8 August 2011

SW/WY

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Strictly Private & Confidential
Nigel Deane
Conrad House
Lisieux Hall
Whittle-le-Woods
Chorley
Lancashire
PR6 7DX

Dear Nigel

Brothers of Charity Retirement Benefits Scheme ("the Scheme")
Actuarial Valuation as at 1 October 2010

Thank-you for your e-mail note dated 29 July 2011 regarding the proposed Recovery Plan to address the pension deficit.

Your note sets out how the Recovery Plan contributions might be split between the regional service providers and also gives some thoughts to the period over which the deficit would be cleared. There are a few technical points that I will expand on below that will amend the details of the figures you proposed but fundamentally I would agree with the approach of your calculations.

Valuation of Assets

The assets disclosed in my Initial Results Summary report, and my subsequent letter of 18 April 2011, were based on unaudited accounts. I calculated that the value of the invested assets along with monies held in the Trustees' bank account amounted to £1,658,000. I have since received a copy of audited accounts for the Scheme year ended 30 September 2010 which in turn show a slightly higher asset value of £1,671,809 (excluding accumulated Additional Voluntary Contributions).

Therefore the assets of the Scheme at the 1 October 2010 effective date were slightly higher, and the deficit slightly lower. The re-stated funding position at the valuation date is shown below for completeness sake:

	Alternative Valuation Basis A (£'000s)
Active members	1,283
Deferred members	714
Pensioners	0
Total liabilities	1,997
Total assets	1,672
Surplus (deficit)	(325)

PLEASE REPLY TO
Walker Yule
CPRM Limited
Westpoint
4 Redheughs Rigg
Edinburgh
EH12 9DQ
Tel: 0131 338 6127
Fax: 0131 338 6701

walker.yule@cprmlimited.co.uk

The future service contribution rate of 23.8% of Pensionable Salaries is unchanged at 23.8%. This rate is inclusive of member contributions at either 6% or 12% of Pensionable Salaries depending on the individual rate of accrual of retirement benefits. The overall employer share of the cost of the accruing benefits is 13.9% of Pensionable Salaries (however see below for a split between regions).

Recovery Plan Contributions

The updated disclosed deficit of £325,000 is as at 1 October 2010, so assuming that the Recovery Plan takes effect from say 1 October 2011 then this amount should be increased with interest – in a similar fashion to accruing interest on an overdraft facility. Hence the Recovery Plan should be based on a deficit of £359,000 as at 1 November 2011. Similarly an allowance needs to be made for interest over the Recovery Plan term.

Based on the audited value of Scheme assets, allowing for interest on the deficit and taking into account the immediate payment of £61,281 then I calculate that the remaining deficit would be cleared over 5 years by level contributions of £5,231 payable every four weeks. This is somewhat higher than the Trustees' estimate of £4,272 payable every four weeks, principally on account of allowing for interest in the calculation.

Alternatively, the required contributions can be reduced if the term of the recovery Plan was extended. For example, if the Recovery Plan was 6 or 7 years then the regular level contributions would reduce to £4,538 or £4,000 respectively payable every four weeks.

Ongoing Contributions

In tandem with splitting the Recovery Plan contributions between regional providers it would be possible to also split the future service contribution rate too. The point being that there is a different split between those accruing 60th and 100th pension between the regions as follows:

Merseyside region	17.2% of Pensionable Salaries
Lancashire region	13.0% of Pensionable Salaries

I would note that the contribution rate for the Merseyside region is higher because the two members:

- Are relatively old and hence their cost of accrual is somewhat higher than the overall average rate.
- Are accruing benefits on 60th rather than 100th of Pensionable Salary unlike under the Lancashire region which has a mixture of both accrual rates.

Other Contributions

As stated in my letter of 18 April 2011, the contributions to cover the estimated cost of the accruing retirement benefits, insurance premiums for death in service benefits, the ongoing cost of running the Scheme and any regulatory levies due are payable in addition by the sponsoring employer.

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The Next Steps

I have prepared a draft Summary Funding Statement (SFP) which documents the method and assumptions adopted by the Trustees to measure the Scheme's Technical Provisions and how the Statutory Funding Objective is to be met. This has been based on the assumptions stated for Alternative Valuation Basis A, and in particular the assumption that the growth in future Pensionable Salaries will be 2.0% per annum for the first three years following the valuation and then 4.0% per annum thereafter.

Once I receive the signed SFP and the Trustees' instructions as to the shape and term of the proposed Recovery Plan, in light of my comments above, I will be able to draft the Recovery Plan document and the corresponding Schedule of Contributions for agreement.

I trust that this is satisfactory however if you require anything further then please do not hesitate to contact me

Yours sincerely

Walker Yule FFA
Scheme Actuary

cc Michael Gilmour