Pension Consultation with members of Methodist Ministers' Pension Scheme (MMPS)

Contact Name and Details	Amanda Amor – Pensions Manager amora@methodistchurch.org.uk
Status of Paper	Final
Action Required	Decision
Resolutions	80/1. The Council agrees to split any reduction in the pension contributions as a result of changing pension increases from RPI to CPI as follows: 75% of any reduction in the overall contribution rate to be applied to the Church contribution. 25% of any reduction in the overall contribution rate to be applied to the members' contribution rate. 80/2. The Council directs that the consultation document be sent to all members of the Methodist Ministers Pension Scheme in November 2015.

Summary of Content and Impact

Subject and Aims	To agree the basis of the consultation with members concerning a change to pensions in payment awarded in relation to both past and future service to be linked to the Consumer Price Index rather than Retail Price Index.
Main Points	The triennial valuation has been concluded and MMPS is showing a shortfall in the Scheme of £40 million. The shortfall could reduce by a further £25m if pension increases awarded in relation to both past and future service were linked to the annual rate of the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). A consultation with members would be required and the Conference directed that a consultation take place during 2015/2016. A final decision would be made by Conference in 2016.
Background Context and Relevant Documents (with function)	The results of the 2014 Actuarial Valuation were given at the 2015 Conference and considered by the Council in April 2015 (MC/15/32).
Impact	The shortfall and contribution rates could reduce if it was agreed to link the pension increases to CPI rather than RPI from 1 September 2016.

Pension Consultation with members of the Methodist Ministers' Pension Scheme (MMPS)

Background

1. The results of the Actuarial Valuation of the MMPS revealed a reduction in the shortfall from £58.4m in 2011 to £40.0m in 2014, 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 proposed basis for 2014.

2. The Conference agreed the Recovery Plan which saw the Church future service contribution rate increase from 12.9% of standard stipend to 17.1% of standard stipend, with the member contribution rate remaining at the current rate of 9.3% of the standard stipend. The shortfall contributions fell from 14% of standard stipend to 9.8% of standard stipend leaving the overall Church contribution rate at 26.9% of the standard stipend. In addition, £1 million per annum continues to be paid from the Pension Reserve Fund until the end of the recovery period.

3. The Methodist Council agreed to recommend to the Conference to consult with members over 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.

4. The Conference directed that a consultation take place with all members of MMPS throughout 2015/16 with a view to linking the pension increases to the annual rate of increase in the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from 1 September 2016.

Consultation with members over linking pension increases to CPI rather than RPI

5. The issue of affordability of Church contributions for some circuits was discussed by the Trustee with the SRC Finance Sub-Committee and a recommendation to consider future contributions was made to the Methodist Council.

6. The Council recognised the importance of the Church continuing to provide a defined benefit pension scheme for ministers. It considered the balance between the long-term affordability of the scheme for the Church and the level of benefits that are provided. It agreed that any potential change should be consulted upon now, whilst the Church can control the timescales and have a full consultation without the outcome being driven by the needs of a valuation.

7. One option considered by the Methodist Council was to link future pension increases awarded in relation to both past and future service to the CPI rather than the Retail Price Index RPI. Due to the differences in how the indexes work CPI is, on average, around 0.75% to 1% per annum lower than RPI which would result in lower expected increases to pensions in payment.

8. As at the valuation date of 1 September 2014, the effect on the shortfall if pension increases were linked to CPI rather than RPI would have been to reduce the shortfall from £40m to £15.8m, reducing the shortfall contributions to 4.3% of standard stipends (from 9.8%) and reducing the recovery period to three years. The effect on the total future service rate would have been to reduce it from 26.4% of standard stipends to 25.8% of standard stipends.

9. If pension increases awarded in relation to both past and future service were linked to CPI rather than RPI the total Church rate could have reduced 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.

10. Alternatively, the member contribution rate could also reduce to share any reduction in the contributions in a reasonable and proportional way.

11. The table below shows the previous contribution rates to MMPS:

Period from	Total Church rate % standard stipend	Member rate % standard stipend	Total contributions % standard stipend
01.09.1988 – 31.08.2003	10.0	6.0	16.0
01.09.2003 – 31.08.2006	13.5	6.0	19.5
01.09.2006 – 31.08.2009	17.0	7.0	24.0
01.09.2009 – 31.08.2010	22.0	9.0	31.0
01.09.2010 – 31.08.2012	25.6	9.0	34.6
01.09.2012 – 31.08.2013	26.6	9.0	35.6
01.09.2013 – 31.08.2014	26.9	9.3	36.2

12. The current pension increase is based on the RPI for January each year. Pensions earned before 31 August 2006 are based on RPI, capped at 5% per annum, and pensions earned after 1 September 2006 are based on RPI, capped at 2.5% per annum.

13. 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 %
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

The Proposed Basis for the Consultation with members

14. The proposal is to change increases to pensions in payment awarded in relation to both past and future service to be linked to the CPI rather than RPI. If the proposed change is agreed the total reduction in contributions is estimated to be just over 6% of standard stipend based on the calculations done as part of the 2014 actuarial valuation.

15. The recommendation is that any reduction in contribution be shared between the circuits and the members in line with the current contribution proportions. The Church contribution is currently 26.9% of standard stipends which represents around 75% of the total contributions.

16. The reduction to the Church contribution rate could therefore be 4.5% (75% of the full reduction of 6%) taking the contribution rate to 22.4% of standard stipend. The reduction to the member contribution rate would be 1.5% taking the member contribution rate to 7.8% of standard stipend.

17. The funding position of the Scheme has changed since the 2014 valuation. Due to market movements, the funding level has worsened and the cost of providing future service benefits has increased. The Conference will need to liaise with the Trustee of the Scheme to determine whether it would be appropriate to reduce the contributions being paid to the Scheme in conjunction with the change to pension increases, if the proposal goes ahead.

18. The consultation document would invite views on the following:

- Changing the index used to calculate pension increase to link it to the Consumer Price Index for both past and future service.

- If the above proposal is agreed, to share the reduction in the contribution rate between the member and the Church in line with the current proportions (ie 75% of the reduction in the contribution rate applied to the Church's contribution rate and 25% of the reduction in the contribution rate applied to the members' contribution rate).

- Implementing the change from 1 September 2016.

19. A consultation letter and document has been drafted on this basis and is attached.

*****RESOLUTIONS**

80/1. The Council agrees to split any reduction in the pension contributions as a result of changing pension increases from RPI to CPI as follows:
75% of any reduction in the overall contribution rate to be applied to the Church contribution.
25% of any reduction in the overall contribution rate to be applied to the members' contribution rate.

80/2. The Council directs that the consultation document be sent to all members of the Methodist Ministers Pension Scheme in November 2015.

Consultation paper and questionnaire regarding benefits under The Methodist Ministers Pension Scheme

Contents

1 Introduction

1.1 This paper contains important information about the pension benefits you are provided with under the Methodist Ministers Pension Scheme (MMPS). It also details the Conference proposals for changes to the index used for increases to pensions in payment for both past and future service from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This change will affect all active members, pensioners (including widows, widowers and Civil Partners in receipt of pensions) and deferred members.

1.2 The Conference is entering into a consultation on the proposals with all those who would be affected by the proposed change until 5 February 2016. The minimum statutory period of consultation is 60 days, however, it is proposed that this consultation will run for over 90 days to allow everyone the opportunity to fully understand the proposals. It is important that you read the whole document so that you can give us your informed views about the proposals.

2 History

2.1 The Actuarial Valuation of the Scheme carried out at 1 September 2008 revealed a shortfall of assets relative to liabilities for past service benefits of £38.9 million. The shortfall was due mainly to allowing for improvements in members' longevity but also unfavourable market conditions. The 2009 Conference agreed that Circuits, which were paying contributions to the Scheme at the rate of 17% of stipend, should pay an additional 5% from September 2009 with a further 7% from September 2010 and that the member's contribution rate should be increased by 2% from September 2009.

2.2 The 2009 Conference decided that a Pension Reserve Fund be established which could be used to meet any future funding deficits in both the Ministers' and the Lay Employees' Pension Schemes. The Fund receives income via the Connexional Priority Fund levy on the sale of Church property. Whilst it does not form part of the assets of the pension schemes it strengthens the Church's financial support of them.

2.3 There was resistance both at the Conference and subsequently about Circuits having to pay a further 7% contribution rate in 2010. The Conference therefore initiated a review of the benefits of the Scheme and asked for a report to be made to the 2010 Conference.

2.4 The Conference consulted with Ministers in the following areas. These changes only affected active members of the Scheme.

- increasing Normal Pension Date (NPD) for future service from age 65 to 68.
- reducing the rate at which pension accrues to active members for future service from $1/70^{th}$ to $1/80^{th}$ of stipend.
- reducing the level of pension for ministers retiring early on the grounds of ill health.

The changes to the accrual for benefits accrued from 1 September 2010 onwards and the changes to the ill health pension provision were adopted. The changes to NPD were not implemented and consequently Circuits were required to increase contributions by 3.6% of standard stipend to 25.6% from 1 September 2010.

2.5 The Actuarial Valuation of the Scheme carried out at 1 September 2011 revealed that the shortfall of assets relative to liabilities for past service benefits had increased to £58.4 million. The shortfall increase was due to the change in economic conditions including lower investment returns than anticipated as well as allowance for further improvements in members' longevity.

2.6 The 2012 Conference directed that an annual contribution of £1 million per annum from the Pension Reserve Fund should be used to contribute to the increased deficit. This payment was in addition to the existing contribution of 14% of standard stipend being paid by the Church to reduce the deficit.

2.7 The 2012 Conference agreed increases in Church contributions, with the initial increase of 1% to 26.6% of standard stipend from 1 September 2012. It further directed that a consultation take place with members with a view to:

- Linking the Normal Pension Date (NPD) under MMPS to the male State Pension Age (SPA).
- Sharing the balance of the 2013 increase in cost equally between the member and the Church

2.8 The changes to link the NPD to the male SPA and to share the balance of the 2013 increase in cost equally between the member and the Church were agreed and implemented from 1 September 2013. Again these changes only applied to active members of the Scheme.

3 2014 Actuarial Valuation and impact on future contributions

3.1 The Actuarial Valuation of the Scheme carried out at 1 September 2014 has revealed that the shortfall of assets relative to liabilities for past service benefits has reduced to £40 million. The main reason for the reduction in the shortfall was due to better than expected investment returns and payment of the shortfall contributions of 14% of standard stipend each year.

3.2 The valuation also revealed that the contribution rate required to pay the pension benefits expected to accrue to members in future, based upon the current benefit structure, has increased by 4.2% of standard stipend. The future service rate at the 2011 valuation was 22.2% of standard stipend and the rate at the 2014 valuation was 26.4% of standard stipend.

3.3 The reason for the increase in the cost of providing future service benefits is largely down to the fall in gilt yields which means it is now more expensive to provide pension benefits.

4 Changes now being proposed

4.1 The proposal is to change the index used for pension increases awarded in relation to both past and future service from the Retail Price Index (RPI) to the Consumer Price Index (CPI) with effect from 1 September 2016. This change would apply to all active members, pensioners (including widows, widowers and Civil Partners in receipt of pensions) and deferred members.

4.2 Due to the differences in how the indices work CPI is, on average, lower than RPI which would result in lower expected increases to pensions in payment. The Bank of England estimates that, in the long run, RPI could exceed CPI by around 1.3%. However the Bank of England has also noted that discussions with market participants suggest a lower expectation of around 0.7 to 1%. You can find examples showing the potential impact of changing the index used for pension increases on pages 11 to 14.

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

Year	RPI annual rate %	CPI annual rate %
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

4.4 The effect on the shortfall revealed at the 2014 actuarial valuation if pension increases were linked to CPI rather than RPI would have been to reduce the shortfall from £40m to £15.8m, reducing the shortfall contributions to 4.3% of standard stipends (from 9.8%) and reducing the recovery period to three years. The effect on the total future service rate would have been to reduce it from 26.4% of standard stipends to 25.8% of standard stipends. The total overall reduction in contributions would have been 6.1% of standard stipends, based on the results of the 2014 valuation.

5 Sharing the reduction in the contributions between the member and the Church

5.1 The funding position of the Scheme has changed since the 2014 valuation. Due to market movements, the funding level has worsened and the cost of providing future service benefits has increased. The Conference will liaise with the Trustee of the Scheme to determine whether it would be appropriate to reduce the contributions being paid to the Scheme in conjunction with the change to pension increases, if the proposal goes ahead.

5.2 The proposal would be to split any reduction in contributions between the member and the Church in line with the split in the current contributions. The Church contribution is currently 26.9% of standard stipends which represents approximately 75% of the total contributions.

5.3 A history of contributions paid by the circuits and members is shown below:

Period from	Church rate % standard stipend	Member rate % standard stipend	Total conts % standard stipend	Reason for change
1948-1952	10.0	6.0	16.0	Flat rate pension of £3.25 for each year of service
1954–1958	13.0	8.0	21.0	Valuation deficit
1958–1963	13.0	3.0	16.0	Minister had to pay their own National Insurance
1963–1971	13.0	5.0	18.0	Introduced 1/80th on average stipend for post 1963 service
1971–1978	13.0	6.0	19.0	Death in service benefit introduced
1978–1984	8.5	7.5	19.0	Change in National Insurance so circuits paid more
1984–1988	12.0	7.5	19.5	Pensions based on final stipend for post 1963 service
1988–2003	10.0	6.0	16.0	Valuation surplus + pension based on 1/90th of final stipend until 1994, then it was 1/80th until 2000 when accrual

				improved to 1/70th for all service
2003–2006	13.5	6.0	19.5	Valuation deficit
2006–2009	17.0	7.0	24.0	Increase to cost of buying future service benefits
2009–2010	22.0	9.0	31.0	Valuation deficit
2010–2012	25.6	9.0	34.6	Accrual reduced to 1/80th for future service
2012–2013	26.6	9.0	35.6	Valuation deficit
2013–2014	26.9	9.3	36.2	Benefits reduced as NRD set to male SPA for service from September 2013. Share of cost of deficit

5.4 If this proposal is agreed, based on the results of the 2014 actuarial valuation, this would have resulted in a reduction to the Church contribution rate of 4.5% of standard stipend per annum (around 75% of the full reduction of 6.1%) taking the contribution rate to 22.4% of standard stipend. The reduction to the member contribution rate would have been 1.6% per annum of standard stipend taking the member contribution rate to 7.7% of standard stipend.

6 Discussions with the Trustee Board

6.1 The Trustee Board has received legal advice on whether the index used in the calculation of the pension increases can be changed from RPI to CPI. The advice confirmed that the Rules of the Scheme expressly permitted the Trustee to substitute CPI without the need to change the Rules. Furthermore, the decision of the High Court in the case of *Danks v QinetiQ [2012] EWHC 570 (Ch)* clarified that for a scheme such as the MMPS, increases to pensions in payment at a specific rate were not accrued rights for the purposes of past benefits by pensions legislation.

6.2 The Church was notified of the legal advice through negotiations with the Finance Sub Committee of the Strategy and Resources Committee. The discussions formed part of the valuation process.

6.3 The Trustee Board has been consulted on the proposals. The Conference will advise the Trustee Board of the outcome of the consultation and any proposals to change the index used by the MMPS if, after the end of the consultation period, the Conference decides to proceed with implementing the proposals. The Trustee Board will be provided with the feedback received from members during the consultation process. The Trustee Board will agree with Conference the overall level of contributions it would be appropriate to make.

7 Factors taken into account in proposing the changes

In developing the proposal to change the benefits structure, the Church has considered the following factors:

- Many employers in the private sector have closed their defined benefit schemes and introduced less costly defined contribution schemes where the member assumes the investment risk. The Church is not in favour of doing this because it would be contrary to the Church's life-long covenant relationship with ministers.

- The Church has to be mindful of the continuing increasing costs of pension provision placed on circuits and members.

- The importance of maintaining the financial stability and viability of the Church in balancing the historic, current and future liabilities of the pension scheme.

- The Church recognises the importance of continuing to provide a defined benefit pension scheme for ministers. It considered the balance between the long-term affordability of the scheme for the Church and the level of benefits that are provided. It agreed that this potential change should be consulted upon now, whilst the Church can control the timescales and have a full consultation without the outcome being driven by the needs of a valuation.

8 Your questions answered

- **What do the proposed changes mean for me?**

Pensioner Members

With effect from 1 September 2016 your MMPS pension increases could increase in line with the annual rate of increase in the CPI to a maximum of 5% for pension earned before 1 September 2006, and in line with the annual rate of increase in the CPI to a maximum of 2.5% for pension earned on or after 1 September 2006. Please see pages 11 to 14 for examples about how the change could impact your pension in payment.

Deferred Members

There would be no change to the way your deferred pension increases before your retirement, but once your pension is in payment your pension will increase in line with those of Pensioner Members (see above).

Active Members

There would be no change to the way your accrued pension is being calculated whilst you are an Active Member. Once your pension is in payment your pension will increase in line with those of a Pensioner Member (see above).

- **Is my existing pension affected by these proposals?**

Yes. The actual amount of pension you are receiving will not change. However, the proposed change in the inflation index used for pension increases will be applied to all pensions in payment and will affect future increases to your pension. Please see examples on page 11 and 14 for more information about how the existing pension in payment could be affected.

- **What is the difference between RPI and CPI?**

Both RPI and CPI are measures of inflation but they are measured in different ways and include some different items.

In the UK, the main measure of inflation is the CPI. The CPI is a measure of consumer price inflation produced to international standards and in line with European regulations. The CPI is the inflation measure used in the Government's target for inflation.

The CPI is also used for purposes such as uprating pensions, wages and benefits and can aid in the understanding of inflation on family budgets.
Over the last 10 years, CPI has typically been around 0.7% lower than RPI. However, this has not always been the case, and in some instances, CPI has been higher than RPI.

Further information on RPI and CPI can be found on the Office for National Statistics website (www.ons.gov.uk).

- **The Scheme Booklet and other Scheme documentation and communications I**

have state that pension increases will be in line with RPI. How can the Trustees change that index to CPI?

The rules of the scheme dictate how increases are to be applied. The relevant rule for pension increases in the MMPS is:-

"Pensions in course of payment from the Scheme...shall be increased on 1 September each year, in proportion to any increase in the 'Index' over the previous year as shown in the 'Index' published in the month of January immediately prior to the 1 September on which the increase is granted subject to a maximum of five per cent in respect of Pensionable Service to 1 September 2006 and to a maximum of two and a half per cent in respect of Pensionable Service on or after 1 September 2006."

'Index' means the Government's Index or Retail Prices or such other index as shall with the agreement of HMRC, be determined by the Trustee from time to time to apply to the Scheme and notified by the Trustee to the Members affected thereby.

The Scheme Booklet and other Scheme documentation makes reference to RPI as that is the current index being used by the Trustee. If the index changes then future booklets and Scheme documentation will be amended to reflect the change.

- **What about the legal requirement that prevents any reduction to my past service benefits (or accrued rights)?**

A recent High Court ruling stated that some scheme rules allowed the trustees to switch from RPI to CPI for the entire period of pensionable service. In the High Court case the rules allowed the trustees to use RPI or "any other suitable cost-of-living index selected by them". The index could be changed from RPI to CPI in relation to all periods of pensionable service. The rules of MMPS are written in a very similar way and legal advice has confirmed that the Trustee can amend the index to CPI if directed by Conference following the consultation with members.

The High Court confirmed that in relation to a scheme such as MMPS, a member has no entitlement to an increase to their pension in payment at any specific rate, since the trustees retained the power to change the index. The entitlement of the member once retired was only to a future increase at a rate determined by the trustees applied as at the date of each increase.

- **Where can I get further information?**

You can contact Pensions Consultation, Methodist Church House, 25 Marylebone Road, London NW1 5JR, by email to pensionsconsultation@methodistchurch.org.uk, or by telephone on 0207 486 5502.

This document is available as hard copy. Copies are also available from pensionsconsultation@methodistchurch.org.uk

You are advised to seek independent financial advice should you remain unsure about the proposal or your long-term financial provision. For a list of independent financial advisers local to you go to www.unbiased.co.uk.

The Pensions Advisory Service (TPAS) is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions covering State, church, personal and stakeholder schemes. However they cannot give personal financial advice. You can visit them at www.pensionsadvisoryservice.org.uk or by telephone on 0300 123 1047.

9 What should I do now?

9.1 The consultation period begins on 2 November 2015 and runs until 5 February 2016*.* Your views are invited on the following*:*

- Changing the index used to calculate pension increase to link it to the Consumer Price Index for both past and future service.
- If the above proposal is agreed, to share any reduction in the contribution rate between the member and the Church in line with the current proportions (ie 75% of the reduction in the contribution rate applied to the Church's contribution rate and 25% of the reduction in the contribution rate applied to the members' contribution rate).
- Implement the change from 1 September 2016.

9.2 After the consultation has closed, the views expressed will be considered by the Methodist Council before the final proposal is presented to the Trustee Board and the Conference for their consideration.

9.3 Comments must be received by 5 February 2016. You can send these by email to pensionsconsultation@methodistchurch.org.uk, or by post to Pensions Consultation, Methodist Church House, 25 Marylebone Road, London, NW1 5JR.

10 Conclusion

10.1 We hope this paper and its attachments have explained why change is necessary and what the likely impact may be. If you remain unsure or need further explanation, please do make use of the sources of information and support outlined above.

10.2 This consultation on the review of MMPS is important. Please use the opportunity to make sure your voice is heard, so that your views can be taken into consideration before the final decision is made.

10.3 The Methodist Church believes it is carrying out this consultation in line with pensions law, but if you have any questions or concerns about the process, you are entitled to contact the Pensions Regulator about the issue on their helpline 0870 606 3636.

11 Examples

METHODIST MINISTERS' PENSION SCHEME

Pension Increase Example 1 – Current pensioner, member retired in 2010

RPI is 2% per annum

Basic details

Retirement date	:	31/08/2010 (age 65)
Pension in payment as at 1 September 2010	:	£6,900 p.a.
Pension in payment as at 1 September 2015	:	£8,000 p.a.
Made up of:-		
Pension accrued to 31 August 2006	*:*	*£6,440 p.a.*
Pension accrued after 1 September 2006	*:*	*£1,560 p.a.*

Calculation of pension in payment

	Pension in payment if RPI is used	Pension in payment if CPI is used and assuming the following differences between the RPI and CPI		
Date	RPI estimated to be 2% pa	Pension if CPI is 0.5% lower than RPI (ie 1.5% pa)	Pension if CPI is 0.75% lower than RPI (ie 1.25% pa)	Pension if CPI is 1% lower than RPI (ie 1.0% pa)
01/09/2016	£8,160	£8,120	£8,100	£8,080
01/09/2017	£8,323	£8,242	£8,201	£8,161
01/09/2018	£8,490	£8,365	£8,304	£8,242
01/09/2019	£8,659	£8,491	£8,408	£8,325
01/09/2020	£8,833	£8,618	£8,513	£8,408
01/09/2021	£9,009	£8,748	£8,619	£8,492

As inflation is below 2 ½ % per annum the pre and post 2006 pensions have increased at the same rate.

Pension Increase basis
Pensions in course of payment from the Scheme...shall be increased on 1 September each year, in proportion to any increase in the 'Index' over the previous year as shown in the 'Index' published in the month of January immediately prior to the 1 September on which the increase is granted subject to a maximum of 5% in respect of Pensionable Service to 1 September 2006 and to a maximum of 2 ½ % in respect of Pensionable Service on or after 1 September 2006.

METHODIST MINISTERS' PENSION SCHEME

Pension Increase Example 2 – Current pensioner, member retired in 2010

RPI is 4% per annum

Basic details

Retirement date	:	31/08/2010 (age 65)
Pension in payment as at 1 September 2010	:	£6,900 pa
Pension in payment as at 1 September 2015	:	£8,000 pa
Made up of:-		
Pension accrued to 31 August 2006	*:*	*£6,440 pa*
Pension accrued after 1 September 2006	*:*	*£1,560 pa*

Calculation of pension in payment

	Pension in payment if RPI is used	Pension in payment if CPI is used and assuming the following differences between the RPI and CPI		
Date	RPI estimated to be 4% pa	Pension if CPI is 0.5% lower than RPI (ie 3.5% pa)	Pension if CPI is 0.75% lower than RPI (ie 3.25% pa)	Pension if CPI is 1% lower than RPI (ie 3.0% pa)
01/09/2016	£8,297	£8,264	£8,248	£8,232
01/09/2017	£8,604	£8,538	£8,504	£8,471
01/09/2018	£8,924	£8,820	£8,768	£8,717
01/09/2019	£9,256	£9,112	£9,041	£8,970
01/09/2020	£9,600	£9,414	£9,322	£9,231
01/09/2021	£9,958	£9,726	£9,611	£9,499

As inflation is above 2 ½ % per annum the pre 2006 pension increases at the rate of inflation and the post 2006 pension increases at the rate of 2 ½ % each year.

Pension Increase basis
Pensions in course of payment from the Scheme...shall be increased on 1 September each year, in proportion to any increase in the 'Index' over the previous year as shown in the 'Index' published in the month of January immediately prior to the 1 September on which the increase is granted subject to a maximum of 5% in respect of Pensionable Service to 1 September 2006 and to a maximum of 2 ½ % in respect of Pensionable Service on or after 1 September 2006.

METHODIST MINISTERS' PENSION SCHEME

Pension Increase Example 3 – Current pensioner, member retired in 2014

RPI is 2% per annum

Basic details

Retirement date	:	31/08/2014 (age 65)
Pension in payment as at 1 September 2014	:	£5,840 pa
Pension in payment as at 1 September 2015	:	£5,900 pa
Made up of:		
Pension accrued to 31 August 2006	*:*	*£3,800 pa*
Pension accrued after 1 September 2006	*:*	*£2,100 pa*

Calculation of pension in payment

	Pension in payment if RPI is used	Pension in payment if CPI is used and assuming the following differences between the RPI and CPI		
Date	RPI estimated to be 2% pa	Pension if CPI is 0.5% lower than RPI (ie 1.5% pa)	Pension if CPI is 0.75% lower than RPI (ie 1.25% pa)	Pension if CPI is 1% lower than RPI (ie 1.0% pa)
01/09/2016	£6,018	£5,989	£5,974	£5,959
01/09/2017	£6,138	£6,078	£6,048	£6,019
01/09/2018	£6,261	£6,170	£6,124	£6,079
01/09/2019	£6,386	£6,262	£6,201	£6,140
01/09/2020	£6,514	£6,356	£6,278	£6,201
01/09/2021	£6,644	£6,451	£6,357	£6,263

As inflation is below 2 ½ % per annum the pre and post 2006 pensions have increased at the same rate.

Pension Increase basis
Pensions in course of payment from the Scheme...shall be increased on 1 September each year, in proportion to any increase in the 'Index' over the previous year as shown in the 'Index' published in the month of January immediately prior to the 1 September on which the increase is granted subject to a maximum of 5% in respect of Pensionable Service to 1 September 2006 and to a maximum of 2 ½ % in respect of Pensionable Service on or after 1 September 2006.

METHODIST MINISTERS' PENSION SCHEME

Pension Increase Example 4 – Current pensioner, member retired in 2014

RPI is 4% per annum

Basic details

Retirement date	:	31/08/2014 (age 65)
Pension in payment as at 1 September 2014	:	£5,840 pa
Pension in payment as at 1 September 2015	:	£5,900 pa
Made up of:-		
Pension accrued to 31 August 2006	*:*	*£3,800 pa*
Pension accrued after 1 September 2006	*:*	*£2,100 pa*

Calculation of pension in payment

	Pension in payment if RPI is used	Pension in payment if CPI is used and assuming the following differences between the RPI and CPI		
Date	RPI estimated to be 4% pa	Pension if CPI is 0.5% lower than RPI (ie 3.5% pa)	Pension if CPI is 0.75% lower than RPI (ie 3.25% pa)	Pension if CPI is 1% lower than RPI (ie 3.0% pa)
01/09/2016	£6,105	£6,086	£6,076	£6,067
01/09/2017	£6,316	£6,277	£6,257	£6,238
01/09/2018	£6,536	£6,475	£6,444	£6,414
01/09/2019	£6,763	£6,679	£6,637	£6,595
01/09/2020	£6,999	£6,889	£6,835	£6,781
01/09/2021	£7,244	£7,107	£7,039	£6,973

As inflation is above 2 ½ % per annum the pre 2006 pension increases at the rate of inflation and the post 2006 pension increases at the rate of 2 ½ % each year.

Pension Increase basis
Pensions in course of payment from the Scheme...shall be increased on 1 September each year, in proportion to any increase in the 'Index' over the previous year as shown in the 'Index' published in the month of January immediately prior to the 1 September on which the increase is granted subject to a maximum of 5% in respect of Pensionable Service to 1 September 2006 and to a maximum of 2 ½ % in respect of Pensionable Service on or after 1 September 2006.

The Revd Gareth J Powell
The Secretary of the Conference

2 November 2015

Brothers and Sisters in Christ

Consultation on proposed changes to the Methodist Ministers Pension Scheme (MMPS)

The 2015 Conference considered the results of the valuation of the Methodist Ministers Pension Scheme (MMPS) carried out as at 1 September 2014. This revealed an increase in the cost of purchasing future service benefits in the Scheme compared to the results of the previous valuation in 2011 although there was a reduction in the level of the shortfall to £40 million.

The contribution rate required to pay the benefits expected to accrue to members in future, based upon the current benefit structure, has increased by 4.2% of standard stipend. This is primarily due to the falling gilt yields and also increased longevity resulting in the pension, on average, being paid for a longer period of time. The effect of these changes means that it is now more expensive to purchase pension benefits. Since the 2014 actuarial valuation, market conditions have resulted in the funding level of the Scheme falling further and cost of providing future service benefits increasing further.

Considerations of the 2015 Conference

The Conference considered the results of the valuation and agreed that there should be no increase in the overall Church contributions from 1 September 2015. As the cost of purchasing future service benefits had increased by 4.2% of standard stipend, and in order to maintain the Circuit contributions at the rate of 26.9% of standard stipend, the 2015 Conference directed that that the shortfall contributions would fall from 14% to 9.8% of standard stipend.

The 2015 Conference directed that:

- The total Church contribution should remain unchanged at 26.9% of standard stipends (ie 17.1% future service contribution rate and 9.8% shortfall contributions).
- The member contribution rate should also remain unchanged at 9.3% of standard stipend.
- Fixed contributions of £1m per annum should continue to be paid from the Pension Reserve Fund for the length of the recovery plan, ie a further six years.

The issue of affordability of Church contributions for some circuits was considered during the valuation process. The Conference recognises the importance of continuing to provide a defined benefit pension scheme for ministers. It considered the balance between the long-term affordability of the scheme for the Church and the level of benefits that are provided.

The Conference agreed to consult with all scheme members throughout 2015/16 with a view to linking future increases to pensions in payment awarded in relation to both past and future service to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Due to the differences in how the indexes work CPI is, on average, lower than RPI which would result in lower than expected increases in payments.

The proposed change would affect all active members, pensioners (including spouses and Civil Partners in receipt of pensions) and deferred members.

The effect on the shortfall revealed by the 2014 actuarial valuation if pension increases were linked to CPI rather than RPI would have been to reduce the shortfall from £40m to £15.8m, reducing the shortfall contributions to 4.3% of standard stipends (from 9.8%) and reducing the recovery period to three years. The effect on the total future service rate would have been to reduce it from 26.4% of standard stipends to 25.8% of standard stipends.

The Conference agreed that a consultation on any potential change should take place now, while the Church can control the timescales and have a full consultation without the outcome being driven by the needs of a valuation.

The proposal

The attached consultation document contains a proposal on the changes to the MMPS as follows:

- Changing the index used to calculate pension increase from being linked to the Retail Price Index to link it to the Consumer Price Index for both past and future service.
- If the above proposal is agreed, to share any reduction in the contribution rate between the member and the Church in line with the current proportions (ie 75% of the reduction in the contribution rate applied to the Church's contribution rate and 25% of the reduction in the contribution rate applied to the members' contribution rate).
- Implement the change from 1 September 2016.

Please note that the proposal applies only to MMPS and not to any other scheme that you might belong to.

Commitment to clear communications

I know that pensions can be confusing, but the staff in the Pensions office are committed to helping each of us understand what the proposed changes mean. The consultation document includes examples of how the changes may affect you and some popular questions and answers. The Pensions Office are happy to answer any questions you may have about your pension and how this proposed change may affect you.

Your views are important

It is very important that you make your views on the proposed changes known. The consultation period will be at least 90 days so as to allow you to consider the proposals and submit any views you have.

Please send any questions on this matter, or submit your comments, or offer alternative suggestions to pensionsconsultation@methodistchurch.org.uk.

Alternatively you can write to:

Pensions Consultation
Methodist Church House
25 Marylebone Road
London
NW1 5JR

Close of consultation and next steps

The consultation will run until 5 February 2016 and we would value your views on the proposals.

After the consultation has closed, the views expressed will be considered by the Methodist Council before the final proposal is presented to the Trustee Board and the 2016 Conference.

Yours sincerely