

18. Pension Schemes

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| Contact names and details | Mr Matt Tattersall, Director of Finance and Resources tattersallm@methodistchurch.org.uk The Revd Timothy A Swindell, Connexional Treasurer Tim.swindell@methodist.org.uk |
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Pension Reserve Fund

1. The 2021 Conference passed the following resolution:

The Conference asks every church, Circuit and District to consider giving freely, generously and according to their ability, towards a target of 15% of all balances held across the Church to provide additional contributions to the Pension Reserve Fund and to transfer the funds to the Connexion by 31 December 2021.”
2. As at 22 April 2022 there had been over 900 donations to the appeal totalling £6.9m. Some of the donations related to more than one entity (ie some circuits contributed on behalf of all their churches) and therefore approximately one quarter of organisations have contributed. Many more will have considered giving to the appeal but decided against for a variety of reasons, not least affordability.
3. That so many churches, Circuits and Districts responded to the appeal despite the financial challenges across the Church is a powerful example of connexionalism in action. Whilst a letter of thanks has been sent to each donor, the Conference may wish to express its own thanks to the Methodist people for responding in the way they have. In light of the financial position of Connexional Funds, the Methodist Council was able to add to the appeal by making a donation of £0.5m.
4. Considerable feedback has been received in relation to the appeal. The key themes that emerged were:
 - the timing of the ask was very unhelpful;
 - the basis of the appeal was misguided;
 - why was the Council not just waiting for the pension position to improve rather than having a knee jerk reaction to the deficit?
 - why was the Church persisting with a defined benefit pension scheme when the rest of the economy has moved to defined contribution schemes?
 - suggesting that a ‘fixed levy’ would be imposed if the appeal was unsuccessful was both threatening and unhelpful, and
 - a fixed levy would do enormous harm to important missional projects that were about to be launched once the pandemic restrictions ease.
5. The reasons for the appeal were clearly set out in the 2021 Conference report and an extensive “frequently asked questions” section was added to the website. The rationale for the appeal remains as strong today as it did last year. In particular, it relates to risks in funding past service liabilities rather than meeting future service commitments. However, it is also true that at the time of writing some of the risk has diminished, and this is most welcome. Whilst the potential closure of the scheme that some people have advocated was not mentioned in the Conference report last year, the Council has now set up a task group to investigate the options for the future. The perceived ‘threat’ from imposing a fixed levy was not intended but was simply a statement of fact – if contributions were not received and the risk not mitigated, more direct action would be required.

6. The original 15% target mentioned in the appeal represented a prudent estimate of what might be available from Methodist funds having allowed for: an appropriate level of reserve; the fact that some funds are restricted; other funds are committed, and additional reserves may be being held for longer term use in relation to property maintenance and repairs. This target also equated to approximately half of the amount of risk that the Pension Trustee had identified as the 'downside risk'.
7. Since the appeal was launched there has been a revision in assumptions that has led to a reduction in the downside risk from c£90m to c£70m. Whilst this is a material improvement, it is important to note that a £70m risk is still considerable and beyond the available resources of Connexional Funds to mitigate. This is why connexional properties have been offered as security as an alternative way of offsetting this risk.
8. In this context the need for increasing the funds into the Pension Reserve Fund (PRF) is just as necessary as it was 12 months ago.
9. However, since the appeal was launched the value of the PRF has materially increased due to increased investment values and property levies above expectations. Together with the reduction in the risk to be mitigated it indicates that the need for a fixed levy to top up the PRF would not be justified at this time.
10. Consequently, it is proposed that the voluntary appeal remains open for a further 18 months. This extension of time will be carefully and appropriately communicated to Circuits and churches reflecting the feedback noted in paragraph 3 above, and other changes in circumstances. It will allow those who were unable to contribute due to uncertainty over their finances to reconsider if a contribution is now more affordable.

2020 Valuation

11. The 2020 triennial valuation of the Methodist Ministers' Pension Scheme (MMPS) was signed on 29 April 2022. This was five months after the statutory deadline. The delay was because the Church and Pension Trustee (PT) were seeking to agree a Framework Agreement (FA) that would cover more than just the coming three years. The regulator was kept informed on the state of the negotiations and they did not take any enforcement action against the Trustee or the church.
12. The FA sets out additional provisions about how the PRF will be used, namely:
 - It will remain invested with the Central Finance Board;
 - To the extent that there is sufficient funding in the PRF, monies to cover agreed future core deficit contributions will be allocated to a separate sub-fund of the PRF.
13. The FA sets out the intention to achieve a funding level for the Methodist Ministers' Pension Scheme of Gilts plus 0.5% by 2035. This means the scheme will be invested in line with the regulator's preferred low risk basis by that date. Similarly, the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) has a target funding level of Gilts plus 0.5% by 2030.
14. It is the expectation of the Council and the PTs for both schemes that investment returns will allow a gradual de-risking of the schemes over the coming years and the achievement of the target funding levels. However, a mechanism has been devised that, should funding fall below 90% of target at any annual evaluation, a Remedy Payment mechanism is triggered. This mechanism leads to a reassessment the following February, and if funding is still below 90%, a payment schedule is agreed to restore funding to above 90% over the subsequent three years.
15. Given the delay between identifying a problem and the first Remedy Payment being due,

there should always be a meeting of the Methodist Conference between when the funding issues can be discussed and when proposals for how they are to be funded can be adopted.

16. The Church has offered additional security to the PTs as a source of funding of last resort. Legal charges (similar to mortgages) have been placed on the North Bank Estate, the Methodist International Centre Euston, and most of the connexional manses. Whilst it is inconceivable that the Church would ever default on payments due to the schemes, should this occur, the PTs would be able to enforce their security and sell one or more of these properties to cover any shortfall. As a further measure to avoid this eventuality, the Church has transferred £29m of the monies in the PRF to sub-funds of the PRF specifically to act in lieu of further property security. ie this £29m (£28.6m MMPS; £0.4m PASLEMC) would be utilised prior to the selling of any of the connexional properties to cover any debt.
17. A further consequence of the 2020 triennial valuation is that the cost of future accrual in MMPS has increased by 2.6%. The Methodist Council agreed that this increase (c£0.9m per annum) should be funded from the PRF for 2020/21 and 2021/22, given that the figure was only confirmed at the point the valuation was signed in April 2022. However, the PRF was not established to subsidise future pension costs, but to deal with historic deficits. Pensions are a legitimate cost of ministry and should be borne by the bodies benefitting from that ministry and so the Council has recommended this increase should be passed on to Circuits. This would see the contribution rate increase from 26.9% to 29.5% (in addition to the 9.3% paid by ministers). After much discussion and consideration, and even though budgets for 2022/23 have already been set at the local level, the Council recommended that the contribution rate for Circuits be increased from 1 September 2022. However, recognising the difficulty this recommendation raises, an option to delay the increase to 1 September 2023 is offered as an alternative resolution.

Future of MMPS – Introduction

18. The Methodist Council has established a task group to review the future of the Methodist Ministers' Pension Scheme (MMPS). This was because the costs of future accrual in the scheme have increased from 36.2% to 38.8%, and on current assumptions will have increased to 46.3% by 2035.
19. The terms of reference for the group are as follows:
 - To bring forward proposals for the future provision of pensions for ministers;
 - To set out the expected consequences of the proposals including any opportunities for the rationalisation of the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC);
 - To assess such proposals in the light of affordability and with regards to the Covenant between the Church and those ordained to serve as ministers;
 - To propose such consultation on the proposals as meets both the statutory and moral obligations of the Church.
20. The membership of the task group is as follows:
 - The Connexional Treasurer – the Revd Tim Swindell (to Chair the task group)
 - The Secretary of the Conference – the Revd Dr Jonathan Hustler (with particular regard to the covenant relationship with ministers);
 - An active minister – the Revd Stephen Radford (with particular regard to the interests of those whose pensions will be affected);
 - A treasurer – Miffie Barrett Rogers (with particular regard to affordability for the Church);
 - A member of the Council – the Revd Nick Oborski (to represent the Council and Conference as lead employer);

- The Director of Finance & Resources – Matt Tattersall (to provide advice and secure external professional advice as required);
 - A representative of the MMPS trustee – Richard Hubbard (to provide insights on pensions and current trustee issues).
21. It is envisaged that a period of discernment will commence ahead of formal proposals coming to the 2023 Conference for consideration.
22. Following any decision of the 2023 Conference, any statutory consultation required would follow in the autumn/winter of 2023/24 with a view to implementing any changes during 2024. Statutory consultation would be designed to comply fully with the spirit as well as the letter of the Regulations, including, where appropriate:
- A period of consultation (currently at least 60 days) with all affected members of the pension scheme(s);
 - Full communication of any proposed changes to all affected members;
 - A further period of reflection to amend proposed changes, if felt appropriate.
23. Over a prolonged period, there has been a considerable tightening of the legislation covering defined benefit pension schemes. Much of this is in the light of high-profile scandals where pension scheme assets have been misused. It is estimated that only around 3% of such schemes remain open for new members to join.
24. The legislative changes have put considerable pressure on pension trustees to reduce the level of risk carried by their schemes and to become less reliant on the employer to fund historic liabilities (ie to become self-sufficient). The broad consequence of this approach has been a de-risking in investment portfolios to allow pension trustees to better match their liabilities with their assets. In doing so, these less risky investments provide lower investment returns and therefore increase the cost of future accrual in the schemes.
25. The legislation does not make any particular allowance for the specific circumstances associated with pension schemes in churches. The consequence has been that all churches are seeing the costs of their pension schemes increase, but no increase in the benefits they can provide. The increased cost is simply paying for reduced risk.
26. The most recent valuation of the MMPS in August 2020 resulted in an increase in the cost of the scheme from 36.2% of stipend to 38.8% of stipend. This is a significant cost for the Church to bear, but it should also be noted that if it is looked at in relation to the total “benefit package” provided to ministers (ie including the costs of provision of a manse) the percentage would be considerably lower. Nevertheless, the contribution rate is set to continue to increase, and the Methodist Council set up the task group to consider the issues raised and propose a way forward.

Future of MMPS – Options

27. A range of options will need to be considered including: retaining the current pension scheme; closing it to new members; closing it to future accrual; providing a new MMPS; the provision of a pension through a commercial pension provider (such as the scheme for Council employees through the Royal London).
28. In reviewing the options and making recommendations the task group is setting the parameters for how a decision could be taken. These parameters include the covenant relationship with ministers, cost, risk, and governance arrangements.

Future of MMPS - Next steps

29. Consultation will be scheduled to enable a cross-section of opinions to be gathered.

Following that and the consideration of appropriate professional advice, options for the future will be proposed to the Methodist Council and the Strategy and Resources Committee for detailed deliberation and will return to the Conference of 2023.

MMPS - Member Nominated Directors

30. The Revd Eleanor Smith's term of office was due to end on 31 August 2022. She expressed a desire to continue to serve as an MND and following the usual process was successfully appointed for a further three-year term ending 31 August 2025.

MMPS - Employer Nominated Directors

31. Under its Articles, six directors of Methodist Ministers' Pension Trust Limited (MMPTL) must be nominated by the Council and appointed by the Conference. One-third of the Church-appointed Directors retire by rotation each year and are eligible for reappointment.
32. Capital Cranfield Pension Trustees Limited (the professional appointee) has been reappointed from 1 September 2022 following a competitive tendering process undertaken in 2021. This appointment is currently filled by Ingrid Kirby who will be replaced by Richard Hubbard from 1 September.
33. Graham Danbury retires from MMPTL this year and the Methodist Council (on behalf of the Conference) is recruiting a replacement for 1 September.

*****RESOLUTIONS**

18/1. The Conference received the Report.

18/2. The Conference thanked all Methodist bodies that have contributed donations to the Pension Reserve Fund appeal, thanks those bodies that considered the issues carefully but don't have the funds available to contribute and resolves that the appeal remains open through 2022/23.

18/3a. DECLINED

18/3b. The Conference approved that the circuit contribution rate for MMPS is increased to 29.5% from 1 September 2023 and that the shortfall in contributions during 2022/23 is paid from the Pension Reserve Fund.

18/4. The Conference affirmed the work of the MMPS task group established by the Methodist Council and requests that proposals for the future of the MMPS are brought to the Conference of 2023 ensuring that any such proposals consider fully the ethical stance of the Methodist Church.