Summary Report

Pension and Assurance Scheme for Lay Employees of the Methodist Church as at 31 August 2023

The Methodist Church

Introduction

Welcome to the 2023 Annual Report to Members of the Pension and Assurance Scheme for Lay Employees of the Methodist Church ("the Scheme"). This report is designed to inform you of developments in the Scheme as well as update you on the financial position and the Scheme's investments.

As usual we have included a summary of the Trustee Report and Accounts for the year to 31 August 2023.

Despite the continuing market volatility, the Scheme remains in a strong position. Protecting your pension is important to the Trustee. That is why they regularly monitor the Scheme's funding level and investment strategy to help them manage the Scheme's risks.

The level of protection to members was enhanced in May 2024 with the Trustee purchasing a bulk annuity policy with Aviva. Further details are shown on page 17.

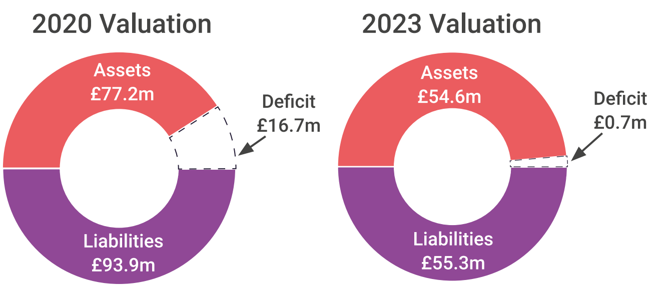
In order to reduce carbon emissions and to support our Action for Hope (methodistchurch.org.uk/ActionForHope) initiative, we would like all those members who haven't provided their email address for future Scheme communications to do so. Currently only 68% of members have provided their email address, and we would like this to be 100%. You could then receive a pdf copy instead of a paper one and help to reduce postage costs too!

At a glance

Summary Funding Statement

Results of formal actuarial valuation as at 1 September 2023

Every three years the Trustee arranges a full actuarial valuation of the Scheme to be carried out which has recently been completed. The latest valuation results as at 1 September 2023 (assuming that the Scheme continues into the future) are shown in the chart below. The 2020 actuarial valuation results are also shown for comparison. Government bond yields have risen significantly since the 2020 valuation, which has reduced the value placed on the Scheme's liabilities.



In light of the reduced shortfall revealed at the latest valuation, the Trustee agreed a revised recovery plan with the Participating Employers. Under this new plan, a contribution of £700,000 was transferred to the Scheme from the Pension Reserve Fund in April 2024 to eliminate the 1 September 2023 funding shortfall. In addition, in support of the Scheme's secondary funding objective to purchase annuities with Aviva, a further £50,000 was also transferred from the Pension Reserve Fund to the Scheme in April 2024.

How has the position changed since 2022?

The previous Summary Funding Statement showed the Scheme's funding position at 1 September 2020, together with an update as at 1 September 2022. As at 1 September 2022, the Scheme had a funding surplus of £1.1m. The funding position at 1 September 2023 is a deficit of £0.7m and therefore the funding position has reduced by £1.8m over the year. This is primarily because more prudent assumptions have been used to value the Scheme's liabilities, in order to more closely align the Scheme's funding assumptions with the cost of purchasing annuities with an insurance company.

What would happen if the Scheme started to wind up

As part of the 2023 valuation, the actuary investigated the Scheme's solvency position if it had started to wind up (ie come to an end with no further support from the participating employers) at the valuation date. This is part of the standard funding requirements and the calculations are based on assumptions rather than actual annuity quotations.
To assess solvency, the actuary looks at whether the Scheme had enough money at the valuation date to buy insurance policies to provide members' benefits in full and meet the expenses associated with winding up a pension scheme.
If the Scheme had started winding up at 1 September 2023, the actuary estimated that the amount it would have needed to ensure all benefits were paid in full (the full solvency position) was £55.3m. The assets as at that date were £54.6m. The solvency shortfall was therefore £0.7m and the solvency funding level was 98.7%.

Payment to the Methodist Council or any of the other Participating Employers and modifications imposed by the Pensions Regulator

We are obliged to tell you that there has not been any payment to the Methodist Council or any of the other Participating Employers out of the Scheme's assets in the previous twelve months. The Participating Employers have no intention of receiving any payment from the Scheme. We also confirm that the Pensions Regulator has not modified the Scheme, nor made any directions regarding the contributions the participating employers are required to pay to the Scheme or the calculation of the Scheme's funding position.

Report and Accounts

Each year the Trustee of the Scheme produces a formal report and audited Accounts, which provide information on the financial position of the Scheme over the year.

The opposite page summarises this information for the year ending 31 August 2023. The full accounts may be downloaded from: methodist.org.uk/PASLEMCDocuments

Income and Expenditure - the Fund at a glance

This table summarises the income and expenditure for the year to 31 August 2023

The market value of the Fund at 31 August 2022 was **£70,067**

Received during the year (£'000)

- **£2,384** - Church contributions
- **Nil** - Member contributions
- **Nil** - Member AVCs
- **Nil** - Transfer values
- **£1,098** - Investment income

Paid out during the year (£'000)

- **£1,766** - Pensions
- **£355** - Retirement lump sums
- **Nil** - Leavers benefits i.e. refunds, transfers
- **Nil** - Death lump sums
- **£545** - Admin costs

£816 - Funds for investment

(£85) - Investment Management Fees

(£13,564) - Decrease in market value of investments

The market value of the Fund at 31 August 2023 was **£57,234**

Investments and Investment Management

The Trustee is responsible for determining the Scheme's investment strategy and it sets this after taking into account considerations such as the strength of the Methodist Church's covenant and long term liabilities of the Scheme. The Trustee is represented by a Joint Investment Committee, (which deals with this Scheme and the scheme for Methodist Ministers), which considers decisions on investments and which it recommends to the Board of each Scheme.

The Trustee delegates the day-to-day management of the Scheme's assets to external professional investment managers. The Trustee has mandates in place with the following investment managers.

- Epworth Investment Management Limited ("EIML"), a wholly owned subsidiary of the Central Finance Board of the Methodist Church (CFB) manages part of the Scheme's allocation to cash.

- Columbia Threadneedle Investments (CTI, previously BMO) manages the Scheme's Liability Driven Investment (LDI) portfolio and part of the Scheme's allocation to cash.

- AXA Investment Managers UK Limited manages the Buy and Maintain Credit mandate.

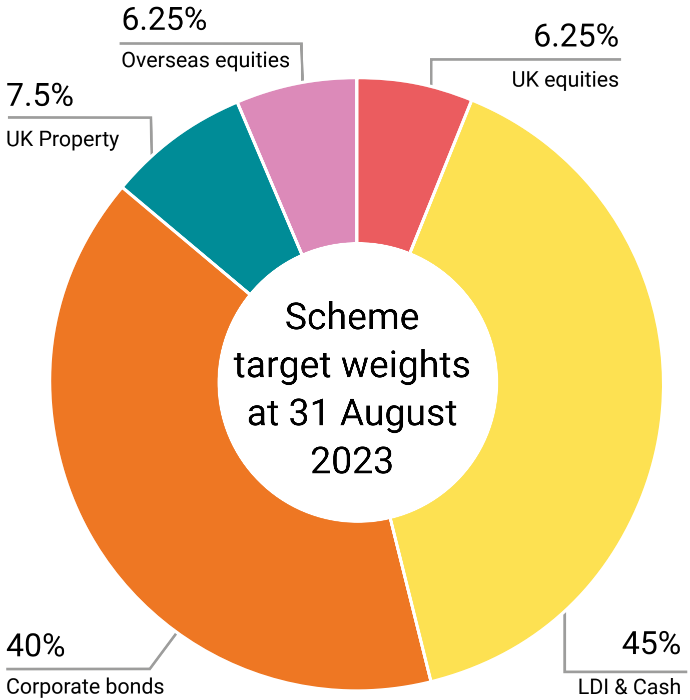
The Trustee determines the Scheme's investment strategy which it sets out in its Statement of Investment Principles (SIP).

The Trustee reviews the SIP once every three years or as otherwise becomes necessary. Disclosure legislation requires the Trustee to publish its SIP on its website and a copy of the latest SIP can be found here: methodist.org.uk/PASLEMCDocuments

The Trustee has also produced an Implementation Statement which explains how it has implemented the voting and engagement policies set out in its Statement of Investment Principles. A copy of the Implementation Statement can be found here: methodist.org.uk/PASLEMCDocuments

During the year, the Trustee disinvested from it's equities and property funds, and increased its allocation to corporate bonds and made some adjustments to the LDI assets .

The Scheme's target allocation at 31 August 2023 is illustrated here:



How are the investments performing?

The market value of the Scheme assets decreased from £66.8 million to £54.6 million over the year to 31 August 2023 and the Scheme's liabilities decreased from £65.7 million to £55.3 million. This meant that the funding level as at that date was 99%.

The investment return of the Fund over the 12 months to 30 September 2023 was -22.9% compared with -25.5% per annum for the benchmark index. Over three years the return was -16.7% per annum, compared with -15.6% per annum for the benchmark.

Social, environmental and ethical policy

The Trustee invests its assets responsibly in delivering its objective to pay the right benefits to members at the right time. For this reason, the Trustee has its own Responsible Investment Policy, which can be accessed here: methodist.org.uk/PASLEMCDocuments When investing the assets of the Scheme, the Trustee considers the integration of Environmental, Social and Governance matters in investment managers' processes in the belief that these factors can have an impact on performance.

The Trustee's Responsible Investment Policy is consistent with that of the Methodist Church. To monitor alignment with the policy, the Trustee reviews the annual report to Conference from the Joint Advisory Committee on the Ethics of Investment (JACEI), which advises the CFB on ethical matters relating to investment. The Conference noted the Committee judges that the CFB has managed the funds under its control in support of an ethical stance, which is in accordance with the aims of the Methodist Church.

The Trustee engages with JACEI and considers the Church's views on stewardship in order to determine priorities for the Trustee.

Additional Voluntary Contributions (AVCs)

The Trustee holds assets invested separately from the main fund in the form of insurance policies with Aegon. These policies secure additional benefits on a money purchase basis for members who elected to pay AVCs during their time in the Scheme. Members who participated in this arrangement each receive an annual statement confirming the amounts held in their account and investment movement during the year.

The accumulated AVC fund value at retirement can be used to purchase an additional pension (either within the PASLEMC, or externally on the open market) or as an alternative, all or part of the AVC fund can be taken as cash at retirement (subject to HMRC limits).

The Trustee selected a variety of funds for investment listed in the table overleaf.

Further information on AVCs is available from the pensions section of the Methodist Church website methodist.org.uk/Pensions or directly from the Pensions Office. Specific information on each of the funds, including past performance details, can be found on the Aegon website.

- To access the latest Aegon High Equity With-Profits Fund (WP2) Factsheet here: aegon.co.uk/content/dam/auk/assets/publication/fund-factsheet/wp1-customer-factsheet.pdf

- You can access the latest Factsheet for all other Funds here: aegon.co.uk/investments/customers/fund-prices-and-performance.html
  Please then click on “Other Fund Ranges”. In order to access each Fund you will need to enter its unique ISIN code from the following list:

Fund Name	ISIN CODE
Blackrock Aquila 50/50 Global Equity Index	GB00B1G51136
Blackrock Aquila Over 15 Years Corporate Bond Index	GB00B1G2W778
Active Cash Fund	GB0007829228
Ethical (Equity Fund)	GB0007845422
Ethical Cautious Fund (Default Fund)	GB00B583JW06
Ethical Corporate Bond Fund	GB00B1VRK844

Pension Increases

The Rules of the Scheme provide for increases to pensions in payment as follows:

- 5% pa fixed for members who joined before 1 December 1997, on pensions accrued before 1 September 1998.
- Lower of 5% pa or Retail Prices Index (RPI) for pensions accrued before 1 September 1998, for members who joined after 1 December 1997.
- Lower of 5% pa or RPI for pensions accrued between 1 September 1998 and 5 April 2005.
- Lower of 2.5% pa or RPI for pensions accrued from 6 April 2005 onwards.

Pension increases are effective from 1 September each year and are considered in conjunction with July RPI inflation figures. The increases applied as at 1 September 2024 were:

Pensions in relation to service	Increase awarded
Pensions accrued prior to 1 September 1998 (for pre 1 December 1997 joiners)	5% FIXED
Pensions accrued prior to 1 September 1998 (for post 1 December 1997 joiners)	RPI, Max 5% 5.0% (2023 : 5.0%)
Pension accrued between 1 September 1998 and 5 April 2005	RPI, Max 5% 5.0% (2023 : 5.0%)
Pensions accrued since 6 April 2005	RPI, Max 2.5% 2.5% (2023 : 2.5%)

Summary of Benefits payable from the Scheme

On Retirement

- A pension based on Final Pensionable Earnings x 1/70 (1/60 for service before 1 September 2006) x years of Pensionable Service.
- The option to exchange part of the pension for a tax-free lump sum.
- Annual pension increases.

On Death before Retirement*

- A refund of your own contributions.

On Death after Retirement

- A spouse's/civil partner's pension equal to half your own pension (before you exchange any part of it for a cash lump sum).
- Dependent children's pensions equal to 25% of the spouse's pension for each child under age 18, subject to a maximum of four children.
- A lump sum payable if you die within five years of starting to receive your pension.

Closure and Scheme membership

The Scheme closed to further accrual of Pensionable Service on 31 May 2019. Actively contributing members of the Scheme at this date who had attained 24 or more months Pensionable Service were categorised as **Closure Members**. From 1 June 2019, a benefit underpin applies to the calculation of these members deferred pensions while they remain in employment. Further details may be requested from the Pensions Office.

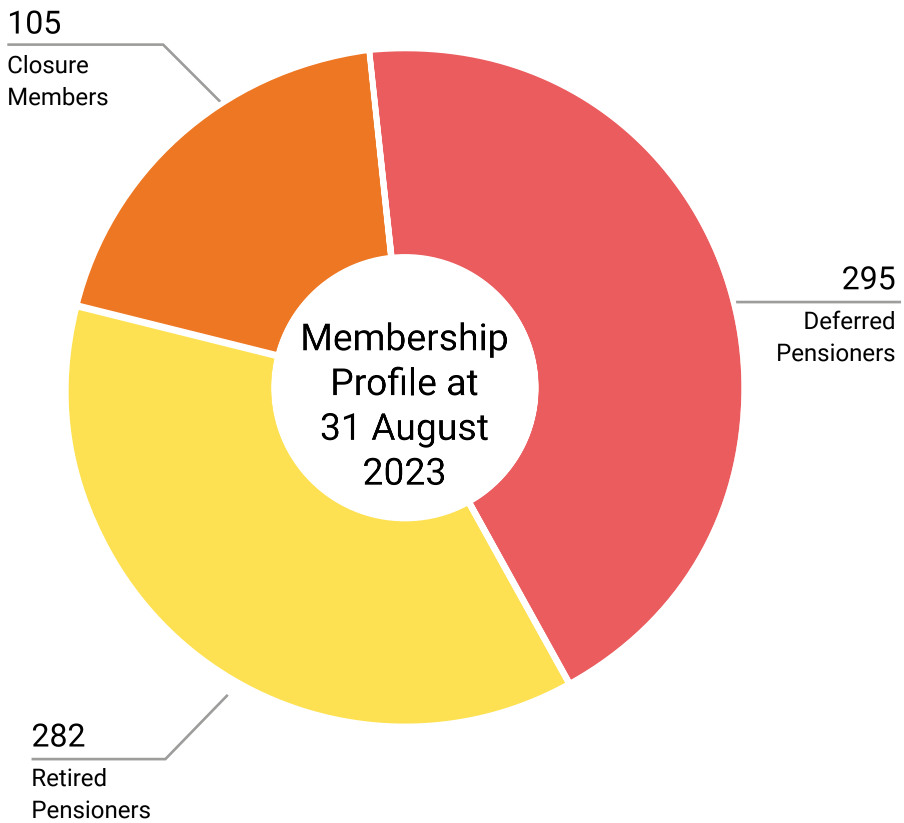
*Closure Member - if death occurs before retirement and whilst still employed by the Church, a pension of 25% of your pension, calculated at the date of death, will be payable to a spouse/civil partner and/or child.

Membership Profile

Membership numbers at 31 August 2023 are summarised in the chart opposite.

Deferred members are former contributors where pension benefits are held within the Scheme until such time that retirement is taken. Closure Members are former contributors where Pensionable Service ceased on 31 May 2019 and who continue to be employed by the Church.

Pensioner numbers are represented by 282 retired pensioners (of which 19 are paid via insured annuity contracts).



Additional Information

State Pension Age (SPA)

The State Pension Age (SPA) is the earliest you can claim your State Pension. Your SPA depends on when you were born. The Department of Work and Pensions has confirmed that whilst the current SPA is 66, between 2026 and 2028, it will rise to age 67. Under current plans, it will be further increased to age 68 between 2044 and 2046.

Should you wish to calculate your SPA please click on the following link: gov.uk/state-pension-age

How does this affect your benefits in the Scheme?

Normal Pension Age (NPA) in the Scheme for service from 1 September 2015 is the date male SPA has been attained. Hence, depending on your age, the change in your SPA will affect the date from which you can draw the benefits you have accrued from 1 September 2015 onwards, on an unreduced basis. (NB. There is no change to the benefits you have accrued before 1 September 2015).

Pension Scams

WARNING: No matter how savvy you are, anyone can be a pension scam victim!

The Pensions Regulator is committed to combatting pension scams as part of its new campaign. Anyone can be a victim of a pension scam, but spotting the signs can help to avoid them.

Can you spot the warning signs?

- Cold calling about pensions, contact out of the blue or contact through social media, email or text;
- Phrases like "free pension review, pension liberation, loan, loophole, savings, advance, one-off investment or cashback;"
- Guarantees of better returns on pension savings;
- Help to release cash before age 55;
- Unusual high risk, complicated or overseas investments;
- Pressured sales tactics - usually with time limits when the deal expires;
- Documents delivered via couriers who wait until you sign on the dotted line.

The Regulator's booklet on how to spot a scam can be located here: thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/16423_pensions_consumer_leaflet_screen.ashx

Savers could lose all their money!

Speak to an independent adviser authorised by the Financial Conduct Authority before making any decisions to transfer.

WARNING: The Trustee may take a risk-based decision as to whether to allow the transfer if there are sufficient red flag warnings. The Trustee may ask for further information after which it may decide to refuse to complete the transfer.

Electronic Communications

Methodist Church House staff continue to work on a hybrid basis, which means that the Pensions Team are physically in the office two days a week and work from home for the rest of the week. This means that dealing with post received at Methodist Church House can result in some members having to wait longer for responses. Communicating by email is almost instantaneous, it enhances communications by quickly disseminating information and can lead to faster responses to enquiries.

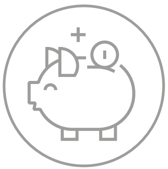
In order to reduce carbon emissions and to support our Action for Hope (methodistchurch.org.uk/ActionForHope) initiative, we would like all those members who have not provided their email address for future Scheme communications to do so.

The Pensions Team are therefore asking enquirers to provide an email address so that responses can be dealt with more efficiently. If you wish to provide an email address for correspondence purposes, please contact the Pensions Team.

NOTE: If you wish to opt out of receiving electronic communications, or have any concerns please contact the Pensions Team at: pensionshelp@methodistchurch.org.uk

Bulk Annuity Policy

For many years, the Trustee has been pursuing a strategy of reducing risk and increasing benefit security for members, when it has been possible to do so. We wrote to all members in mid May 2024 to confirm that the Trustee had bought an insurance policy from Aviva to help secure members pension benefits. This policy is now an asset of the scheme. Purchase of the policy with Aviva is an important strategic step and has been taken with the full support and agreement of the Methodist Church (“the Church”) as sponsor of the Scheme. As a result, they have brought forward contributions which were due in future to enable this step to be taken.



The Trustee Board

The Trustee is a corporate body appointed by the Methodist Council. The Trustee has a Board of Trustee Directors that ensures the Scheme is operated in accordance with its Rules and in line with legislative guidance.

There are eight Trustee Directors, some appointed by the Methodist Council and some nominated for appointment by members of the Scheme, as follows:

- Four are Employer Nominated Trustee Directors who are lay persons with professional experience in pensions or investment matters
- One is an Independent Trustee; and
- Three are Member Nominated Trustee Directors.

Mr. Christophe Borysiewicz's first three year term of appointment was due to end on 31 August 2024. Christophe has worked well with the Trustee Board and has confirmed that he is willing to continue as a Member Nominated Trustee Director. As the Trustee Board has further steps to take as part of improving the security of members benefits, it would be helpful if Christoph would remain involved for continuity. It has therefore been agreed with the Trustee Board and the Methodist Church that his term should be extended for a further two years.

The Trustee Board Directors are:

Employer Nominated Directors

Mr Richard Hubbard (Chair) – Representative of Capital Cranfield Pension Trustees Limited
Ms Anne Fairchild
Mr Pete Harris (appointed 08/09/2022)
Mr Fred King
Mr Martin Tingle (appointed 08/09/2022)

Member Nominated Directors

Mr Christophe Borysiewicz
Mrs Evgenia Kotchkina
(appointed 29/09/2023)
Mr William Seddon

Help and Support

Mike Sarjeant
Scheme Secretary / Pensions Manager

Christopher Pottruff
Deputy Pensions Manager

Joyce Brown
Pensions Administrator

Michael Hutton
Pensions Administrator

Anil Tejura
Pensions Administrator

Answering your questions

If you have a question about the Scheme or about any of the detail contained within this document, please contact the Pensions Team as follows:

Pensions Office
The Methodist Church
Methodist Church House
25 Tavistock Place
London
WC1H 9SF

(020) 7467 5287
pensionshelp@methodistchurch.org.uk

Keeping us informed:

Should any of your personal details change, including changes in your correspondence address, please ensure that you inform the Pensions Team.

Please note that under the Rules of the Scheme a lump sum death benefit is payable under discretionary trust. The Trustee will consider your wishes, (although they are not necessarily bound by them) before taking any decision as to the recipient of such benefit.

Please therefore ensure that your nomination is kept up to date. If your circumstances have changed, or if you simply wish to update your nomination, please contact the Pensions Team by email to pensionshelp@methodistchurch.org.uk
methodist.org.uk/media/17145/paslemc-nomination-form-for-payment-of-death-benefits-new-version.doc

The **Methodist** Church