Contact name and details	Matt Tattersall - Director of Finance and Resources tattersallm@methodistchurch.org.uk
Resolutions	26/1. The Conference receives the Report. 26/2. The Conference approves that the previously agreed increase in pension contribution rates from Circuits in September 2023 is cancelled. 26/3. The Conference approves that should circumstances allow, contributions from the property levy to the Pension Reserve Fund be suspended. 26/4. The Conference approves that should circumstances allow over the coming years, the voluntary contributions to the Pension Reserve Fund be returned to the donors with interest paid at the CFB Deposit Rate. 26/5. The Conference accepts the recommendation of the MMPS review task group to make no changes to the MMPS at the current time but to pass the review of MMPS to the Finance Sub-committee for ongoing consideration. 26/6. The Conference approves the appointment of Mr Luke Wilcox and Mr Pete Harris as directors of the Methodist Ministers' Pension Trust Limited for a period of three years commencing 1 September 2023.

Summary of content

Subject of aims	To update the Conference on pension issues including the estimated funding position and a report from the task group established by the Council to look at the future of the Methodist Ministers' Pension Scheme (MMPS).
Main points	The risks concerning the pension schemes have materially reduced so some significant decisions need to be taken.

Background context and relevant documents (with function)	Conference reports explain where we were: Conference 2022 Agenda Volume 2 (methodist.org.uk) Conference 2021 Agenda Volume 2 (methodist.org.uk) MC/22/13 sets out the terms of reference for the MMPS review task group MC/23/18 provides more detailed information on the pension issues
Consultations	A presentation by the Chair of the pension trustees was given at the November 2022 Finance Sub-committee. The resolutions in this paper are recommended by the Council.

Summary of impact

Standing Orders	The note to SO974 (1) will need amending to reflect the reduction in contributions to the Pension Reserve Fund to 0%.
Financial	Whilst decisions over the c£0.5bn pension funds are a matter for the pension trustees, the decisions they take have a material impact on finances across the connexion.
Wider connexional	The voluntary appeal for funds towards the pension reserve fund gained significant attention across the Connexion. The change in context and need for those funds is similarly a matter of wider connexional concern.
Risk	There is an opportunity materially to reduce the financial risk to the Church from the pension schemes.

Introduction

1 This paper deals with pension issues that relate to the Methodist Conference as the "employing body" of the Methodist Ministers' Pension Scheme (MMPS). It also covers issues that are the responsibility of the Methodist Council (the Council) as:

- an employer in the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC), and
- the lead employer for other Methodist bodies in PASLEMC.

2 At its meeting in January 2023 the Council received a paper updating it on significant developments affecting both pension schemes. Members of the Conference who are interested in understanding more of the detail are encouraged to read that Council paper which can be found at https://www.methodist.org.uk/media/28976/counc_mc23-18-pension-update.pdf.

3 This paper provides a simplified summary of the issues considered by the Council and makes important recommendations concerning the future of both schemes.

4 Whilst this paper deals with issues that relate to the effective investment of Methodist monies, it should be noted that the Investment Strategy of the pension schemes is the responsibility of the respective Pension Trustee. The Council and the Conference cannot direct that strategy, though they are able to offer comment on it.

Recap of the position prior to 2022

5 As at the date of the 2020 valuations both schemes were in deficit. Recovery plans were agreed for both schemes with funding provided by the Pension Reserve Fund (PRF).

6 The cost of future accrual in the MMPS had increased and was being temporarily subsidised from the PRF. The Conference agreed that circuit contributions rates should be increased from 1 September 2023 to meet the increased cost on an ongoing basis.

7 An agreement was reached with the Trustees of both schemes concerning long term funding. This agreement outlined an aspiration to reduce risk in the investment strategies of both schemes. It was envisaged that risk would be progressively reduced as circumstances allowed until a low risk investment portfolio by 2030 (PASLEMC) and 2035 (MMPS) was reached. To mitigate the risk in the meantime the Council agreed that various connexional properties would be offered as security. In addition, a voluntary appeal was launched to add funds to the PRF.

8 The Conference affirmed the work of an MMPS task group and requested that proposals for the future of the MMPS were brought to the Conference of 2023 ensuring that any such proposals fully considered the ethical stance of the Methodist Church.

Recent developments

9 Major economic turbulence in 2022 led to a dramatic, unprecedented and unexpected increase in long term interest rates. This was driven mainly by the

invasion of Ukraine, but also the government's "mini-budget" in September. The consequence of this was a large reduction in the value of the future liabilities of the pension schemes. Whilst the value of the pension investments also fell during this time, it was by a lesser amount. Therefore, the overall funding position of the schemes materially improved.

10 This change in the funding position was so dramatic that the de-risking strategy that had been agreed to occur over 10 years (PASLEMC) and 15 years (MMPS) was largely delivered over 10 months. A consequence of the accelerated approach to de-risking is that the Trustees have significantly reduced the amount of money they invest with the Central Finance Board (CFB). Whilst this reduction was always anticipated, the pace was not, and the CFB have had to put in place measures to address their loss of income. In addition, the Methodist Council agreed to fund from the PRF a temporary increase in charges from the CFB to avoid these being passed on to individual churches and Circuits.

11 The schemes only undergo a full valuation every three years. However, in the intervening period, the actuaries use a range of estimated data to produce interim valuations. The interim funding positions as at 31 August 2022 were MMPS £48.0m surplus and PASLEMC £2.3m deficit. The cost of future accrual in MMPS also reduced dramatically.

12 In summary:

- There has been an unprecedented and unforeseeable improvement in the valuation of the pension schemes.
- De-risking has achieved target funding positions 8 years (PASLEMC) and 13 years (MMPS) ahead of plan.
- Having been de-risked, the schemes are less at risk from future changes in market conditions, ie the reduction in the deficit experienced in recent months would not be fully reversed even if interest rates returned to previous levels.
- Disinvestment of funds from the CFB has been at a pace that left the CFB with an unexpected deficit.

Insurance buy-out/buy-in

13 When the decision was taken to close PASLEMC to future accrual in 2019, it was always the case that the scheme would need a longer-term solution. As the scheme is closed and the number of pensioners declines over the coming decades, it will not be viable to retain in-house management of the scheme in the long run. A common solution in this situation is an insurance buy out. This is where the scheme is closed and an insurer takes over all the investments and pays the pensions using a form of insurance called an 'annuity'. There would be no actual change to the amount of pension a pensioner received, just who they received it from.

14 The pension investments would sit with the annuity provider and would not be directly subject to the ethics of the Methodist Church. However, this is no different to the current position where the investment strategy of the Pension Trustees cannot be directed by the Conference. Also, in choosing such an insurance provider, the Church could ensure ethical considerations were factored into the selection process.

15 As the MMPS remains open to future accrual, a buy-out is not an option. However, the Trustee could undertake an insurance buy-in. This is similar to a buy-out, except the scheme would not be wound up but would purchase and hold annuities from an insurer to cover the current liabilities. The Trustee would then use the cash flow from these annuities to pay out pensions due. Like a buy-in, the investments would be with an insurer. This approach does not require Council or Conference approval as the scheme would not be wound up. However, the Trustees are engaging with the Council as this opportunity is explored.

16 Insurance buy-ins/outs take a long time (estimated at two years) to negotiate and implement. The Director of Finance and Resources and Connexional Treasurer are leading the discussions with the pension trustees, reporting back to each Finance Sub-committee meeting with escalation through the SRC to Council and Conference as required.

Pension Reserve Fund (PRF)

17 When the Conference launched the appeal for additional voluntary contributions to the PRF it was on the basis that a well-funded PRF provided extra security to the pension trustees. In turn, this supported the setting of a long-term target for each scheme and an agreed de-risking path to achieve that target. This helped prevent the setting of a more aggressive target, a spiralling of the pension deficit, and an unaffordable increase in the ongoing cost of the pension scheme. All this remains true.

18 It was implicit from the actuarial assumptions that the funds in the PRF would be required for most of the period up to the target dates of 2030 (PASLEMC) and 2035 (MMPS). The unprecedented economic events of the last year mean that the investments have been de-risked over the course of months, not years. In this context, it is much less likely that the £7.6m of voluntary contributions to the PRF will be required.

19 Whilst it may not be clear for the next 18-24 months that those voluntary contributions are surplus to requirements, it is more likely than not. It is for the Conference to agree how any unspent funds are used, but given the circumstances, it is proposed that should the funds not be required that they are returned to the respective donors. As the funds have accrued interest whilst in the PRF it is appropriate this is also passed to the donors. It is proposed to pay interest at the CFB deposit fund rate.

20 By the end of August 2023 it is likely that the total funds in the PRF will exceed £50m. Allowing for the deficit payments to the PASLEMC (£12m) and the potential future return of the voluntary contributions with interest, significant funds will still remain. Should the process towards insurance buy-in/out continue successfully it is possible there will be no ongoing requirement for a PRF. It is therefore proposed that subject to satisfactory negotiations with the pension trustees, contributions from the property levy to the PRF are suspended from September 2023.

MMPS review task group

21 The task group has been reviewing the future of the MMPS using four main parameters:

- the affordability of the scheme and the value for money provided;
- where risk over future costs and benefits should lie between circuits and ministers;
- the appropriateness of governance arrangements in the context of the Church, and
- the Covenant relationship between the Church and those called to serve as ministers.

22 The task group has received a verbal update on the steps being taken by the Church of England to develop a new type of pension scheme – a collective defined contribution (CDC) scheme. Whilst it shares some features of a defined contribution (DC) scheme, a CDC scheme aims to achieve higher levels of investment return (and therefore higher pensions) by sharing the risk between member employees over time. This option will be further explored with Church of England representatives during 2023.

23 The task group commissioned work from a firm of pension specialists that addressed some key questions:

- Will future accrual costs increase as the schemes de-risk?

They confirmed that based on the figures as at the time of the 2020 Valuation, the costs of the pension scheme would increase from the current 38.8% to c47.2%. However, given the material increase in the discount rate since 2020, the de-risked level of contributions would now be closer to 22.3%.

- Would a defined contribution pension scheme offer better benefits to members than the MMPS?

  For the current level of contributions MMPS provides a higher level of pension than an equivalent DC pension. However, a DC pension would offer more flexibility. If a minister wanted to forgo the provision of a 50% pension to a surviving dependant, they would be able to increase their own pension. Also, a DC scheme would offer more flexibility to draw down benefits sooner.

- Are the pension levels paid from MMPS reasonable?

  Research suggests that £20k represents a modest, but acceptable level of income in retirement. However, it would assume that housing costs are limited, whereas ministers may face above average housing costs. For a minister starting at age 35 with no other pension provision, and serving the Church until state pension age, their MMPS pension plus their state pension would total c£20k.

24 In the light of the very different circumstances now faced and the input from the pension specialists, the group concluded as follows:

- For the level of benefits provided, the MMPS is not an expensive scheme. Reducing the cost of the scheme would reduce the benefits to members. As the benefits provided are not excessive and only provide for a modest level of income in retirement, reducing the pension further is not recommended.
- Based on the current position, it is likely that the cost of future accrual in the scheme will fall dramatically at the next valuation in September 2023. Whilst circumstances could change, particularly in the medium term, the immediate pressure from increasing costs has gone away.
- MMPS is less flexible than alternative pension arrangements but does provide a basic pension to all with the risk sitting with the Church. A DC scheme would offer more flexibility for ministers but would also increase the risk they carry. Whether the Church should offer more flexibility and allow ministers to take more decisions for themselves about their pensions is a question about the relationship between Church and minister. The Secretary of the Conference will take this question forward.

- CDC may offer an interesting alternative pension arrangement, but it is some years away from being a viable replacement for MMPS.
- The group is stood down for the foreseeable future; no changes to MMPS are recommended, and conversations over the future of MMPS should continue at a slower pace, overseen for now by the Finance Sub-committee. This approach will allow the focus to be on developing the insurance buy-in/out options whilst not closing the door on new arrangements for MMPS.

Employer Nominated Directors

25 The Methodist Ministers' Pension Trust Limited (MMPTL) is the Trustee of the Methodist Ministers' Pension Scheme (MMPS). Under its Articles, six directors of 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.

26 In order to regularise appointments, Mr Luke Wilcox was appointed by the Conference of 2022 for a term of just one year from September 2022, with a view to renewing his appointment for a further three years from September 2023. Mr Wilcox is willing to serve a further three-year term and his nomination is recommended by the Council.

27 Mr John Wyatt is due to retire by rotation on 31 August 2023.

28 Mr Pete Harris was appointed by the Council to the Trustee of the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) from September 2022. Mr Harris has indicated his willingness to also serve as a director of MMPTL and his nomination is recommended by the Council.

*****RESOLUTIONS**

26/1. The Conference receives the Report.

26/2. The Conference approves that the previously agreed increase in pension contribution rates from circuits in September 2023 is cancelled.

26/3. The Conference approves that should circumstances allow, contributions from the property levy to the Pension Reserve Fund be suspended.

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26/5. **The Conference accepts the recommendation of the MMPS review task group to make no changes to the MMPS at the current time but to pass the review of MMPS to the Finance Sub-committee for ongoing consideration.**

26/6. **The Conference approves the appointment of Mr Luke Wilcox and Mr Pete Harris as directors of the Methodist Ministers' Pension Trust Limited for a period of three years commencing 1 September 2023.**