

Pension Schemes

MC/22/47

Date of meeting	2-4 April 2022
Contact name and details	Matt Tattersall - Director of Finance and Resources tattersallm@methodistchurch.org.uk
Action required	To approve
Resolutions	<p>47/1. The Council receives the report.</p> <p>47/2. The Council approves a contribution of £0.5m from the Methodist Church Fund to the Pension Reserve Fund.</p> <p>47/3. The Council recommends to the Conference that the voluntary appeal for donations for the Pension Reserve Fund remains open through 2022/23.</p> <p>47/4. The Council recommends to the Conference that the circuit contribution rate for MMPS is increased to 29.5% from 1 September 2022.</p> <p>47/5. The Council delegates to the MMPS review task group the preparation of a report for the Conference of 2022 to highlight the work being undertaken to review the future of the MMPS.</p>

Summary of content

Subject of aims	To update the Council on the appeal for funds to the Pension Reserve Fund and the work of the MMPS Review task group.
Main points	<ul style="list-style-type: none"> The voluntary appeal for donations to the Pension Reserve Fund (PRF) has raised £6m. Proposes a £0.5m donation from Connexional Funds to the PRF. Proposes next steps in relation to the review of MMPS.
Background context and relevant documents (with function)	MC/22/13 MC/21/79 Conference Paper Actuarial Valuation

Summary of impact

Financial	All parts of the Connexion are affected by the increase in pension costs.
Legal including impact on other jurisdictions	The deadline for the agreement of the 2020 valuation has been passed and a new deadline agreed with the regulator.

Pension Reserve Fund

- 1 The 2021 Conference passed the following resolution:

“The Conference asks every church, Circuit and District to consider giving freely, generously and according to their ability, towards a target of 15% of all balances held across the Church (which equates to £45m of the estimated £300m balance) to provide additional contributions to the Pension Reserve Fund and to transfer the funds to the Connexion by 31 December 2021.”
- 2 As at 9 March 2022 there had been 836 donations to the appeal totalling £6m. Some of the donations related to more than one entity (ie some circuits contributed on behalf of all their churches) and therefore approximately one quarter of organisations have contributed. Many more will have considered giving to the appeal but decided against for a variety of reasons, not least affordability.
- 3 Considerable feedback has been received in relation to the appeal. The key themes that emerged were:
 - the timing of the ask was very unhelpful;
 - lots of suggestions were received as to why the basis of the appeal was misguided;
 - why was the Council was not just waiting for the pension position to improve rather than having a knee jerk reaction to the deficit?
 - why was the Church still persisting with a defined benefit pension scheme when the rest of the economy has moved to defined contribution schemes?
 - suggesting that a ‘fixed levy’ would be imposed if the appeal was unsuccessful was both threatening and unhelpful, and
 - a fixed levy would do enormous harm to important missional projects that are about to be launched once the pandemic restrictions ease.
- 4 The reasons for the appeal were clearly set out in the Conference paper and an extensive “frequently asked questions” section was added to the website. The rationale for the appeal remains as strong today as it did last year. In particular, it relates to risks in funding past service liabilities rather than meeting future service commitments. However, it is also true that some of the risk has diminished, and this is most welcome. Whilst the potential closure of the scheme that some people have advocated was not mentioned in the Conference report last year, the Council has now set up the task group to investigate the options for the future. The perceived ‘threat’ from imposing a fixed levy was not intended, but was simply a statement of fact – if contributions were not received and the risk not mitigated, more direct action would be required.
- 5 The original 15% target mentioned in the appeal represented a prudent estimate of what might be available from Methodist funds having allowed for: an appropriate level of reserve; the fact that some funds are restricted; other funds are committed, and additional reserves may be being held for longer term use in relation to property maintenance and repairs. This target also equated to approximately half of the amount of risk that the Pension Trustee had identified as the downside risk.
- 6 Since the appeal was launched there has been a revision in assumptions that has led to a reduction in the downside risk from c£90m to c£70m. Whilst this is a material improvement, it is important to note that a £70m risk is still considerable and beyond the available resources of Connexional Funds to mitigate. This is why connexional properties have had to be offered as security as an alternative way of offsetting this risk.
- 7 In this context the need for increasing the funds into the PRF is just as necessary as it was 12 months ago.
- 8 However, since the appeal was launched the value of the PRF has materially increased due to increased investment values and property levies above expectations. Together with the reduction in the risk to be mitigated it indicates that the need for a fixed levy to top up the PRF would not be justified at this time.
- 9 Consequently, it is proposed that the voluntary appeal remains open for a further 18 months. This

extension of time will be carefully and appropriately communicated to Circuits and Churches reflecting the feedback noted in paragraph 3 above, and other changes in circumstances. It will allow those who were unable to contribute due to uncertainty over their finances to reconsider if a contribution is now more affordable.

- 10 In recognising that the Methodist Church Fund ended 2020/21 at a higher level than anticipated (and above its agreed reserve level) it is proposed that a contribution of £0.5m is made from the MCF to the PRF to demonstrate the Council's commitment to the ongoing appeal for funds in to the PRF.

Future of MMPS

- 11 The task group established by the Council has met once and discussed the broad scope of the work to be undertaken. It is currently envisaged that a short report to the 2022 Conference will be necessary to open up a discussion across the Connexion. This will allow definitive proposals for the future of the MMPS to be brought to the 2023 Conference followed by a formal consultation period in the Autumn of 2023.
- 12 One issue the task group has reviewed is the cost of future accrual of pensions. As the trustees move to lower risk (and lower return) investments so the cost of future service commitments has to be met from increasing contributions. As a result of the 2020 valuation, the cost of this has increased from 36.2% to 38.8% (of which 9.3% is paid by ministers). The Council previously agreed that these increased costs would be met from the PRF up until the end of 2021/22. However, the appeal for funds for the PRF was not to subsidise contributions in future, but to deal with risk. Consequently, it is important that this increase is borne by circuits. Therefore, it is proposed that the pension contribution rate for circuits increases from 26.9% to 29.5% (increase of £700) from 1 September 2022.
- 13 It should also be noted that the future service rate will continue to increase as the trustee continues to 'de-risk' its investment portfolio. The actuarial estimate is that circuit contributions will need to increase to around 37% to fund future service contributions. This is one of the key drivers of the review of the future of the MMPS as such an increase is believed to be unaffordable.
- 14 The Council is asked to delegate responsibility for finalising a report to Conference to the task group, noting that it will cover the rationale for the review, likely timescales, and the main options being considered.

2020 Valuation

- 15 The process to agree the legal documentation for the 2020 valuation has not concluded and a revised deadline of 31 March 2022 has been agreed with Pension Regulator. An update will be provided at the Council meeting.

***RESOLUTIONS

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