

## 23. Methodist Ministers' Pension Scheme (MMPS)

<b>Contact name and details</b>	Meena Tooray – Pensions Manager tooraym@methodistchurch.org.uk
<b>Resolutions</b>	<p>23/1. The Conference receives the Report.</p> <p>23/2. The Conference approves the Schedule of Contributions and directs that this be signed on its behalf by the chair of the Strategy and Resources Committee.</p> <p>23/3. The Conference notes the increases to pensions in payment from 1 September 2018.</p> <p>23/4. The Conference re-appoints Mr Ronald Calver and Mr John Wyatt from 1 September 2018 for a further three-year term.</p> <p>23/5. The Conference notes the retirement of Mr Colin Pearson and appoints Mr Andrew Gibbs as a Director of Methodist Ministers' Pension Trust Limited from 1 September 2018.</p> <p>23/6. The Conference notes the retirement of the Revd Andrew Walker and appoints the Revd John Illsley as a Member Nominated Director of Methodist Ministers' Pension Trust Limited from 1 September 2018.</p> <p>23/7. The Conference notes the retirement of the Revd Michael Fielding and appoints Mrs Ruth Edmundson as a Member Nominated Director of Methodist Ministers' Pension Trust Limited to replace him from 1 September 2018.</p>

### Summary of content and impact

<b>Subject and aims</b>	<ul style="list-style-type: none"> <li>To update the Conference on several developments regarding the Methodist Ministers' Pension Scheme.</li> </ul>
<b>Main points</b>	<ul style="list-style-type: none"> <li>The triennial valuation has been concluded and the Trustee has discussed and agreed the basis for the assumptions with the Finance Sub-Committee (FSC) of the Strategy and Resources Committee (SRC).</li> <li>The MMPS is showing a surplus in the Scheme at this valuation which means that the Pension Reserve Fund (PRF) contributions and the shortfall contributions from the Circuits could cease. There has been an increase in the cost of providing future service benefits but, because the shortfall contributions are no longer required, circuit contributions could reduce from 26.9% to 22.2% of standard stipend from 1 September 2018. However, the Methodist Council recommends that the contribution rates remain unchanged.</li> <li>Appointment and Re-appointment of the Trustee Directors of MMPS.</li> <li>Pension increases to be implemented for MMPS benefits from 1 September 2018.</li> </ul>
<b>Consultations</b>	The Methodist Council
<b>Impact</b>	The surplus will be retained in the Scheme as a buffer against future adverse experience.

## MMPS Actuarial Valuation

### Introduction

1. The valuation results for MMPS have been based on the actuarial basis which has been agreed between the Trustee and the Finance Sub-Committee (FSC) of the Strategy and Resources Committee (SRC).
2. It has been agreed that the Methodist Council, on behalf of the Conference, makes the decisions required on scheme funding issues.
3. The actuarial valuation is essentially a planning exercise. The output is a level of contributions that is considered likely to be sufficient to meet the future liabilities of the Scheme and, where a shortfall exists, the contributions that are required to meet the funding target.
4. The technical provisions of the Scheme (the past service liabilities) are derived by projecting forward benefit cash flows, for up to 60 years or so, and discounting these to the valuation date with an allowance for anticipated investment returns that is believed to be prudent. This is different from an economic valuation or the price that would need to be paid to secure the liabilities with a third party, both of which would result in higher values.
5. The results of the valuation have revealed an improvement in the funding position from a shortfall of £40.0m in 2014 to a surplus of £19.6m in 2017. This means that shortfall contributions of:
  - £1m pa from the Pension Reserve Fund; and
  - 9.8% of stipends from Circuits

agreed after the 2014 valuation are no longer required. However, there was an increase in the total (Circuits plus members) required future service contribution rate from 26.4% of standard stipend in 2014 to 31.5% of standard stipend on the agreed basis for 2017. The increase in the future service contribution rate is mainly due to the fall in bond yields.

6. The required Church future service contribution rate would increase from 17.1% to 22.2% of the standard stipend if the member contribution rate was maintained at the current rate of 9.3% of the standard stipend. However, as the 9.8% of stipend shortfall contributions are no longer required, the required Church contribution rate of 22.2% represents a reduction of 4.7% compared to the 26.9% currently being paid.
7. However, the Council has no desire to make any changes to the contribution rates currently being paid by either the Church or members as this would run the risk of reducing contribution rates now only to increase them again in the future. Therefore, the Methodist Council recommends to the Conference that the Church contribution continues at the rate of 26.9% of standard stipend.

### The employer covenant

8. As part of the consideration of the preliminary valuation results, the Trustee must have regard to the strength of the covenant of the Methodist Church. Whilst there is not a conventional employment relationship for Methodist ministers, for Scheme funding purposes there must ultimately be an “employer” who stands behind the Scheme and makes the required contributions. For the purpose of scheme funding, the Conference is the employer of the Scheme.
9. The strength of the covenant of the Methodist Church helps determine how prudent the actuarial assumptions need to be.

10. The covenant of the Methodist Church has currently been assessed by the Trustee as strong. However, the Trustee is also conscious of the declining membership of the Church and will keep under review the impact this may have on the future of the Church and hence the Church's covenant to the Scheme.

### Prudent assumptions

11. Funding assumptions need to be made about the likely course of events.
12. The regulations require that the assumptions overall are chosen prudently. By prudent, the regulations require assumptions which, if the Scheme continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.
13. In particular, the Pensions Regulator expects prudent assumptions to be used for the discount rate assumptions and mortality assumptions to be based on prudent principles.

### Assumptions

14. The valuation results have been produced using a set of actuarial assumptions, which the Trustee Board has agreed with the FSC. These are summarised below and are provided in more detail in the Statement of Funding Principles agreed by the Trustee and approved by the Methodist Council, which is attached to this paper:

Assumption	Agreed basis for 2017 valuation	Changes from 2014 valuation basis
<b>Non-pensioner discount rate</b>	Bank of England gilt curve plus 2.0% pa for 3 years linearly reducing over the following 17 years to 1.0% pa in 20 years' time	Updated to reflect current market conditions and current investment strategy
<b>Pensioner discount rate</b>	Bank of England gilt curve plus 1.0% pa throughout	Updated to reflect current market conditions and current investment strategy
<b>CPI inflation</b>	0.75% below the Bank of England RPI inflation curve	Updated to reflect current market conditions and expectations for the future
<b>Stipend increases</b>	CPI + 0.5%	Updated to reflect current market conditions and recent experience
<b>Pension increases</b>	As guaranteed in the Rules, based on CPI increases	Updated to reflect current market conditions and change to CPI pension increases
<b>Commutation</b>	An allowance for members to commute 15% of their pensions for a lump sum	No change
<b>Mortality</b>	Most up to date tables and improvement factors	Updated to use the most up to date tables and to reflect Scheme experience
<b>Expenses</b>	2.7% pa	An increase from 2.3% pa to reflect Scheme experience

### Assets

15. The assets of the Scheme had a market value of £469.3m as at 31 August 2017. On the valuation basis the Scheme was 104.4% funded as at 1 September 2017.

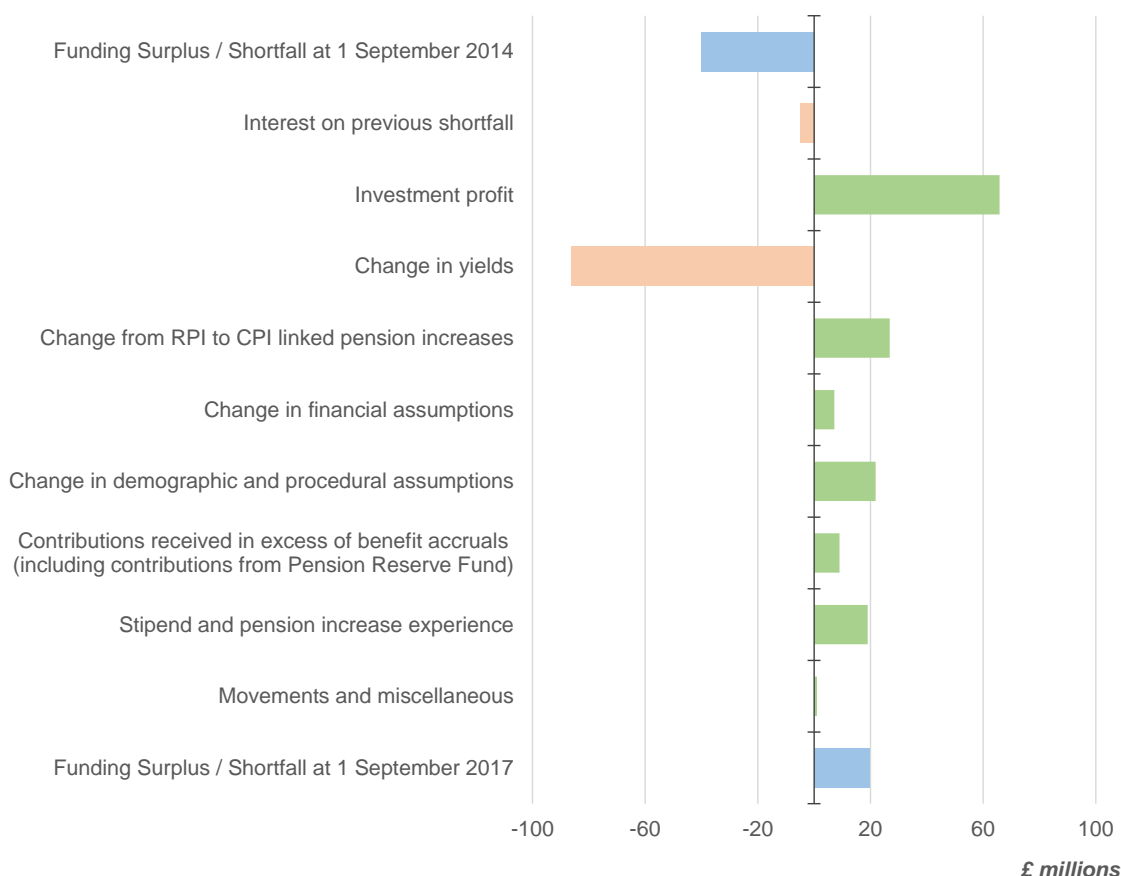
## Results

16. The table below sets out the results of the actuarial valuation together with the 2014 results for comparison purposes:

	2017	2014
Technical provisions (liabilities)	£449.7m	£424.0m
Market value of assets	£469.3m	£384.0m
Past service surplus/(shortfall)	£19.6m	(£40.0m)
Funding ratio	104.4%	90.6%
Total future service contribution rate (% standard stipend)	31.5%	26.4%

### Change in funding position

17. The valuation carried out as at 1 September 2014 revealed a shortfall of £40.0m. The position has improved, as there is now a surplus of £19.6m. The graph below shows the main factors contributing to the change in funding position over the three years to 1 September 2017:



18. Although the change in yields significantly increased the value placed on the liabilities under the Scheme, this was offset by a combination of the better than expected investment return, the change from RPI to CPI linked pension increases, the change in assumptions and the lower than expected stipend and pension increases over the intervaluation period.

### Membership

19. The membership profile as at 31 August 2017 is shown in the table below together with the figures as at 31 August 2014 for comparison purposes.

	31 August 2017	31 August 2014
Active	1,370	1,518
Deferred	301	306
Pensioners	2,654	2,646
Total	4,325	4,470

### Recovery plan

20. The valuation results have revealed a surplus of £19.6m and therefore a recovery plan is not required. The Trustee and the FSC agreed to retain this surplus in the Scheme as a buffer against future adverse experience.

### Contributions

21. The Methodist Council recommends that:
- The Church contribution continues at 26.9% of standard stipends to cover the cost of future service benefits and include a margin against future adverse experience.
  - The member contribution rate remains unchanged at 9.3% of standard stipend.
22. The Methodist Council recommends that the Conference agree the Schedule of Contributions which is attached, and authorises these to be signed on its behalf.

### Solvency position

23. The Scheme Actuary also reviewed the position if the Scheme had been discontinued on the valuation date with all members treated as having left service and the Scheme assets used to buy immediate and deferred annuities from an insurance company.
24. The solvency estimate provides an indication of the extent to which the Trustee is reliant on the Church to stand behind the Scheme.
25. The solvency position as at 1 September 2017 is set out below, together with the position at 1 September 2014:

	2017	2014
Shortfall	£113.9m	£138.4m
Funding level	80.5%	73.5%

### Increase in pensions in payment

26. Following consultation with members, the 2016 Conference recommended that, with effect from 1 September 2018, the Scheme's pension increases are linked to the rise in the Consumer Price Index (CPI). The Trustee agreed this change and the Rules of the Scheme provide for an annual increase in pensions in payment on 1 September each year in line with the annual rise in the inflation index as published in the preceding January. The increase is subject to a maximum of 5% on pensions earned in respect of pensionable service before 1 September 2006 and a maximum of 2.5% on pensions earned for pensionable service completed after 31 August 2006.
27. The increase in the CPI in the year to January 2018 is 3.0%.
28. The pre 1 September 2006 pensions will therefore increase by 3.0% and the post 1 September 2006 pensions by 2.5%. This will be applied from 1 September 2018 to pensions

in payment which commenced on or before 31 August 2017 and to ill health pensions which commenced on or before 1 September 2017.

### **Composition of Methodist Ministers' Pension Trust Limited (MMPTL), the Trustee of the Methodist Ministers Pension Scheme**

29. Mr Ronald Calver and Mr John Wyatt are retiring Directors and are recommended for re-appointment by the Methodist Council.
30. Mr Colin Pearson is retiring as a Director of MMPTL. The Methodist Council recommends to the Conference that Mr Andrew Gibbs be appointed as a Director of the Methodist Ministers Pension Trust Limited as his replacement. Mr Gibbs will be appointed to the Board from 1 September 2018.
31. The Conference is asked to note the Member Nominated Director retirements of the Revd Michael Fielding and the Revd Andrew Walker on 31 August 2018.
32. The Revd John Illsley has been elected as a Director of MMPTL by the active members of the Scheme in place of the Revd Andrew Walker. The Revd John Illsley will be appointed to the Board for a three-year term from 1 September 2018.
33. Mrs Ruth Edmundson has been elected as a Director of MMPTL by the retired members of the Scheme in place of the Revd Michael Fielding. Mrs Edmundson will be appointed to the Board for a three-year term commencing 1 September 2018.

The Trustee Board would like to extend their thanks to:

- Mr Walker and Mr Fielding for their service to the Scheme; and
  - Mr Pearson for serving 26 years as a director of MMPL. The financial environment has changed significantly during this time and the Board is very grateful for the benefit of his experience and good counsel throughout his period of service.
34. From 1 September 2018, the full list of directors of Methodist Ministers' Pension Trust Limited will be:

Capital Cranfield Pension Trustees Limited (represented by Ms Ingrid Kirby), Mr Ronald Calver, Mr Graham Danbury, Mr Andrew Paul, Mr Andrew Gibbs, Mr John Wyatt, the Revd Dr Stuart Bell, the Revd Michael Giles, the Revd John Illsley and Mrs Ruth Edmundson.

### **\*\*\*RESOLUTIONS**

- 23/1. The Conference received the Report.**
- 23/2. The Conference approved the Schedule of Contributions and directed that this be signed on its behalf by the chair of the Strategy and Resources Committee.**
- 23/3. The Conference noted the increases to pensions in payment from 1 September 2018.**
- 23/4. The Conference re-appointed Mr Ronald Calver and Mr John Wyatt from 1 September 2018 for a further three-year term.**

- 23/5. The Conference noted the retirement of Mr Colin Pearson and appointed Mr Andrew Gibbs as a Director of Methodist Ministers' Pension Trust Limited from 1 September 2018.**
- 23/6. The Conference noted the retirement of the Revd Andrew Walker and appointed the Revd John Illsley as a Member Nominated Director of Methodist Ministers' Pension Trust Limited from 1 September 2018.**
- 23/7. The Conference noted the retirement of the Revd Michael Fielding and appointed Mrs Ruth Edmundson as a Member Nominated Director of Methodist Ministers' Pension Trust Limited to replace him from 1 September 2018.**

## **APPENDIX**

### **METHODIST MINISTERS' PENSION SCHEME**

#### **Statement of Funding Principles**

##### **1. Status**

This statement was agreed by the Trustee on 8 March 2018 for the purposes of the actuarial valuation as at 1 September 2017 after obtaining the advice of Diana Simon, the actuary to the Scheme and after consulting with the Finance Sub Committee of the Strategy and Resources Committee (SRC) of the Methodist Church. This Statement of Funding Principles replaces the previous Statement (signed by the Trustee on 5 March 2015 and by the Methodist Council on 11 April 2015) to reflect changes agreed between the Trustee and the SRC.

##### **2. The statutory funding objective**

This statement sets out the Trustee's policy for ensuring that the statutory funding objective is met. The statutory funding objective is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

##### **3. Funding objectives in addition to the statutory funding objective**

None

##### **4. Calculation of the technical provisions**

###### **4.1 Technical provisions**

The technical provisions are the amount that will be needed to pay the Scheme benefits, as set out in the Scheme's Rules, that relate to service up to the valuation date, if the assumptions made are borne out in practice. The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Scheme, with a modest allowance for the future potential investment returns above the gilt yield from continued investment in more risky assets. There is an underlying assumption that the Scheme will continue as a going concern with benefits being met from the Scheme as they fall due.

###### **4.2 Method**

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

###### **4.3 Investment strategy**

The choice of the discount rates needs to have regard to the investment strategy of the Scheme. The 1 September 2017 investment strategy for the Scheme, together with the strategy scheduled to apply from June 2018 is set out in the Scheme's Statement of Investment Principles and is reproduced in Appendix 1.

###### **4.4 Assumptions**



The discount rate assumptions are determined in light of the strategic asset target weighting for each asset class, having regard to anticipated future changes in investment strategy.

Details of the actual economic assumptions to be used to calculate the technical provisions at the valuation date are set out in Appendix 2. The assumptions vary depending upon when the expected payment is made, ie they are “term dependent”. Details of the demographic assumptions at the valuation date are set out in Appendix 3.

The following principles are to be applied to determine the economic assumptions:

- **Discount rate:** The discount rate used to value the liabilities both in the period to retirement and after retirement is determined with reference to the fixed interest gilt curve at the valuation date with adjustment to allow for the expected outperformance over gilts allowing for the Scheme’s investment strategy. For the 1 September 2017 valuation, the outperformance allowance has been set as:
  - 2% pa for 3 years linearly reducing over the following 17 years to 1% pa in 20 years’ time for actives and deferred pensioners; and
  - 1% pa throughout for pensioners.

The outperformance premiums are determined as a prudent allowance for the outperformance of the assets relative to the return available on gilts. The premiums will be determined having regard to the Scheme’s investment strategy, the strength of the covenant of the Methodist Church and market conditions at the time of the valuation. The premiums will be reviewed at each valuation.

- **RPI inflation:** The Retail Prices Index (RPI) inflation assumption is determined with reference to the Bank of England inflation curve at the valuation date.
- **CPI inflation:** The Consumer Prices Index (CPI) Inflation assumption is derived from the RPI assumption by making an appropriate adjustment to reflect the differences between RPI and CPI. The difference between the long term assumption for RPI and CPI inflation may vary over time to reflect changing views of long term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out. The CPI assumption at 1 September 2017 is derived by deducting 0.75% pa from the RPI assumption.
- **Pension increases in payment – main Scheme pensions:** Pensions in payment are assumed to increase annually by the rate of CPI inflation capped at 5% pa for benefits accrued prior to 31 August 2006 and capped at 2.5% pa for benefits accrued on or after 1 September 2006. The increases are derived from the price inflation assumption, allowing for the maximum and minimum annual increases and for inflation to vary from year to year.
- **Pension increases in payment – AVC pensions:** Pensions in payment are assumed to increase annually by the rate of RPI inflation capped at 5% pa for benefits accrued prior to 31 August 2006 and capped at 2.5% pa for benefits accrued on or after 1 September 2006. The increases are derived from the price inflation assumption, allowing for the maximum and minimum annual increases and for inflation to vary from year to year.

- **Deferred pension increases:** Deferred pensions are assumed to increase at the rate of CPI inflation capped at 5% pa over the period of deferment for service prior to 6 April 2009 and with a 2.5% pa cap for service from 6 April 2009. The increases are derived from the price inflation assumption, allowing for the maximum and minimum annual increases and for inflation to vary from year to year.
- **Stipend increases:** Stipends are assumed to increase at the rate of CPI inflation plus a stipend increase adjustment. This adjustment is 0.5% pa at 1 September 2017 and will be reviewed at each valuation.

The demographic and procedural assumptions to be adopted are as follows:

- **Mortality:** Standard published tables of mortality that are considered appropriate for the Scheme as a whole. These tables allow for expected future improvements in longevity. Sample rates and the details of the tables are included in Appendix 3 to this statement. The mortality assumptions will be reviewed at each valuation.
- **New entrants:** The valuation method assumes that the membership of the Scheme remains stable. It assumes that people who leave the Scheme are replaced by new joiners, such that the age and sex profile of the membership remains broadly unchanged.
- **Leaving service:** The withdrawal assumption is determined with reference to Scheme experience. For the 1 September 2017 valuation, no allowance has been made for withdrawals from service prior to Normal Pension Dates.
- **Retirement:** Allowance is made for retirements before Normal Pension Dates and for members retiring in ill health by means of age related scales. Sample rates are included in Appendix 3. This assumption will be reviewed at each valuation.
- **Age difference of dependants:** Allowance is made for an age differential between the member and their spouse.
- **Percentage with spouse benefits at death:** An allowance is made for members with spouse benefits at death.
- **Commutation:** Allowance is made for members to commute part of their pensions at retirement for a lump sum. This allowance is 15% of main Scheme pensions at 1 September 2017. This allowance will be reviewed at each valuation.
- **Management expenses:** Allowance is made for the expected expenses of the Scheme. This allowance is summarised in Appendix 3 and will be reviewed at each valuation.

## 5. Covenant of the Methodist Church

The method and assumptions used to calculate the technical provisions at the 1 September 2017 valuation assume a continuation of the covenant of the Methodist Church as strong. If this changes significantly the Trustee would wish to review the method and assumptions.

## 6. Church contributions

The contributions payable by the Circuits are assessed by calculating the cost of future benefit accrual using the same assumptions as for the technical provisions, plus an estimate of the expenses (excluding investment-related expenses) including the Pension Protection Fund levy, reduced by the contributions made by members and adjusted having consideration to the Scheme's funding position relative to the technical provisions.

There are no arrangements currently in place for persons other than the Church or members of the Scheme to contribute to the Scheme.

#### **7. Policy on discretionary increases and funding strategy**

Pensions may be increased from time to time once in payment by an amount over and above the guaranteed rate of increases set out in the Rules, having regard to the financial position of the Scheme, at the discretion of the Trustee after consultation with the actuary and with the consent of Conference.

Advance provision is not to be made for any discretionary increases for the purpose of calculating the technical provisions. If discretionary increases to benefits are to be made, and the cost cannot be met from a funding surplus, the Trustee's current policy would be to request immediate additional contributions to meet the cost of such increases.

#### **8. Period within which and manner in which a failure to meet the statutory funding objective is to be rectified**

The Trustee and the Methodist Council have agreed that any funding shortfalls identified at an actuarial valuation should be eliminated by the payment of additional contributions over a recovery period. The level and period over which these additional contributions are to be paid will be agreed between the Trustee and the Conference. In determining the recovery period at any particular valuation the Trustee's principles are to take into account the following factors:

- the Rules of the Scheme;
- the size of the funding shortfall;
- the business plans of the Methodist Church;
- the Trustee's assessment of the financial covenant of the Methodist Church; and
- any contingent security offered by the Methodist Church.

The assumptions to be used in these calculations will be those set out above for calculating the technical provisions except that they may also take account of some of the expected investment out-performance of Scheme assets over the discount rates used to calculate the technical provisions, as agreed by the Trustee and the Methodist Council, depending upon the circumstances at the time.

#### **9. Surplus assets**

If a valuation reveals a funding surplus, the Trustee and the Methodist Council will consider:

- retaining part or all of the surplus within the Scheme as a margin against future adverse experience

- adjusting Church and/or member contributions
- improving benefits
- amending the investment strategy to invest in assets with a lower expected return but less volatility.

#### **10. Policy on reduction of cash equivalent transfer values (CETVs)**

The Trustee will ask the actuary to advise them at each valuation of the extent to which assets are sufficient to provide CETVs for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100% of benefits in excess of the first priority slice (broadly those benefits which would be provided were the Scheme to be admitted to the Pension Protection Fund), the Trustee may consider whether CETVs should be reduced as permitted under legislation, after obtaining actuarial advice as to the appropriate extent.

If at any other time, after obtaining advice from the actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the actuary and will use the above criterion to decide whether, and to what extent, CETVs should be reduced.

#### **11. Payments to the Methodist Church**

Payments to the Methodist Church are not permitted under the rules of the Scheme unless the Scheme is being wound up and all of the benefits have been provided for.

#### **12. Frequency of valuations and circumstances for extra valuations**

This actuarial valuation under Part 3 of the Pensions Act 2004 is being carried out as at the effective date of 1 September 2017 and subsequent valuations will, in normal circumstances, be carried out every three years thereafter. An actuarial report on developments affecting the Scheme's funding level will be obtained as at each intermediate anniversary of that date.

The Trustee may call for a full actuarial valuation instead of an actuarial report when, after considering the actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions. However, the Trustee will consult the Methodist Council before doing so.

#### **13. Interaction with investment strategy**

The assets that most closely match the Scheme's liabilities are derivative instruments and index-linked and fixed-interest gilts of appropriate term compared to the liabilities. The Scheme is partly invested in assets such as equities that are expected, although not guaranteed, to produce a higher return than gilts over the long term. The Scheme has a significant mis-matched position of its assets and liabilities. The SRC has confirmed that it is comfortable with this position which is supported by the strong covenant of the Church. The Trustee understands that this mis-matched position could lead to a volatile funding position. The Trustee further understands that investing in equities is expected to reduce the contributions required from the Church in the long run.

An allowance for part of the extra return expected from equity investment has been taken into account in setting the Scheme's technical provisions. If this extra return is not achieved, any resulting shortfall will ultimately need to be met by increased contributions from the Church. Both the Church and the Trustee appreciates that the contributions required can be volatile.

The Trustee regularly reviews the Scheme's investment strategy taking into account the funding position and liability profile. The Trustee will consult fully with the Methodist Council before any changes are made to the investment strategy.

#### **14. Risks**

The Trustee and the Church recognise that there are a number of risks inherent in the funding plan and that additional funding may be required at future valuations if the experience of the Scheme is not in line with the assumptions made. In addition to the investment risk detailed above, there is also longevity risk. Future improvements in life expectancy may be greater than anticipated. In setting the Scheme's funding target, mortality assumptions are made based on wider population statistics and adjusted to make some allowance for Scheme experience and future improvements in longevity. The mortality assumptions are reviewed at each formal triennial actuarial valuation.

DRAFT

**This statement has been agreed by the Methodist Council on behalf of Conference:**

Signed on behalf of the Methodist Council

Name:

Position:

Date:

**This statement was agreed by the Trustee at their meeting on 8 March 2018:**

Signed on behalf of the Trustee of the Methodist Ministers' Pension Scheme

Name:

Position: Trustee

Date:

**This statement has been agreed by the Trustee after obtaining actuarial advice from the Scheme Actuary:**

Signed:

Name: Diana Simon, FIA

Position: Actuary to the Methodist Ministers' Pension Scheme

Date:

## **APPENDIX 1**

### **Current investment strategy of the Methodist Ministers' Pension Scheme**

The table below summarises the 1 September 2017 benchmark asset allocation together with the benchmark that is scheduled to apply with effect from June 2018:

<b>Benchmark asset allocation</b>	<b>Long term benchmark %</b>	<b>June 2018 benchmark %</b>
Equity investment	56.0	56.0
Bond investment	24.6	15.0
Property investment	10.0	10.0
Liability Driven Investment ("LDI")	6.4	11.5
Cash	3.0	7.5

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## APPENDIX 2

### Economic assumptions as at the valuation date

The annualised forward rates used for assessing the technical provisions as at 1 September 2017 are summarised below (*figures shown as % pa*).

Year after valuation date	Non-pensioner discount rate	Pensioner discount rate	Stipend increases	Deferred pension increases (pre 6 Apr 09)	Deferred pension increases (post 5 Apr 09)	Pension increases Main Scheme (pre 1 Sep 06)	Pension increases Main Scheme (post 31 Aug 06)	Pension increases AVCs (pre 1 Sep 06)	Pension increases AVCs (post 31 Aug 06)
1	2.13	1.13	2.80	2.30	2.30	2.32	1.82	2.98	2.13
2	2.13	1.13	2.80	2.30	2.30	2.32	1.82	2.98	2.13
3	2.31	1.31	2.80	2.30	2.30	2.32	1.82	2.98	2.13
4	2.58	1.61	2.47	1.97	1.97	2.02	1.65	2.69	2.01
5	2.84	1.93	2.58	2.08	2.08	2.12	1.71	2.79	2.05
6	3.09	2.24	2.74	2.24	2.24	2.26	1.80	2.93	2.11
7	3.32	2.53	2.93	2.43	2.43	2.43	1.89	3.09	2.18
8	3.52	2.78	3.12	2.62	2.50	2.60	1.97	3.26	2.23
9	3.68	3.00	3.30	2.80	2.50	2.77	2.04	3.41	2.28
10	3.81	3.19	3.47	2.97	2.50	2.91	2.11	3.54	2.31
11	3.90	3.34	3.61	3.11	2.50	3.04	2.15	3.65	2.34
12	3.96	3.46	3.73	3.23	2.50	3.14	2.19	3.74	2.36



Year after valuation date	Non-pensioner discount rate	Pensioner discount rate	Stipend increases	Deferred pension increases (pre 6 Apr 09)	Deferred pension increases (post 5 Apr 09)	Pension increases Main Scheme (pre 1 Sep 06)	Pension increases Main Scheme (post 31 Aug 06)	Pension increases AVCs (pre 1 Sep 06)	Pension increases AVCs (post 31 Aug 06)
13	3.99	3.55	3.82	3.32	2.50	3.22	2.22	3.81	2.38
14	3.99	3.61	3.88	3.38	2.50	3.27	2.23	3.85	2.39
15	3.96	3.64	3.92	3.42	2.50	3.30	2.24	3.87	2.39
16	3.91	3.64	3.93	3.43	2.50	3.30	2.25	3.88	2.39
17	3.83	3.62	3.91	3.41	2.50	3.29	2.24	3.86	2.39
18	3.72	3.57	3.86	3.36	2.50	3.25	2.23	3.83	2.38
19	3.60	3.51	3.80	3.30	2.50	3.19	2.21	3.79	2.37
20	3.46	3.43	3.71	3.21	2.50	3.12	2.19	3.72	2.36
21	3.33	3.33	3.61	3.11	2.50	3.03	2.15	3.65	2.34
22	3.22	3.22	3.49	2.99	2.50	2.93	2.11	3.56	2.32
23	3.10	3.10	3.36	2.86	2.50	2.82	2.07	3.45	2.29
24	2.97	2.97	3.22	2.72	2.50	2.69	2.01	3.34	2.26
25	2.83	2.83	3.08	2.58	2.50	2.56	1.95	3.22	2.22
26	2.69	2.69	2.93	2.43	2.43	2.43	1.89	3.10	2.18
27	2.54	2.54	2.78	2.28	2.28	2.30	1.82	2.97	2.13
28	2.41	2.41	2.65	2.15	2.15	2.18	1.75	2.85	2.08

Year after valuation date	Non-pensioner discount rate	Pensioner discount rate	Stipend increases	Deferred pension increases (pre 6 Apr 09)	Deferred pension increases (post 5 Apr 09)	Pension increases Main Scheme (pre 1 Sep 06)	Pension increases Main Scheme (post 31 Aug 06)	Pension increases AVCs (pre 1 Sep 06)	Pension increases AVCs (post 31 Aug 06)
29	2.27	2.27	2.52	2.02	2.02	2.07	1.68	2.74	2.03
30	2.15	2.15	2.41	1.91	1.91	1.97	1.62	2.64	1.99
31	2.05	2.05	2.32	1.82	1.82	1.89	1.57	2.56	1.95
32	1.96	1.96	2.25	1.75	1.75	1.83	1.53	2.50	1.92
33	1.89	1.89	2.20	1.70	1.70	1.79	1.51	2.45	1.90
34	1.84	1.84	2.17	1.67	1.67	1.77	1.49	2.43	1.88
35	1.81	1.81	2.17	1.67	1.67	1.76	1.49	2.42	1.88
36	1.80	1.80	2.18	1.68	1.68	1.77	1.50	2.43	1.89
37	1.80	1.80	2.22	1.72	1.72	1.80	1.52	2.47	1.90
38	1.82	1.82	2.27	1.77	1.77	1.85	1.54	2.51	1.93
39	1.85	1.85	2.33	1.83	1.83	1.90	1.58	2.57	1.95
40	1.89	1.89	2.41	1.91	1.91	1.97	1.62	2.64	1.99
Beyond 40 years	1.91	1.91	2.45	1.95	1.95	2.01	1.65	2.68	2.00

**APPENDIX 3****Demographic assumptions as at the valuation date****Illustrative death rates**

Mortality prior to retirement: probability of death within one year

<b>Age x</b>	<b>Male death rate (q<sub>x</sub>) DML08</b>	<b>Female death rate (q<sub>x</sub>) DFL08</b>
20	0.000333	0.000156
25	0.000373	0.000189
30	0.000445	0.000248
35	0.000606	0.000382
40	0.000867	0.000603
45	0.001305	0.000969
50	0.002063	0.001589
55	0.003424	0.002659
60	0.005970	0.004538
65	0.010924	0.007895

Mortality in retirement (normal health): probability of death within one year

<b>Age X</b>	<b>Male pensioner death rate (q<sub>x</sub>) SAPS S2 series light tables with CMI_2016 projections, with a long term rate of improvement in mortality rates of 1.5% pa, with a scaling factor of 100%</b>	<b>Female pensioner death rate (q<sub>x</sub>) SAPS S2 series light tables with CMI_2016 projections, with a long term rate of improvement in mortality rates of 1.5% pa, with a scaling factor of 95%</b>
60	0.003857	0.004214
65	0.005849	0.005496
70	0.009637	0.008350
75	0.017602	0.014593
80	0.033409	0.027642
85	0.068165	0.057098
90	0.140059	0.116431
95	0.259499	0.205765
100	0.371290	0.310661
105	0.462316	0.410359

Life expectancy implied by the tables for a person currently aged 65 is 23.4 years for a male and 24.8 years for a female. Life expectancy implied by the tables for a person currently aged 45 at age 65 is 25.0 years for a male and 26.6 years for a female.

Age X	Male dependants death rate ( $q_x$ ) SAPS S2 series light tables with CMI_2016 projections, with a long term rate of improvement in mortality rates of 1.5% pa, with a scaling factor of 95%	Female dependants death rate ( $q_x$ ) SAPS S2 series light tables with CMI_2016 projections, with a long term rate of improvement in mortality rates of 1.5% pa, with a scaling factor of 87.5%
60	0.003665	0.003881
65	0.005557	0.005062
70	0.009155	0.007691
75	0.016722	0.013441
80	0.031739	0.025460
85	0.064757	0.052590
90	0.133056	0.107239
95	0.246524	0.189520
100	0.352725	0.286136
105	0.439200	0.377962

#### Illustrative retirement rates

Probability of retiring within one year		
Age X	Normal health $R_x$	Ill health $I_x$
NPD - 35	0	0.002
NPD - 25	0	0.002
NPD - 15	0	0.004
NPD - 5	0	0.01
NPD - 4	0	0.01
NPD - 3	0	0.01
NPD - 2	0	0.01
NPD - 1	0.19	0.01
NPD	1	0

#### Age difference of dependants

Actual age difference is used for pensioners where the data is available. Where the data is unknown, and for all active and deferred members, male members are assumed to be, on average, two years older than their spouses or civil partners and female members two years younger than their spouses or civil partners.

#### Percentage of members with spouse/dependant benefits

Actives and deferreds: 85% of male members and 75% of female members are assumed to have spouse/dependants benefits at retirement or earlier death

## DRAFT BASED ON UNCHANGED MEMBER CONTRIBUTIONS

Pensioners: Based on actual marital/dependency status, where known, otherwise the same proportions as above.

### **Commutation**

Active and deferred members commute 15% of their main Scheme benefits on retirement for a lump sum.

### **Normal Pension Date (NPD)**

As defined in the Rules of the Scheme for pensionable service prior to 1 September 2013, NPD is the 31 August in the calendar year of attaining age 65. For pensionable service from 1 September 2013, NPD is the 31 August in the calendar year of attaining the male State Pension Age (SPA). The male SPA has been taken as age 65 rising to age 66 by October 2020, rising to age 67 by 2028 and rising to age 68 by 2046. It is possible that the Government will bring forward the rise to age 68 but no allowance has been made for this in the calculations because the changes are just proposals at this stage.

### **Expenses**

An allowance of 2.7% of Stipends.

**METHODIST MINISTERS' PENSION SCHEME**

**Schedule of Contributions for the period 1 September 2018 to 31 August 2023**

The schedule of contributions signed by the Trustee on 11 July 2015 has been reviewed and revised by the Trustee to satisfy the requirements of Section 227 of the Pensions Act 2004, after obtaining the advice of Diana Simon, the Scheme Actuary and after obtaining the agreement of the Conference of the Methodist Church.

It covers contributions to the Scheme from all persons responsible for providing a Current Member's remuneration.

**1. Employer contributions**

In respect of future accrual of benefits and the provision of death in service benefits and the expenses of administering the Scheme persons responsible for providing a Current Member's remuneration will pay the following:

- 26.9% of Stipends, from 1 September 2018

These contributions are to be paid to the Scheme on or before the 19<sup>th</sup> day of the calendar month following that to which the contributions relate.

**2. Expenses**

These contributions include a contribution of 2.7% of Stipends to meet the expenses of the Scheme including an annual provision of 0.5% of Stipends for payment of regulatory fees including the Pension Protection Fund levy.

**3. Augmentation payments**

In respect of any augmentations granted, the relevant persons responsible for providing a Current Member's remuneration will pay additional amounts to cover the costs of benefit augmentations within one month of the later of the date of granting the augmentation and the date on which the Trustee receives the details of the costs from the Scheme Actuary.

**4. Contributions by active members**

Current Members who are not temporarily absent from service in accordance with Rule B17 pay contributions at the rate of 9.3% of Stipends.

These contributions are to be deducted from pay by the person responsible for providing a Current Member's remuneration and paid to the Scheme on or before the 19<sup>th</sup> day of the calendar month following deduction.

Current Members who are temporarily absent from service pay contributions to the Scheme on the basis agreed by the Trustee. Such Current Members will ensure that the Trustee receives the contributions payable by him/her within 19 days of the end of the month to which the contributions relate.

These amounts do not include members' Additional Voluntary Contributions.

**5. Definition of Stipend**

The definition of Stipend is the minimum stipend determined from time to time by the Conference.

Signed on behalf of the Trustee of the Methodist Ministers' Pension Scheme

Name.....

Position .....

Date.....

Signed on behalf of the Methodist Conference

Name.....

Position .....

Date.....