METHODIST LOCAL PREACHERS MUTUAL AID ASSOCIATION PENSION SCHEME

Report to Members December 2018

I am pleased to introduce this update about the Methodist Local Preachers Mutual Aid Association Pension Scheme, which I hope that you will find informative.

The Trustees of the Scheme remain myself, Graeme Garden and John Hardy and we have been nominated to act as Trustees by the Principal Employer. We recently wrote to you to invite nominations for the position of Member Nominated Trustee and a short note letting you know the outcome of this exercise is enclosed with this newsletter.

Our last report contained a reminder of the Scheme's financial position at the date of the Actuarial Valuation as at 1 April 2014. The Actuarial Valuation as at 1 April 2017 was completed in March this year and page 2 shows the Scheme's financial position at the new Valuation date. The Trustees must undertake an Actuarial Valuation of the Scheme at least every three years and the next Actuarial Valuation will be due as at 1 April 2020. During the latest valuation process, the Trustees and the Employers discussed the Scheme's financial situation and agreed on the appropriate level of contributions that should be paid to the Scheme by LWPT and LWPHomes.

Our investment strategy has been developed to provide the Scheme with a level of protection against future changes in interest rates. However, we have to balance this with the need to generate investment growth to help fund the Scheme and, if the Scheme is to be in a position to benefit from an increase in interest rates, it does need to continue to accept the risk of the Scheme's deficit deteriorating if interest rates fall even lower. There is more about the Scheme's investments on page 3.

Finally, on page 4 there is information about the current membership of the Scheme. Our Scheme is a small one but we still find it difficult to maintain contact with all our members. If you change your contact details please let the Scheme administrators know using one of the methods below.

We would be delighted to hear your comments on the document and its content, or any other feedback you may have. You can contact us through Broadstone, the company which administers the Scheme, by post at Broadstone, 11 Europa View, Sheffield Business Park, Sheffield, S9 1XH, by telephone on 0114 256 7741, or by email at mlpmaaps@broadstonecb.co.uk.

With every blessing for Christmas and the New Year

Ros Peedle, Chair of the Trustee Board

Scheme Funding and Finances

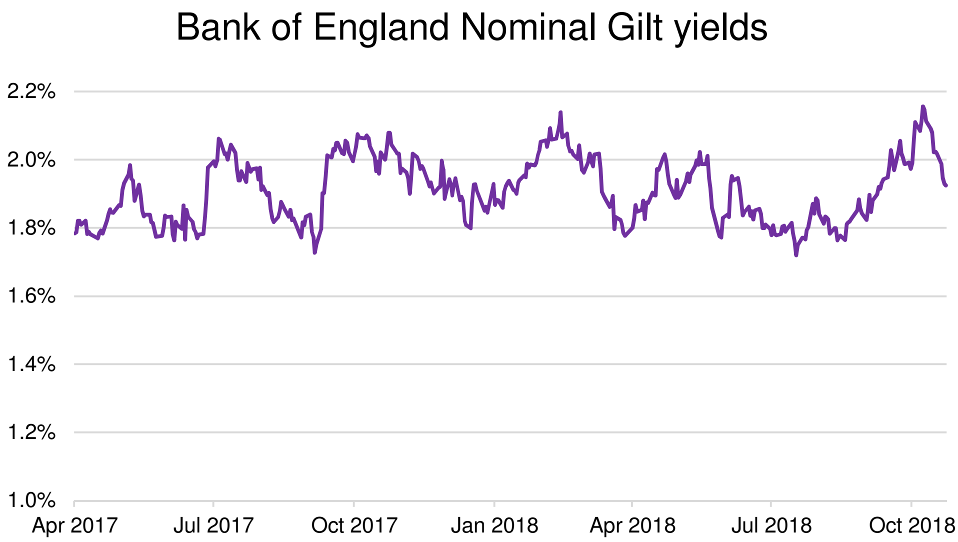
Latest Actuarial Valuation

The most recent funding valuation of the Scheme was carried out at 1 April 2017 and showed that at that date the funding position of the Scheme was as follows:

Assets	£3.79 million
Amount needed to provide benefits	£5.46 million
Funding Deficit	£1.67 million
Funding level	69%

In order to meet the deficit the employers have agreed to pay additional contributions to the Scheme of £132,000 per annum to 31 March 2018, £145,000 per annum from 1 April 2018 increasing at 3% per annum until 1 November 2029, and all expenses, including PPF levies.

Since the valuation on 1 April 2017 government bond yields have increased marginally overall, but with a lot of fluctuation; the chart below shows the movement in the 20 year spot rate for Bank of England Nominal Gilts over the period since the last valuation.



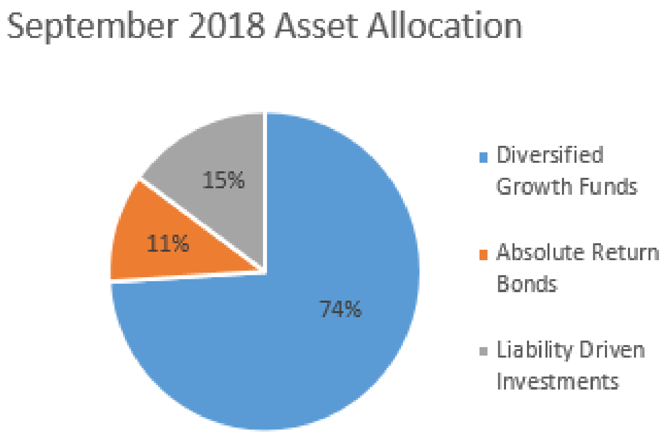
This is important because, in general, lower gilt yields would mean a larger amount is needed to provide the benefits promised to members.

Pension Scheme Funding in General

The Pension Protection Fund (PPF) provides monthly updates of the estimated funding position for all eligible defined benefit schemes.

In April 2014 the schemes in the PPF index had an aggregate deficit of £70 billion and a funding ratio of 94%. At April 2017 the aggregate deficit had increased to £227 billion and the funding ratio had fallen to 87%. By 30 September 2018 the aggregate deficit had fallen to £39 billion and the funding ratio had risen to 98%. As with our scheme, many schemes have seen large fluctuations in funding levels over recent years despite paying additional contributions – the main cause of this has been movements in gilt yields.

Scheme Assets and Investment Strategy



Most of the Scheme's assets are invested in diversified growth funds and absolute return bond funds. The composition of the portfolio as at the end of September 2018 is shown in the pie chart.

Diversified growth funds invest in a wide range of asset classes including equities, bonds, property, infrastructure and commodities with the aim of providing a positive return in all market conditions. Returns over the longer term are expected to be broadly in line with equities, but with less than half the level of risk and volatility. Diversified growth funds are included in the Scheme's portfolio to provide strong investment returns but in a risk controlled manner.

Absolute return bonds are similar to diversified growth funds in that they invest in a range of asset classes, but with the main difference being that the assets are restricted to bonds or bond type assets. These can include more traditional UK government bonds and corporate bonds as well as high yield bonds and emerging market bonds. They are designed to have lower risk than diversified growth funds, but also have a corresponding lower return target and are included in the Scheme's portfolio to reduce risk.

The final element of the Scheme's investment strategy is a holding in liability driven investments. These are designed specifically to mirror the change in value of the Scheme's future pension liabilities and therefore are held to reduce risk for the Scheme.

Market Update – Impact of Recent Events

UK equities have continued to suffer as a result of negative news flow from the uncertainties surrounding the Brexit negotiations. Britain voted to leave the EU in 2016, but with less than 6 months to go, the UK and EU are struggling to reach agreement on the terms of the exit. A number of leading industry figures have sought political and economic clarity in the UK, and the continuation of beneficial trading arrangements with the EU and other key markets.

The UK's extended negotiations regarding the decision to leave the European Union are likely to continue to affect markets for a number of years.

Further afield, the markets continue to be driven by geopolitical events, dominated by the US and its numerous trade rows, particularly with China, as well as its significant tax reforms. From the UK's point of view, the fall in the value of the pound over recent months provided a significant boost to UK equity performance since the majority of earnings from the biggest UK companies come from overseas.

Given the perceived risks and uncertainty ahead it will continue to be important for pension schemes to investigate alternative investments in order to achieve the required performance and stability.

So what impact has this had on the Scheme's assets? The diversified growth fund and absolute return bond fund allocations have together provided slightly negative returns, with the fund managers continuing to take steps to protect their portfolios. This has resulted in the performance of the funds being significantly more stable and less volatile than investment markets, which is a key benefit of these funds, but they have missed out on some of the recent gains in equities. The allocation to liability driven investments has performed as expected, somewhat offsetting the changes in the value of the liabilities caused by fluctuations in long term interest rates.

The Trustees are confident that the current asset allocation leaves the Scheme well positioned to weather any future market volatility caused by ongoing Brexit negotiations.

Scheme Membership

At 31 October 2018 the Scheme had a total of 91 members, broken down as follows:

Deferred members who have not yet started drawing their benefits	38
Pensioner members in receipt of their benefits	53

New retirement flexibilities

You may have heard a lot recently about the new flexibilities that were introduced for pensions from April 2015 and which we mentioned in our letter to you in December 2015. The flexibilities predominantly impact only 'defined contribution' schemes, and not 'defined benefit' or 'final salary' schemes such as our Scheme. To access the new flexibilities, you would need to transfer the value of your benefits from this Scheme to a 'defined contribution' scheme.

All members who have not yet reached their Normal Retirement Date and have not yet started drawing their pension from the Scheme are entitled to transfer their benefits to another pension arrangement (subject to statutory conditions). The Trustees may in certain circumstances allow other members to transfer their benefits out of the Scheme (subject to overriding legislation and any other conditions the Trustees impose).

If you are interested in transferring your benefits to another pensions arrangement please contact the administration team at Broadstone using the contact details on page 1. We recommend that you seek independent financial advice from a professional adviser before making any decision. Indeed, you must take independent financial advice before you can transfer benefits out of a defined benefit scheme if the value of your benefits is more than £30,000.

New rules for small pensions

Another change concerns members of schemes with "small" pensions. Under certain circumstances, members may be entitled to have their Scheme benefits paid as a one-off cash lump sum at retirement. This is sometimes referred to as a "trivial commutation". The limits on small pension entitlements that can be taken as a cash sum at retirement have been changed. The main limits following the changes are set out below:

1. If your benefits in the Scheme are valued as less than £10,000 (increased from £2,000), you may be entitled to take your benefits as a lump sum. 25% of the cash sum is tax free if you are not already in receipt of your pension and the remainder is taxed at your marginal rate (i.e. the highest rate of income tax that you are subject to). In this instance, the 'value' is the value placed on your pension by the Scheme Actuary.
2. If your total pension savings across all of the registered pension arrangements of which you are a member (excluding the State Scheme) is valued at less than £30,000 (increased from £18,000), you may be entitled to take your entire defined benefit pension savings in the Scheme as a lump sum. Again, 25% of the cash sum is tax free if you are not already in receipt of your pension and the remainder is taxed at your marginal rate (i.e. the highest rate of income tax that you are subject to). In this instance the 'value' is your annual pension at retirement multiplied by 20.

Additionally, from April 2015, the minimum age at which you are able to take one of these lump sums is reducing from age 60 to age 55 (or earlier if you are in ill-health).

Pension Scams

You may have seen that the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have recently released a television advert regarding pension scams. With the increase in popularity in pensioners taking their benefits as a lump sum and the options available with transferring their pension benefits. We would always urge you to read through the Pension Scams documentation from TPR available here https://www.thepensionsregulator.gov.uk/pension-scams or visit the Scam Smart section of the FCA website https://www.fca.org.uk/scamsmart/how-avoid-pension-scams, before taking these options.