

31. Methodist Ministers' Pension Scheme and Pension and Assurance Scheme for Lay Employees of the Methodist Church

Contact name and details	Amanda Amor Pensions Manager amora@methodistchurch.org.uk
Resolutions	As contained in the paper.

Summary of content and impact

Subject and aims	To update the Conference on several developments regarding the Methodist Ministers' Pension Scheme (MMPS).
Main points	To increase the number of trustees on the Boards for the MMPS and Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) by adding one additional Conference appointed director. Appointment and Reappointment of the directors, including an independent director of MMPS and PASLEMC. To note the automatic re-enrolment from 1 September 2016. To consider the Council's recommendation that the index used to calculate pension increases be changed from Retail Price Index (RPI) to Consumer Price Index (CPI) after the results of the next actuarial valuation are known, ie 1 September 2018.
Background context and relevant documents (with function)	One-third of the lay directors of Methodist Ministers Pension Scheme retire by rotation each year and are eligible for re-appointment to the Board.
Consultations	A consultation with all members of MMPS took place between 5 November 2015 and 4 February 2016.
Impact	A change to the index used to calculate pension increase will reduce the deficit in MMPS.

MMPS – Consultation with members

Background

1. The results of the MMPS actuarial valuation in 2014 revealed a reduction in the shortfall from £58.4m in 2011 to £40.0m, however, there was an increase in the total future service contribution rate from 22.2% of standard stipend in 2011 to 26.4% of standard stipend on the agreed basis for 2014. The increase in the future service contribution rate is mainly due to the fall in bond yields.
2. The Conference agreed in 2015 that the total Church contribution rate should continue at the rate of 26.9% of standard stipend, this being 17.1% in respect of the future service contribution rate and 9.8% in respect of shortfall contributions. In addition, £1 million per annum continues to be paid from the Pension Reserve Fund until the end of the recovery period. The end of the recovery period remains unchanged at 31 December 2020.
3. The issue of affordability of church contributions for some Circuits was discussed by the Trustee with the Finance Sub-Committee (FSC) of the Strategy and Resources Committee and a recommendation to consider future contributions was made to the Methodist Council in 2015.
4. The Conference in 2015 was presented with a number of options that were being considered by the Methodist Council. One option was to link future pension increases awarded in relation to both past and future service to the CPI rather than the RPI. Due to the differences in how the indexes work CPI is around 0.75% to 1% per annum lower on average than RPI which would result in lower expected increases to pensions in payment.
5. Based on the September 2014 valuation, the impact on the shortfall if pension increases were linked to CPI rather than RPI would be to reduce it from £40m to £15.8m, reducing the shortfall contributions to 4.3% of standard stipend (from 9.8%) and reducing the recovery period to three years. The effect on the total future service rate would be to reduce it from 26.4% of standard stipends to 25.8% of standard stipend.
6. If pension increases awarded in relation to both past and future service were linked to CPI rather than RPI the total church rate could reduce from the current rate of 26.9% of standard stipends to 20.8% of standard stipends (if the member contribution rate remained at 9.3% of standard stipends). This is based on the results of the 2014 Actuarial Valuation.

Alternatively, the member contribution rate could also reduce. For example, the total church contribution rate could be 22.8% of standard stipends and the member contribution rate could be 7.3% of standard stipend. Again this is based on the results of the 2014 Actuarial Valuation.

7. A history of RPI and CPI rates for each January since 2008 is shown in the table below:

Year	RPI annual rate %	CPI annual rate %
2016	1.3	0.3
2015	1.1	0.3
2014	2.8	1.9
2013	3.3	2.7
2012	3.9	3.6

2011	5.1	4.0
2010	3.7	3.5
2009	0.1	3.0
2008	4.1	2.2

8. The 2015 Conference directed that a consultation with members was undertaken to consider a change to the benefit structure to link future pension increases awarded in relation to both past and future service to CPI rather than RPI.
9. A letter and consultation document was sent to all members of MMPS on 5 November 2015 with a closing date for responses to the consultation of 4 February 2016. A copy of the letter and document can be found at <http://www.methodist.org.uk/council>, as appendix 1 and 2 to MC/16/46.

Response to the Consultation

10. There were 174 responses to the consultation by either email or letter. A summary of the responses to whether the index used to calculate pension increases be changed from RPI to CPI is given below

Should the index used to calculate pension increases be changed from RPI to CPI?		
For	Against	Neutral (comments only)
112 (64%)	42 (24%)	20 (12%)

11. The FSC noted their appreciation for all the responses received and the time spent in consideration of the issues that this represented.
12. A number of alternative suggestions were made during the consultation and these were considered in detail by the FSC. See paragraphs 21-27 below.

Implications of a deterioration in the funding level since the 2014 valuation

13. The Scheme Actuary made the Trustee Board aware of the funding implications of the possible change to CPI pension increases following the annual funding update as at 1 September 2015. The preliminary results of the funding update show that the Scheme's funding position had worsened since 1 September 2014.
14. On the basis that RPI increases continue, the past service shortfall will have increased from £40m as at 1 September 2014 to £53.1m as at 1 September 2015.
15. The consultation undertaken by the Council proposed that if the Conference decided to amend the benefit structure with effect from 1 September 2016, members' contribution rate would immediately be reduced. However a reduction in contribution rates for members is not now affordable based on the updated funding position as of 1 September 2015.
16. A comparison of the funding position as at 1 September 2014 and 1 September 2015 is given below.

	Position if pension increase continues in line with RPI		Position if pension increase changes to CPI from 1.9.2016	
	1.9.2014	1.9.2015	1.9.2014	1.9.2015
Valuation date	1.9.2014	1.9.2015	1.9.2014	1.9.2015
Shortfall	(£40.0m)	(£53.1m)	(£15.8m)	(£27.0m)
Church contributions	26.9%	40.1%	22.4%	24.7%
Member contributions	9.3%	9.3%	7.7%	8.6%
Total contributions	36.2%	49.4%	30.1%	33.3%

17. The actuary advised that a full valuation would be required to re-assess the contribution requirements. A formal valuation would need to be carried out as at 1 September 2015 in order for there to be time for this to be formalised and implemented with effect from 1 September 2016. This would necessitate a new Statement of Funding Principles, Recovery Plan and Schedule of Contributions to be adopted by the Conference.
18. An alternative would be to delay any benefit change until 1 September 2018; the contribution calculations could then be incorporated into the next formal valuation as at 1 September 2017. This would avoid the need for an out-of-cycle valuation but it would mean that a further two years' of RPI pension increases would be granted in the meantime.
19. The actuary advised that if RPI exceeds CPI by 0.7% between 2016 and 2018 then current pensions in payment could become around 1.4% higher than they would have been had CPI pension increases been applied. This difference has an estimated financial impact of around £3.7m (the ultimate impact will depend on the actual difference between RPI and CPI).
20. The following options were available:

Option	Impact on Scheme
1) Do nothing – pension increases remain linked to RPI	No changes to the Scheme benefits and hence no changes to the valuation requirements. Contributions would next be reviewed at the formal valuation due as at 1 September 2017.
2) 2016 change – pension increases become linked to CPI with effect from 1 September 2016	The lower expected pension increases are implemented immediately. There are two options for reviewing the contribution requirements: a) A formal valuation is undertaken as at 1 September 2015 and the expected reduction in contributions is implemented with effect from 1 September 2016; or b) A formal valuation is not undertaken until 1 September 2017 (in line with the current triennial cycle). In this case the expected reduction in contributions could not be implemented until 2018.

3) 2018 change – pension increases become linked to CPI with effect from 1 September 2018	The lower pension increases are not implemented until 2018. This delay in implementation has an expected cost of around £3.7m relative to option 2. A formal valuation would be undertaken as at 1 September 2017 in line with the current triennial valuation cycle and the expected reduction in contributions implemented in 2018.
4) Choose one of the alternative suggestions (as noted in paragraph 28)	This option would need to be assessed from a funding and contribution requirement perspective by the actuary. If any change is agreed for 2018 this could form part of the formal valuation undertaken as at 1 September 2017.

21. Consideration of consultation responses by the Finance Sub-Committee (FSC)
22. The FSC met on 10 February 2016 and 29 February 2016 to discuss the responses to the consultation, the implications of the deterioration in the funding level and the alternative suggestions made.
23. The deterioration in the funding level was an important consideration as the actuary would need to complete a formal valuation to enable the Trustees to agree to a reduction in contribution rates. Any reduction in contribution rates from 2016 would be much lower than originally expected. As a result the FSC would not recommend that an additional formal valuation be undertaken as the affordability of contribution rates by Circuits would not be addressed.
24. The FSC recognised that the change to pension increases in line with CPI is unlikely to eliminate the shortfall in isolation, and that a further Recovery Plan would need to be put in place following the 2017 valuation.
25. The FSC noted that 174 responses had been received, of which the majority were supportive of the changes. The FSC went through each of the 174 responses on a page-by-page basis.
26. The FSC recognised the importance of providing a defined benefit pension scheme for the ministers. The Church is working hard to keep the defined benefit scheme open during difficult financial and economic conditions, as well as dealing with the financial impact of members living longer than previously expected.
27. A number of alternative suggestions were made by members of MMPS. Each one was considered by the FSC and a summary of each of the alternative suggestions, together with the consideration of the FSC was presented to the Methodist Council.

Recommendations of the Methodist Council

28. The recommendation of the Methodist Council is to move to CPI as the index used to calculate pension increases after the 2017 actuarial valuation, ie from 1 September 2018.

Pension increases would continue to be based on the increase in line with RPI for the next two years and contribution rates would be maintained at their current rates until the outcome of the 2017 actuarial valuation is known.

29. Any reduction in contribution rates from 1 September 2018 would be evaluated after the 2017 valuation, as the change in economic conditions since the 2014 valuation does not allow for the flexibility that was previously expected. If future market and economic conditions allowed for a review of contributions, then the aim would be to reduce contributions in proportion to the current contribution rates.
30. The Methodist Council also recommends that the Trustee, after consultation with the Scheme Actuary, considers whether the funding position could support providing discretionary increases on or after 1 September 2018. The Trustee will make a recommendation to the Conference each year.
31. The FSC recognised the financial implications of continuing to use RPI as the index for pension increases for the next two years, currently estimated as a cost of £3.7m. In view of this, the Methodist Council recommends that the Conference considers using the Pension Reserve Fund as a possible avenue to cover the cost of the financial impact of pension increase continuing to be based on increase in line with RPI for the next two years. This could form part of the 2017 valuation funding discussions.
32. It was noted that both legal and actuarial advice had been provided which confirmed that a second consultation will not be required. The 2015 consultation can introduce changes with effect from 2018, provided that the decision is made at the 2016 Conference and communicated to all MMPS members after the 2016 Conference.

Increase in Pensions in Payment

33. The Rules of the Scheme provide for an annual increase in pensions in payment on 1 September each year in line with the annual rise in the RPI as published in the preceding January. The increase is subject to a maximum of 5% on pensions earned in respect of pensionable service before 1 September 2006 and a maximum of 2.5% on pensions earned for pensionable service completed after 31 August 2006.
34. The increase in the RPI in the year to 1 January 2016 is 1.3%. In view of the current funding position of the Scheme, the Trustee is unable to recommend to the Conference an increase above the guaranteed increase.
35. The pre 1 September 2006 pensions will increase by 1.3% and the post 1 September 2006 pensions by 1.3%. This will be applied from 1 September 2016 to pensions in payment which commenced on or before 31 August 2015 and to ill health pensions which commenced on or before 1 September 2015.

Composition of Methodist Ministers' Pension Trust Limited and Directors of Methodist Ministers' Pension Trust Limited

36. The Chair of the Trustee Board, Mr Keith Woodley OBE, has decided to step down from the Board and Investment Committee from 31 August 2016. Keith has been a member of the Trustee Board since 1 September 1998 and Chair since 9 September 2010. The Board will

miss his clear and decisive guidance especially during the financial turbulence of the last few years.

37. The search for a replacement Chair commenced in 2015 with advertisements placed in the *Methodist Recorder* and invitations sent to all District Chairs and circuit treasurers.
38. Following an interview process, it is recommended that the number of Directors of the Methodist Ministers' Pension Trust Limited be increased by one to appoint Mr Andrew Paul as a Director.
39. As the law and regulations relating to pension schemes have developed there are greater expectations of trustees. The role and responsibilities of trustee are wide-ranging and there are additional responsibilities for the Chair of the trustees. It is therefore recommended that an independent trustee be appointed to replace Keith Woodley as a trustee, with the trustee board electing that the independent trustee be appointed as Chair of MMPS.
40. There are various benefits to appointing an independent trustee. These include advanced technical knowledge and understanding brought to the Trustee Board, experience across a wide portfolio of schemes, the ability to handle conflicts of interest by being fully independent, credibility to challenge and negotiate with advisers and providing a guiding role to the lay trustees through the more complex aspects of scheme management.
41. A good independent trustee will also be able to identify areas where external advice is required and cut out unnecessary consultancy services as well as improve scheme governance.
42. Interviews for an independent trustee took place in March 2016 and it is recommended that Ms Ingrid Kirby be nominated for appointment to replace Keith Woodley.
43. The fee for appointing Ingrid Kirby as an independent trustee of both MMPS and PASLEMC is £25,000 per annum (plus VAT) which would be proportionately shared between the schemes. However some of the fee could be offset by reductions in other advisers' fees if unnecessary adviser fees are cut.
44. The articles of the Methodist Ministers' Pension Trust Limited will be amended to allow for an additional director and for the appointment of an independent director.
45. The Rules of the Scheme will be amended to allow individual directors of the trustee company, Methodist Ministers' Pension Trust Limited, to be paid from the Scheme for carrying out their role as part of the company on behalf of the Scheme and that the fees or remuneration shall be determined by the Trustee.
46. On the recommendation of the Methodist Council, Mr Ron Calver and Mr John Wyatt, retiring directors of Methodist Ministers' Pension Trust Limited, are nominated for re-appointment.
47. The Revd Michael Giles has been re-elected as director of Methodist Ministers' Pension Trust Limited by the active members of the Scheme and will be re-appointed to the Board from 1 September 2016.
48. The full list of directors of Methodist Ministers' Pension Trust will be:

The Revd Stuart Bell, Mr Ronald Calver, Mr Graham Danbury, the Revd Michael Fielding, the Revd Michael Giles, Ms Ingrid Kirby (Chair), Mr Andrew Paul, Mr Colin Pearson, the Revd Andrew Walker and Mr John Wyatt.

PASLEMC

49. The same recommendations made for MMPS are recommended for PASLEMC, ie to increase the number of directors on the Trustee Board by one. The Council will be asked to appoint Mr Andrew Paul as a Director; to appoint Ms Ingrid Kirby as an independent Director.

Automatic re-enrolment

50. The 2012 Conference agreed that the Methodist Ministers' Pension Scheme (MMPS) should be used as the qualifying scheme for automatic enrolment and the staging date was 1 September 2013. The staging date for the Methodist Council was brought forward to 1 September 2013 and the Pension and Assurance Scheme for Lay Employees of the Methodist Church was used as the qualifying scheme for Methodist Council employees.
51. There is a requirement to re-enrol ministers to MMPS and Methodist Council employees to PASLEMC every three years. The re-enrolment date will be 1 September 2016 for both ministers and Methodist Council employees.
52. Based on the stipends payroll as at 1 February 2016. Eleven ministers will be automatically enrolled on to MMPS from 1 September 2016. They may elect to opt out subsequently if they wish.
53. Based on the Methodist Council employees payroll as at 1 March 2016, 21 employees will be automatically enrolled on to PASLEMC from 1 September 2016. They may elect to opt out subsequently if they wish.
54. The MMPS and PASLEMC are both registered as qualifying schemes with the Pensions Regulator. Re-declaration of compliance will need to be completed by 1 November 2016.

*****RESOLUTIONS**

- 31/1. The Conference received the Report.**
- 31/2. The Conference directed that increases to pensions in payment in relation to both past and future service be linked to the Consumer Price Index rather than Retail Price Index with effect from 1 September 2018.**
- 31/3. The Conference agreed to evaluate any reduction in contributions rates from 1 September 2018 as part of the 2017 actuarial valuation with the aim of reducing contributions in proportion to the current contribution rates if the funding position could support such a reduction in contribution rates.**

- 31/4.** The Conference directed the Trustees to consider awarding discretionary increases on or after 1 September 2018 if the funding position could support such an increase and subject to consultation with the MMPS actuary and agreement with the Conference.
- 31/5.** The Conference directed that consideration be given to using the Pension Reserve Fund to cover the cost of the financial impact of continuing using Retail Price Index for pension increases awarded on 1 September 2016 and 1 September 2017.
- 31/6.** The Conference noted the increases to pensions in payment from 1 September 2016.
- 31/7.** The Conference agreed that the Rules of MMPS be amended, with and on the consent of the Trustee:
- to allow individual directors of the trustee company, Methodist Ministers' Pension Trust Limited, to be paid from the Scheme for carrying out their role as part of the company on behalf of the Scheme and that the fees or remuneration shall be determined by the Trustee provided that the Conference shall have full power to review, revoke or amend such determination, and
 - to make clear that the Rules of the Scheme shall prevail over the company's articles.
- 31/8.** The Conference noted that the Trustee will amend the articles of Methodist Ministers' Pension Trust Limited to allow for an additional church nominated director.
- 31/9.** The Conference appointed Ms Ingrid Kirby as an independent director and Mr Andrew Paul as a director of the Methodist Ministers' Pension Trust Limited.
- 31/10.** The Conference re-appointed Mr Ron Calver and Mr John Wyatt as directors of Methodist Ministers' Pension Trust Limited.
- 31/11.** The Conference noted the re-appointment of the Revd Michael Giles as member nominated director of the Methodist Ministers Pension Trust Limited.
- 31/12.** The Conference agreed that the Trust Deed governing Rules of PASLEMC be amended by the Trustee:
- to allow individual directors of the trustee company, Methodist Lay Employee Pension Trust Limited, to be paid from the Scheme for carrying out their role as part of the company on behalf of the Scheme and that the fees or remuneration shall be determined by the Trustee provided that the Conference shall have full power to review, revoke or amend such determination, and
 - to make clear that the Trust Deed and Rules of the Scheme shall prevail over the company's articles.
- 31/13.** The Conference noted that the Trustee will amend the articles of the Methodist Lay Employees' Pension Trust Limited to allow for an additional employer nominated director.
- 31/14.** The Conference noted the automatic re-enrolment of relevant ministers and Methodist Council employees with effect from 1 September 2016.