Pension Schemes

MC/24/41

Date of meeting	13-15 April 2024
Contact name and details	Matt Tattersall – Executive Director of Finance and Resources tattersallm@methodistchurch.org.uk
Action required	For approval
Resolutions	41/1. The Council receives the report. 41/2. The Council recommends to the Conference the payment from the Methodist Ministers' Pension Scheme (MMPS) surplus of a discretionary inflation uplift of 5% over and above the planned MMPS inflation in September 2024. 41/3. The Council recommends to the Conference that £2.6m of surplus funding in the Pension Reserve Fund (PRF) is transferred to the Fund for the Support of Presbyters and Deacons (FSPD) and the balance of surplus funding in the PRF, after accounting for the 2023 Valuation, be transferred to the Connexional Priority Fund. 41/4. The Council recommends to the Conference the revised security package outlined in the paper as part of the 2023 Valuation. 41/5. The Council recommends to the Conference that MMPS contribution rates are set at 9.3% for ministers and 20.0% for circuits/other bodies from September 2024, with the 4.4% excess collected put into a ring-fenced sub-fund of the PRF. 41/6. The Council recommends to the Conference that the voluntary contributions to the Pension Reserve Fund be returned to the donors with interest paid at the CFB Deposit Rate. CONFIDENTIAL RESOLUTION 41/8. The Council approves the creation of a single pool of closure-deferred members eligible for nomination as Member Nominated Directors of the PASLEMC. 41/9. The Council approves the re-appointment of Capital Cranfield Pension Trustee Limited, as represented by Richard Hubbard, as Director of the Methodist Lay Employees' Pension Trust Limited (MLEPTL - the Trustee body of PASLEMC) for a period of three years commencing September 2024. 41/10. The Council recommends to the Conference the re-appointment of Capital Cranfield Pension Trustee Limited, as represented by Richard Hubbard, as Director of the Methodist Ministers' Pension Trust Limited (MMPTL - the Trustee body of MMPS) for a period of three years commencing September 2024.
Any alternative options to consider	The Council may wish to consider an alternative set of MMPS contribution rates that offer a reduction in cost to active ministers.

Summary of content

Subject of aims	To update the Council on various pension matters.

Main points	Decisions are required in order to meet the statutory timetable for the agreement of the 2023 Valuations. The improved funding position allows for benefits to be shared across various stakeholders. Progress is being made with the insurance buy-in/out and a decision is required to help that process move forward. Some administrative matters relating to Board appointments require approval.
Background context and relevant documents (with function)	Pension report to the 2023 Conference Pension Schemes MC/23/72 PASLEMC Update Presentation at the Methodist Council October 2023

Summary of impact

Financial	Improvements in the pension valuations will reduce the costs of pensions going forward and allow security to be released over some assets.
Wider connexional	Voluntary contributions received for the pension schemes can be returned to donors.
Risk	Risk continues to be reduced in relation to the pension schemes.

Pension Schemes

Glossary

De-risking
The process of reducing the risk in the investment portfolio held by the pension trustees. Typically selling equities (shares) and buying bonds. The lower risk investments provide lower investment returns.

Framework Agreement
A comprehensive legal agreement between the Church and pension trustees that was put in place at the last triennial valuation. It sets out how the schemes are to be funded and what security is to be provided. It was developed to deal with deficits in the scheme and how the schemes would derisk over the next decade. Circumstances have overtaken the agreement and the de-risking has already been delivered.

Insurance Buy-in
The process of selling the existing investment portfolio and buying an annuity from an insurer. This annuity pays out each month the exact amounts required to pay on to the pensioners. The insurer takes on the investment risk and the risk that pensioners live longer than anticipated.

Insurance Buy-out
The process of closing a pension scheme where the insurer pays an annuity direct to each pensioner equal to the pension they were due from the pension scheme. It allows the pension scheme to be wound up thus saving on the costs of running a scheme.

Long term objective funding level
A measure of how close the scheme is to having sufficient funding to cover the liabilities of the scheme based on a low risk (and therefore low investment return) portfolio. It was assumed MMPS would reach the objective by 2035 and PASLEMC by 2032. However, both schemes have already achieved this funding level.

MMPS Methodist Ministers' Pension Scheme
The pension scheme for ministers in the Church

MMPTL Methodist Ministers' Pension Trust Limited
The trustee body of the MMPS

PASLEMC Pension and Assurance Scheme for Lay Employees of the Methodist Church
The pension scheme for lay employees of a number of Methodist bodies (primarily the Council i.e. Connexional Team). It closed to future accrual in 2019.

MLEPTL Methodist Lay Employees Pension Trust Limited
The trustee body of the PASLEMC

Pension Reserve Fund
A designated fund under the control of the Methodist Conference. Until 2023 it received a share of the property levies received on the sale of Methodist property. It has been used to make deficit payments to the pension schemes. It also provides assurance to the pension trustees that funds are available in future should deficits emerge.

Property Charges
A legal agreement in favour of the pension trustees that allows them to force a sale of some Connexional property should the Church default on its financial contributions to the schemes.

Triennial Valuation
Every three years there is a statutory requirement for the pension trustee to undertake an actuarial valuation of a pension scheme. This sets out the funding position and agrees any recovery plan with the employer where there is a deficit.

Summary

1 This paper draws together a number of current issues relating to both the Methodist Ministers' Pension Scheme (MMPS) and the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC).

2 These issues are inter-related and need to be considered as a whole package. In doing so, an attempt has been made to share the benefits of the improved funding position. The proposals can be summarised as follows:

- Increase MMPS pensions by an additional 5% over and above the standard inflation uplift from September 2024.
- Reduce circuit contribution rates from 26.9% to 20% from September 2024.
- Retain ministers' contributions to MMPS at 9.3%.
- Reduce total contributions paid over to MMPS to 24.9% from September 2024, and put the 4.4% excess (20%+9.3%-24.9%) paid by circuits in to a ring fenced part of the Pension Reserve Fund to offset future increases in circuit contribution rates.
- Repay the voluntary contributions made to the Pension Reserve Fund (PRF) following the Conference appeal, including the payment of interest by the end of this Connexional year.
- Remove the property charges on Connexional manses and the North Bank Estate that provide additional security to the pension trustees, retaining the charge on The Wesley Hotel Euston.
- Reduce the monies set aside in the PRF to address future deficits.

Triennial Valuation 2023

Summary

3 Every three years the trustees must agree an actuarial valuation of the pension schemes with the Conference (MMPS) and the Council (PASLEMC). The initial results for 2023 have been shared by the Pension Trustees. The headlines compared with the 2020 figures are summarised as follows:

	MMPS	**PASLEMC**
Deficit 2020	(£14.2m)	(£16.7m)
Surplus 2023	£44.7m	£1m
Future service contribution rate in 2020	38.8%	-
Future service contribution rate in 2023	24.9%	-
Long term objective funding level 2020	97%	82%
Long term objective funding level 2023	113%	102%
Contingent asset requirement in 2020	£68m	£1.1m
Contingent asset requirement in 2023	£0	£0

MMPS pension inflation

4 The rules in MMPS concerning annual inflation uplifts are as follows.
"Pensions are increased in line with increases to the Index of Consumer Prices ("CPI") for January, as follows:

	Increase
Benefits earned prior to 01/09/2006	CPI, maximum 5% pa
Benefits earned on or after 01/09/2006	CPI, maximum 2.5% pa

Additional increases may be awarded at the discretion of the Trustee and with the consent of The Conference, if the finances of the Scheme permit."

5 The maximum inflation uplift of 2.5% was introduced by the Conference in 2006 in order to mitigate the rising costs of the scheme. It reduced the cost of the Scheme by 1.5%, however, Circuit contributions still had to increase by 3.5% to 17%, and minister contributions increased by 1% to 7%.

6 The Conference in 2016 took the decision to change the measure of inflation from RPI to CPI for inflation uplifts from September 2018 onwards.

7 At each stage of these changes, the Conference has made decisions that clearly reduced the future benefits of the Scheme in light of the affordability of the Scheme. It is clear that a cap on inflation would impact pensioners during times of high inflation. This is the situation faced over the last two years, and likely to be experienced for at least one further year. The mechanism is working as intended, albeit

with adverse consequences for pensioners.

8 However, it is noted that active ministers have benefitted from stipend increases of 6.8% (2024 proposed) 7.8% (2023), and 4.2% (2022) which raises questions about fairness and equity.

9 The SRC, meeting in February 2024, was advised that it was highly unlikely the Trustee would permit the current surplus to be used for increased benefits given the risk that is still inherent in the Scheme. Therefore, any enhancement to benefits would be a straight charge to the Church. Whilst the Pension Reserve Fund could be a source of such funding, it was noted that the PRF was not established to enhance pensioner benefits, but to try and protect benefits already accrued.

10 The SRC therefore recommended to the Council that no additional inflation be paid, but that some of the surplus funds in the PRF be used to supplement the Fund for Support of Presbyters and Deacons (FSPD), thereby providing additional support for supernumeraries who are in financial need.

11 Since the SRC meeting, the value of the surplus has been confirmed at £44.7m and the MMPS Trustee has indicated it will formally approach the Council with a proposal to increase pensions by an additional 5% in September 2024 over and above the inflation increase that would be payable anyway.

12 Should the funding position deteriorate significantly in future, it will not be possible to reverse this proposed increase. However, over the last three years, significant progress has been made in de-risking the investment portfolio of the pension scheme. Therefore, whilst risk remains, it is the trustee's view that the proposal is reasonable. As it will be funded from the pension surplus and not the PRF it is recommended that the Council approves this uplift.

13 Given there still remain surplus finds in the PRF, it is proposed that a smaller contribution of £2.6m is transferred from the PRF to the FSPD to support with future benevolent claims from supernumeraries. Whilst the FSPD remains well funded, its balance has reduced materially in recent years and £2.6m will help to replenish some of these funds.

<u>Framework Agreement and security package</u>

14 This is the first Valuation since the Framework Agreement was signed in April 2022. The creation of the Framework was to safeguard the funding position of the Schemes. Since it was approved, the funding position of both schemes has improved beyond all recognition. As a result, it would be possible to collapse the entire agreement. However, if the Framework is taken away, the Trustees and Council would need to renegotiate a whole new agreement to put in its place. This would require considerable time and expense. Also, whilst there is reason to believe that the extensive de-risking activity of the last two years has materially reduced the risk of future deficits, the Framework does at least provide a mechanism for dealing with such eventualities.

15 Consequently, it is proposed that the Framework Agreement is not scrapped, but that a 'side letter' is produced noting that it is highly unlikely that any of the triggers in the agreement will be reached, but that, for now, the structure of the agreement is maintained. In doing so, this protects the Covenant between the Church and the schemes, which in turn has a positive impact on how the Valuation is calculated.

16 Whilst retaining any property security is not required under the Framework Agreement, continuing to provide some security supports the Trustees as they continue to manage the derisking of the MMPS. In turn, this reduces both the likelihood and scale of potential future deficits. However, it is not possible to eliminate all risk, and whilst MMPS remains open to future accrual, further financial risk is created.

17 Consequently, it is proposed to reduce the security that the Church offers the trustees by approximately 50% as follows:

- Property security is released from all connexional manses and Chester House.
- Property security is retained on The Wesley Hotel Euston (c£20m), in favour of the MMPS.
- Security on the property sub-funds of the Pension Reserve Fund is released with the balances being transferred in to the main Pension Reserve Fund.
- Retain c£30m of the Pension Reserve Fund to protect the Church against future deficits with the balance of the PRF released for other purposes.

18 The Valuation also assumes that the insurance buy-in of PASLEMC proceeds to plan and no further security is required in relation to that scheme (see PASLEMC Buy-in section below).

Contribution levels

19 The improved Valuation also reduces the cost of future accrual in the MMPS. This means contribution levels can be reduced accordingly. Having consulted with the District Treasurers, there was a strong preference for taking a lesson from Genesis 41 when Joseph filled the barns during the years of plenty to prepare for the years of famine. In order to avoid significant peaks and troughs in contribution rates it is proposed to use some of the reduced level of contributions to save for the years ahead when the contribution rates may need to increase again.

20 Over the last 20 years minister contribution rates have risen by 3.3% points from 6% to 9.3%. Over the same period circuits have increased their contributions by 13.4% points from 13.5% to 26.9%. In addition, the PRF has been used to subsidise 2.6% for the last three years, and the church has spent multiple millions from the PRF covering deficit payments. Consequently, it is proposed that the subsidy from the PRF is stopped (as it was only ever intended as a short term measure) and the remaining reduction in contributions benefits circuits as outlined below:

	Current contribution levels %	**Proposed contribution levels %**
Pension Reserve Fund subsidy	2.6	-
Ministers	9.3	9.3
Circuits	26.9	20.0
Total	**38.8**	**29.3**
Contributions to MMPS	38.8	24.9
Balance to be held in the PRF	-	4.4

It is not proposed to reduce minister contribution rates given they may need to increase again in three years' time. However, it is recognised that, if future Valuations return favourable results, it could be possible for the Conference to reduce minister contribution rates at that time.

Pension Reserve Fund

21 The Conference of 2023 agreed to suspend further payments into the PRF from property levies. It also agreed that the voluntary contributions to the PRF should be returned to donors, with interest, if circumstances allow. The package of measures in this paper mean that those circumstances have now arisen and the repayments can be actioned following the Conference.

22 The estimated position in relation to the fund can be summarised as follows:

	PRF £'m
Balance as at 31/1/24	53.7
Funds committed to PASLEMC	-7.1
Savings from the PASLEMC buy-in/out	4.0
Return of voluntary donations	-8.0
Release funds for the FSPD	-2.6
Release funds into the Connexional Priority Fund	-10.0
Remaining balance	**30.0**

CONFIDENTIAL SECTION

PASLEMC Member Nominated Directors

33 Since the Scheme was closed to future accrual, there have been three categories of membership: pensioners; closure members (still in Methodist employment); deferred (not in Methodist employment but not yet taken pension).

34 Over time the number of deferred members has increased relative to closure members (now at ratio of 2:1). It has also become challenging to attract members to the Board. As a consequence it is proposed that for appointment to the Board as Member Nominated Directors all non-pensioner members be eligible from a combined closure-deferred pool.

Appointment of a professional independent trustee director

35 In 2021 the Council appointed Capital Cranfield Pension Trustees Limited, represented by Mr Richard

Hubbard, as Director of the Methodist Lay Employees' Pension Trust Limited (MLEPTL - the Trustee body of PASLEMC). In 2022 the Conference made the same appointment to the Methodist Ministers' Pension Trust Limited (MMPTL - the Trustee body of MMPS) and delegated the review of the contract for this service to the Methodist Council.

36 The contract ends in August 2024, with the option for a three year extension. Having consulted with the trustee directors, there was unanimous support for the reappointment of Capital Cranfield with Richard Hubbard as director and Chair of both boards for a further three year term. In particular, the directors noted how he had calmly led the boards through the unprecedented turmoil crated by the government's fiscal statement in September 2022, and also how both schemes had reduced the level of risk the church was exposed to. It is also notable how the relationship between the boards and the Church has improved over the last three years. Therefore, his reappointment is recommended to the Council.

*****RESOLUTIONS**

41/1. The Council receives the report.

41/2. The Council recommends to the Conference the payment from the Methodist Ministers' Pension Scheme (MMPS) surplus of a discretionary inflation uplift of 5% over and above the planned MMPS inflation in September 2024.

41/3. The Council recommends to the Conference that £2.6m of surplus funding in the Pension Reserve Fund (PRF) is transferred to the Fund for the Support of Presbyters and Deacons (FSPD) and the balance of surplus funding in the PRF, after accounting for the 2023 Valuation, be transferred to the Connexional Priority Fund.

41/4. The Council recommends to the Conference the revised security package outlined in the paper as part of the 2023 valuation.

41/5. The Council recommends to the Conference that MMPS contribution rates are set at 9.3% for ministers and 20.0% for circuits/other bodies from September 2024, with the 4.4% excess collected put into a ring fenced sub-fund of the PRF.

41/6. The Council recommends to the Conference that the voluntary contributions to the Pension Reserve Fund be returned to the donors with interest paid at the CFB Deposit Rate.

CONFIDENTIAL RESOLUTION

41/8. The Council approves the creation of a single pool of closure-deferred members eligible for nomination as Member Nominated Directors of the PASLEMC.

41/9. The Council approves the re-appointment of Capital Cranfield Pension Trustee Limited, as represented by Richard Hubbard, as Director of the Methodist Lay Employees' Pension Trust Limited (MLEPTL - the Trustee body of PASLEMC) for a period of three years commencing September 2024.

41/10. The Council recommends to the Conference the re-appointment of Capital Cranfield Pension Trustee Limited, as represented by Richard Hubbard, as Director of the Methodist Ministers' Pension Trust Limited (MMPTL - the Trustee body of MMPS) for a period of three years commencing September 2024.