YMCA Pension & Assurance Plan
 Lisieux Way
 Taunton
 Somerset
 TA1 2LB
 Tel/Fax: 01823 325860
 Email: paul.smillie@england.ymca.org.uk

If you require any further information please don't hesitate to contact Paul Smillie. I would be grateful if replies could be returned to Paul Smillie by Friday 15 June, either by email, fax or post.

Yours faithfully,

Angela Sarkis
 National Secretary
 YMCA ENGLAND
 encs.

YMCA Pension and Assurance Plan

Breaking The Link With Final Salary Reply Form

Name of Participating Employer _____

Contact Name _____

Contact Position _____

In principle, work should be undertaken to consider breaking the link with final salary

I agree

I disagree

Date: _____

Signature: _____

Comments:

PLEASE REPLY BY Friday 15 June 2007

TO:

Paul Smillie
YMCA Pension & Assurance Plan
Lisieux Way
Taunton
Somerset
TA1 2LB
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Email: paul.smillie@england.ymca.org.uk