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Resolutions	41/1. The Conference receives the Report. 41/2. The Conference delegates authority to the Council to conclude the valuation discussions with the Pension Trustees and agree any consequent resolutions. 41/3. 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 (which equates to £45m of the estimated £300m balance) to provide additional contributions to the Pension Reserve Fund and to transfer the funds to the Connexion by 31 December 2021.

Summary of content

Subject and aims	This report provides the Conference with an update on the triennial valuation of the Methodist pension schemes. It seeks delegation to the Methodist Council to allow the valuation process to be concluded within the statutory deadline. It also highlights the need for additional resources to be added to the Pension Reserve Fund.
Main Points	• The pension schemes are in deficit as at the last valuation date. • The Pension Reserve Fund (PRF) has sufficient reserves to cover the existing deficits. • Further funding is required from the Church to replenish the PRF and reduce risk. • An initial proposal is to seek voluntary funding from the Church to support the schemes. • Should the Church not respond generously to this appeal, a fixed levy will almost certainly be required.

41. Pension Scheme Actuarial Valuations

Background Context	MC/21/47 Pension Scheme Actuarial Valuations
Consultations	The Finance Sub-Committee (FSC) of the Strategy and Resources Committee (SRC) takes a lead on the negotiations with the Pension Trustees in relation to the valuation. A subgroup of the FSC and Pension Trustees has been formed for this purpose. The Methodist Council in March 2021 considered the challenges faced in this valuation process and asked that a report be put to the Conference seeking financial support from the Church. The paper was scrutinised by the SRC in April.

Pension Valuation

1. The ordained ministry is a precious gift that is cherished in the life of the Methodist Church. Part of the covenant between the Church and those called to ordination is the provision of a pension in retirement.

2. The Trustees of the Methodist pension schemes play a vital role in protecting this covenant. They also have a fiduciary duty to protect the interests of their members and particularly the security of the benefits already earned for the rest of their (and surviving spouses') lives.

3. The Methodist Ministers' Pension Scheme (MMPS) provides pensions to ministers based on their length of service and the current level of stipend. As the value of these pensions is not based directly on the contributions made by the minister and the Church into the scheme, it is important that the Church continually monitors how well the scheme is funded, ie considering whether the current assets within the scheme are sufficient to meet the likely future pension payments.

4. The Trustees of the MMPS are required by pension regulations to undertake a valuation of the scheme every three years. They are required to agree the valuation with the "sponsor", which is the Conference. This agreement needs to cover how any deficits that arise will be funded.

5. The Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) provides pensions for lay employees of a number of connexional bodies (principally the Connexional Team). It provides pensions and has a trustee body much like the MMPS, however, the lead sponsor is the Methodist Council and the scheme closed to new entrants and future accrual in 2019. Since May

2019 lay staff employed by the Council have had a defined contribution pension scheme provided by a third party.

6. There are three sources of funding for the pension schemes: the contributions ministers/ employees make from their stipends/ salaries; the contributions circuits/ employers pay for their ministers/ employees; the returns on investments held by the Trustees.

In response to the growing cost of the pension schemes the 2009 Conference established a Pension Reserve Fund (PRF) that receives 45% of property levies. This fund has been used to provide top up payments to the pension schemes when deficits in either scheme have emerged. To date this has avoided the need for contribution rates to be increased further and provided some reassurance to the pension trustees that a source of funding exists as and when deficits emerge.

7. Both schemes have been subject to an actuarial valuation as at 31 August 2020 and these need to be agreed with the Church by 30 November 2021. The initial results show that the 'Covenant' between the Church and the schemes is 'tending to strong'. Despite this, the provisional deficits are £14.1m (MMPS) and £16.5m (PASLEMC).

8. These deficits can be covered by the PRF which has a current balance of over £36m.

9. It is recognised that the timing of the valuation was not favourable given the prevailing economic conditions. This is partly why valuations are taken every three years, to ensure that the pension position is assessed through the economic cycle - it is important to review the position in the good times and the bad. However, the requirement is to respond to the position as presented, not ignore it in the hope of future improvement. The proposal being discussed with the pension trustees is that the payments made under the deficit recovery plan will be conditional on the level of investment performance in the future. This does mean that deficit payments could be reduced if circumstances improve.

10. However, the valuation basis assumes that the Church agrees to provide 'contingent assets' in line with a proposal put forward by the Finance Sub-committee last year. This means that Methodist Church House, the Wesley Hotel Euston, the North Bank Estate, and/or the connexional manses could be sold by the pension trustees should the Council or the Conference ever fail to make payments that cover current or future deficits arising on either of the pension schemes. The provision of a contingent asset is important as it provides a legal backstop on which the pension trustees can rely. This means that they can continue to pursue a long term investment strategy that seeks higher returns than

would otherwise be the case and in turn eases the pressure on the contribution rates paid by circuits and employers.

11. Without a contingent asset proposal, the pension trustees would need to revise their assumptions on discount rates meaning that the total deficit across both schemes rises to c£68m, far in excess of the monies currently available in the PRF.

12. Furthermore, the pension trustees are keen to agree a ‘long term funding objective’ with the Church in order to reduce risk. This objective would see a reduction in the level of risk held in their investment portfolio with a consequent reduction in investment returns. Using the most risk averse assumptions to value the schemes (gilts plus 0.25%) causes the deficit to spiral to well in excess of £100m.

13. Therefore, assuming that the contingent asset proposal is agreed and that the PRF is used to fund the current deficit, it would mean there would be insufficient money available in the PRF to meet any further deterioration in the funding position. In order to meet their fiduciary responsibilities, the Trustees are seeking clarity from the Church as to how the funds in the PRF will be restored to a level that can offset the on-going level of risk that is carried in the pension schemes.

14. Given the complexities of the current situation with a range of possible outcomes, all with potential significant impacts right across the connexion, it is wise to use the full 15 months available to agree the valuation assumptions and recovery plans. This means the valuation needs to be signed off by the end of November 2021.

15. Consequently, it is necessary to seek delegation from the Conference to allow the Council to agree the final valuation with the pension trustees at its meeting in October 2021.

Funding Options

16. At its meeting in March 2021 the Methodist Council reviewed a range of options for addressing the pension deficits and providing additional funding to the Pension Reserve Fund. These options have been further discussed and refined by the Strategy and Resources Committee with the outcome set out below.

17. It is recognised that providing connexional properties as a contingent asset (as set out in paragraph 11) carries some inherent risk. It is also recognised that this is a very valuable reassurance to the pension trustees in meeting the legal requirements they have to the members of the schemes. It is intended that the terms of the contingent asset will be such that if the Conference or the Council

ever did default on paying a pension deficit recovery payment (an incredibly unlikely event) then there would be sufficient time for an alternate remedy to be put in place before the pension trustees were able to sell any connexional property. Consequently, a contingent asset proposal is supported.

18. Increasing contribution rates from Circuits and employers puts a significant strain on already hard-pressed budgets. Furthermore, contribution rates are really there to fund the pension being accrued from the future service of current ministers/employees. The deficits and financial risks that need to be mitigated relate to pension entitlements that have already accrued. For example, a circuit that has reduced its ministry team from five to four would only pay increased contribution rates for the four ministers currently appointed to it, despite the deficit relating to the five ministers previously in place. Consequently, increasing contribution rates is not favoured.

19. Increasing the amount of money made available from the property levy to the PRF could be a more straightforward approach to securing extra funding. However, repeated representations have been made that the level of the property levy is already disproportionate and impacts on the ability of local leaders to fund their missional priorities. Increasing the levy taken would further reduce what is retained locally. Similarly, the proportion of the property levy directed to the PRF could be increased by reducing the amount of levy transferred to the District Advance Funds and the Connexional Priority Fund. However, both of these are at the forefront of supporting the Church's mission and would result in less resource available locally for district funded projects and the *God For All* Strategy. Consequently, changes to the property levy are not favoured.

20. As has been highlighted repeatedly by the Connexional Treasurer and is evident from the report of the Central Finance Board (CFB) to the Conference, there remains a substantial amount of money held in the deposit fund of the CFB. The amount held by churches, Circuits and Districts either through their TMCP model trust accounts or held directly with CFB is estimated at around £250m. In addition, it is estimated that a further £50m is held in commercial bank accounts. This total of £300m represents more than three years of turnover of the entire Church connexionally, and has not materially decreased during the current pandemic.

21. It is recognised that some of this money will be held in restricted funds (estimated at £75m) and it would certainly be prudent to retain at least 6 months of expenditure in reserve (say £50m). It is also recognised that many exciting missional projects will be ready and waiting to start as the COVID-19 restrictions are eased and the Church emerges from this time of lockdown. However, with all these caveats, there will remain substantial funds held in the CFB deposit fund which could be released to support the pension schemes without then needing

to either increase on-going contribution rates or take monies away from existing critical missional priorities.

Funding Proposal

22. To repeat the opening paragraph "The ordained ministry is a precious gift that is cherished in the life of the Methodist Church. Part of the covenant between the Church and those called to ordination is the provision of a pension in retirement." In that spirit, it is not proposed to impose a levy on the funds of individual churches, Circuits and Districts at this stage, but to ask each trustee body to give freely, generously and according to their ability.

23. As a guide, a target of £45m has been set (15% of the estimated £300m balance). To achieve 15% across the Connexion will obviously require those who are more able to consider giving at a higher level.

24. Monies contributed to the Pension Reserve Fund will only be used for the purpose of paying deficit contributions to the Pension Schemes as agreed with the pension trustee bodies. Whilst it is unlikely that the need for funds will decrease, it is a possibility. If ever the PRF were determined to be 'over funded' it would be for the Conference to determine how any surplus was deployed.

25. In order to ensure there is clarity on the success of this voluntary approach, it is proposed that all payments are transferred to the Pension Reserve Fund by 31 December 2021. Should the monies received fall short of what is necessary, proposals for a fixed levy will be discussed by the Methodist Council prior to the Conference of 2022.

******RESOLUTIONS***

41/1. The Conference receives the report.

41/2. The Conference delegates authority to the Council to conclude the valuation discussions with the Pension Trustees and agree any consequent resolutions.

41/3. 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 (which equates to £45m of the estimated £300m balance) to provide additional contributions to the Pension Reserve Fund and to transfer the funds to the Connexion by 31 December 2021.