

## Pension Contribution Levels Review

### Memorial M17 (2016) Pension Contributions from Lay Employees and

### Memorial M18 (2016) Employer only Pension Contributions for Lay Employees

<b>Contact Name and Details</b>	Nick Moore, Head of Support Services <a href="mailto:mooren@methodistchurch.org.uk">mooren@methodistchurch.org.uk</a>
<b>Status of Paper</b>	Final
<b>Action Required</b>	For Decision
<b>Resolutions</b>	<p>7/1. The Council recommends to the Conference that the employer level for pension contribution should remain as a minimum of 6% of salary, however employees should be offered choices, with a minimum level of contribution from them of 2%, to apply to all employees appointed after 1 September 2017.</p> <p>7/2. The Council recommends that local employers should offer any of their employees that have opted out at 6% the chance to now be enrolled at a level between 2% and 6%.</p> <p>7/3. The Council recommends that local employers should not be allowed to offer these new arrangements to existing employees that are already contributing at the current level of 6%.</p>

#### Summary of Content

<b>Subject and Aims</b>	Review the mandatory pensions contribution levels of 6% plus 6%
<b>Background Context and Relevant Documents (with function)</b>	<ul style="list-style-type: none"> <li>• SO 438A (Lay employment)</li> <li>• Memorials M17 and M18 Conference 2016</li> </ul>
<b>Consultations</b>	Finance Sub-Committee (FSC)

## **Pension Contribution Levels Review**

### **Memorial M17 (2016) Pension Contributions from Lay Employees and**

### **Memorial M18 (2016) Employer only Pension Contributions for Lay Employees**

#### **Background**

1. The 1999 Conference determined that all local Methodist employing bodies must offer pension provision for all lay employees to whom a new contract of employment is issued under SO 438A on the basis of a contribution of 6% salary by the employing body and 6% by the lay employee; 12% combined.
2. Since the adoption of this Conference resolution life expectancy has continued to rise, meaning that for many employees the level of 12% is insufficient. In addition, the pensions environment has changed dramatically since 1999, in particular with the passing of auto enrolment legislation, which provides a completely new context. Memorials M17 and M18 were brought to the 2016 Conference in response to this changed context, raising the question of whether the mandatory contribution levels of 6% plus 6% were still appropriate.

#### **Auto-Enrolment under the Pensions Act 2008**

3. The auto enrolment legislation (The Pensions Act 2008) seeks to encourage more widespread provision for pensions in two ways: (a) Auto enrolment to overcome the inertia that affects many people when considering pension provision, and (b) Setting the initial contributions at a very low level (2% of salary in total) such that few people are likely to opt out. This minimum combined employee/employer contribution increases to 5% in April 2018 and 8% in April 2019. These contribution levels will not provide a very substantial pension but represent a hope by the Government that they will set people on a path to making a more adequate provision at a later date.
4. The Government estimated at the passing of that legislation that there were over seven million British workers who were not saving enough for their retirement. As a result of this the Pensions Act 2008 introduced the basic provisions and framework for each employer to have to make arrangements for most of its employees to join a pension scheme automatically that satisfies certain minimum requirements and to make contributions on behalf of those who choose to remain members of the scheme.
5. Local Methodist employers, such as churches and circuits, must choose a pension scheme to use for auto-enrolment. A number of local employers have used schemes provided by the Pensions Trust, but recent guidance from the Team has been towards the National Employment Savings Trust (NEST) as it is government backed.

#### **National Employment Savings Trust (NEST)**

6. NEST is the new workplace pension scheme set up by the Government to ensure that every employer would have access to a high-quality workplace pension scheme for auto enrolment. <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/home/contents/homepage.html>  
**Employers new duties under auto enrolment**

7. With effect from their particular staging date each employer will have to:
- Enrol eligible job holders<sup>1</sup> who are not already active members of a qualifying pension scheme into an auto-enrolment scheme<sup>2</sup>;
  - Maintain a job holder's membership of the auto-enrolment scheme as long as s/he is employed by the employer and chooses to be a member;
  - Make minimum relevant employer contributions on qualifying earnings<sup>3</sup> which are set at an overall long term rate of 8% of qualifying earnings of which the employer must pay at least 3% although this will be phased in over a transition period starting at a minimum of 1% in the first year;
  - Provide certain information to job holders and workers;
  - Register with the Pensions Regulator and keep certain records;
  - Re-enrol eligible job holders who have previously opted out from a qualifying scheme broadly every three years.

### **Local Methodist Employers/Local Lay Employees**

8. For most local Methodist employers the staging date for auto enrolment has now been reached. Anecdotal evidence shows that many had not been complying with the Conference policy and the refusal of the Team payroll bureau to process contribution rates outside of Conference policy has caused some dissatisfaction. However, the number of local lay employees continues to increase and, just as it has taken a stand over the payment of the Living Wage, the Church has sought to act responsibly towards employees by ensuring that contributions of at least 12% are paid into pension plans.

### **Current Connexional Pension Provisions within Methodist Church Britain**

9. For comparison purposes, it is worth noting that there are currently two connexional defined benefit (DB) pension schemes which are:
- a) Methodist Ministers Pension Scheme (MMPS)  
Contributions: Members pay 9.3% and the 'Employer' 26.9% of Pensionable Earnings.
  - b) Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC)  
Contributions: Members pay 8% and the Employer 24.1% of Pensionable Earnings.

### **Auto-enrolment Contribution Levels**

10. The legislation has introduced a tiered level of employer contribution which has been adopted for auto-enrolment. These are the minimum contributions which will need to be paid and will be a percentage of qualifying earnings. Qualifying earnings are an employee's gross earnings currently between £5,772 and £41,865 per annum in 2014/15 terms.

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<sup>1</sup> Eligible job holder is between aged 22 and state pension age and earns at or above the personal income tax threshold of £10,000 per annum in 2014/15 terms.

<sup>2</sup> An auto-enrolment scheme is the pension scheme in which a worker must be included for membership. The worker has the right to "opt out" of the employer's pension scheme but employees must be auto-enrolled every three years.

<sup>3</sup> Qualifying earnings are between £5,772 p.a. and £41,865 p.a. in 2014/15 terms.

Period	Minimum Contributions	Total	Minimum Contributions	Employer
to 6 April 2018	2.0%		1.0%	
to 6 April 2019	5.0%		2.0%	
7 April 2019 onwards	8.0%		3.0%	

### Example of another 'Methodist' Employer's Arrangement

11. Contributions could be fixed, or on a matched basis ie as the employee pays more, so the employer's contribution also increases, up to a maximum employer contribution.

For example, Action for Children operates a trust based bundled DC arrangement. Contributions are on a matched basis as follows:

Employee	Employer
3%	5%
4%	5%
5%	5%
6%	6%
7%	7%
Over 7%	7%

### How much does an individual need to contribute to their pension for a comfortable retirement?

#### Moneysaving Expert.com<sup>4</sup> Guidance

12. Whilst it is very much a rough rule of thumb because it depends so much on future events, it is possible to consider the Church's arrangements against current guidance. According to [www.moneysavingexpert.com](http://www.moneysavingexpert.com) in order to estimate what to contribute for a comfortable retirement:
- Take the age you start your pension and halve it. Put this % of your pre-tax salary aside each year until you retire.
  - Make sure you include your employer's contribution in that percentage.
  - This means that someone who starts to contribute aged 30 should make total contributions of 15%, whilst someone aged 45 should pay in 22.5%. It also means that the Conference policy of 12% is only sufficient if individuals start paying in aged 24!

<sup>4</sup><http://www.moneysavingexpert.com/savings/discount-pensions#howmuchshould>

## Finance Sub-committee

13. The Finance Sub-committee (FSC) has no formal role in this process, but was asked for its considered views on the pensions memorial at its meeting on 16 November 2016. The FSC considered a range of options and recommended that the employer level should remain as a minimum of 6% of salary, and that employees should be offered choices, with a minimum level of contribution from them of 2%.
14. The Finance sub-committee wanted to remind employing bodies that they should encourage employees to think carefully about pension provision and the impact of the choices that they take; particularly for young employees who should be encouraged to start saving for a pension as early in their working life as possible.

## Conclusion

15. Auto-enrolment legislation means that the minimum total contributions will significantly increase from 2018 onwards. The minimum combined employee/employer contribution increases to 5% in April 2018, the year that the Conference receives this report, so any proposed change to the policy would need to conform to that level.
16. Memorial M17 accepts that these contribution levels will not provide a very substantial pension, but assumes that it will 'hopefully' set people on a path to making a more adequate provision at a later date.' This assumption is possibly inaccurate as it puts the onus on the employee, rather than the employer, to save for their pension at an elusive date, which may never arrive.
17. Memorial M18's request to permit Methodist Church employing bodies to enter into employer-only contribution arrangements, where employees have exercised their right not to opt in or to join a pension scheme is contrary both to the spirit of auto-enrolment legislation, and the Church's stance regarding responsible employment. It is designed purely to protect employing bodies in the small number of cases where they could potentially be subject to a debt arising from an employment cessation event. It is not therefore appropriate for the Conference to offer such an option; rather the focus should be on employing bodies encouraging pension participation as widely as possible.

## \*\*\*RESOLUTIONS

- 7/1. The Council recommends to the Conference that the employer level for pension contribution should remain as a minimum of 6% of salary, however employees should be offered choices, with a minimum level of contribution from them of 2%, to apply to all employees appointed after 1 September 2017.**
- 7/2. The Council recommends that local employers should offer any of their employees that have opted out at 6% the chance to now be enrolled at a level between 2% and 6%.**
- 7/3. The Council recommends that local employers should not be allowed to offer these new arrangements to existing employees that are already contributing at the current level of 6%.**

## **Appendix A – Memorials 17 and 18 2016 Conference**

### **The 2016 Conference received the following Memorials**

#### **Memorial M17 Conference 2016 - 'Pension contributions from Lay Employees'**

“The Church should provide greater encouragement than is currently the case for lay employees to make pension contributions. This could be achieved with a simple amendment to the current requirements whereby the minimum employee contribution is set at 2% of salary. The minimum employer contribution would remain at 6% and the combined contribution rate of 8% will meet the auto enrolment requirements for 2019 and beyond. Employing bodies should be asked to encourage their lay employees to make higher contributions (and may wish to offer financial incentives to do so) recognising that in current economic circumstances even a combined contribution of 12% is estimated to be far from adequate to provide a satisfactory pension for most people.”

“The Wirral (18/9) Circuit Meeting requests the Conference to reduce the minimum pension contribution required to be paid by lay employees if they are also to benefit from employer contributions.”

The Conference referred the memorial to the Methodist Council and directed that it undertake a review of the minimum pension contribution levels by employees and employers for lay employees, to report back to the 2018 Conference.

#### **Memorial M18 Conference 2016 - Employer only Pension Contributions for Lay Employees**

The Nottingham (South) (22/2) Circuit Meeting (Present: 24; Voting: unanimous) calls upon the Conference to urgently review its decision of 1999 regarding contributions to a pension scheme for both employer and lay employees. It notes that the changing landscape of pensions legislation, the issues of auto-enrolment and employer debt liability upon withdrawal from a scheme (a cessation event) cause this Circuit, and possibly others more generally, great difficulty in managing the costs of involvement in a pension scheme. It therefore asks the Conference to permit Methodist Church employing bodies to enter into employer-only contribution arrangements where employees have exercised their right not to opt in or to join a pension scheme and as a result the employer is, either immediately or in the foreseeable future, at risk of incurring a cessation event liability.

#### **Reply**

The Conference thanks the Nottingham (South) Circuit Meeting and refers its memorial to the Methodist Council to be considered as part of the review set up in response to memorial M17.