31. Methodist Ministers Pension Scheme (MMPS)

Basic Information

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Status of Paper	Final
Resolution	**31/1.** The Conference receives the Report. **31/2.** The Conference agrees that the contribution of ministers to the pension scheme be increased from 7%to 9% of stipend from 1 September 2009 and that the contribution of those responsible for the payment of stipends be raised from 17% of stipend to 22% from 1 September 2009 and to 29% from 1 September 2010. **31/3.** The Conference agrees to the establishment of a designated Pension Reserve Fund. **31/4.** The Conference agrees that, with effect from 1 September 2009, the Connexional Priority Fund levy on the proceeds of property sales in accordance with SO 972 will be increased from 15% to 20% on the first £100k of such proceeds and from 25% to 40% on the balance of proceeds. The Conference further agrees that at the end of each connexional year, when the net proceeds of CPF have been determined in accordance with SO 974, 45% of such proceeds will be allocated to the designated Pension Reserve Fund and 27.5% of such proceeds to the District Advance Funds.

Summary of Content

Subject and Aims	To address issues raised by the 2008 valuation of the MMPS
Main Points	∞ Need to raise contribution rates ∞ Establishment of a Pension Reserve Fund ∞ Possible future changes to the Scheme's structure
Background Context and Relevant Documents (with function)	This Report complements the Report to the Conference from the MMPS Trustee. [Agenda item 32]
Risk	If the proposed actions are not taken, the Trustee will feel obliged to reduce unilaterally the future service benefits the Scheme provides for ministers.

31. Methodist Ministers Pension Scheme (MMPS)

1. The Trustee of the Methodist Ministers' Pension Scheme (MMPS) has provided a separate report to the Conference. The proposed second and third resolutions in that report relate to matters essentially internal to the Scheme but the first resolution concerning contribution rates has wider implications.

2. The Methodist Council has discussed these implications and related issues and this paper invites the Conference to address the relevant points. It addresses first the allocation of the proposed contribution rates to the MMPS and then describes the proposed Pension Reserve Fund (PRF). Finally, it opens up a discussion about the longer term shape of the Scheme.

Contribution Rates

3. The Trustee of the Scheme has made it clear that a contribution rate of an additional 7% of stipend is required from September 2009 and then a further 7% of stipend from September 2010. In considering how to achieve this, the Council was acutely aware of the financial pressures on many Circuits and individual church members and manse families. However the required increase in contributions to the MMPS represents sums well in excess of anything that could be provided from central connexional resources, or by Districts or Circuits on a one-off lump sum basis. Therefore additional income for the Fund has to be raised from the Connexion.

4. As explained in the Trustee's report, two thirds of the pension fund deficit is due to the increased longevity of ministers (presbyters and deacons). Given the greater benefit the average minister will receive from membership of the fund, the Council believes it is reasonable to ask ministers themselves to increase their contribution rate to the Scheme. Therefore the Council proposes that presbyters and deacons who are members of the Scheme should increase their contribution rate from 7% of stipend to 9% of stipend with effect from September 2009.

5. The Council believes the remaining increase in contribution rates need to be borne by those who are in the role analogous to that of 'employer' in relation to presbyters and deacons and responsible for payment of their stipends, which is normally their Circuit. These contributions would need to rise from 17% of stipend to 22% of stipend with effect from September 2009 and then rise again with effect from September 2010 from 22% of stipend to 29% of stipend.

6. As reported by the Trustee, the formal consultation with members of the Scheme has taken place. Only a small number of responses were received, of which three quarters supported the proposed changes.

Pension Reserve Fund

7. The statutory requirement for a triennial valuation of a Scheme like

the MMPS takes a snapshot on a particular day, with the result that valuations can fluctuate greatly from one valuation to another. The valuation date of 1 September 2008 proved a particularly disadvantageous date on which to be doing the necessary calculations for the following period, although a valuation date later in 2008 would have generated even more adverse figures.

8. Particularly when the valuation indicates a large deficit, the Government's Pensions Regulator is keen to have evidence that the 'covenant' between the 'employer' and the Scheme is robust enough to ensure that, even in the most extreme emergency, the Scheme would have sufficient resources to meet its obligations. Both to reassure the Regulator and to provide some cushion in the longer term to smooth out more extreme fluctuations between one valuation and the next, the Council proposes a Pension Reserve Fund (PRF). This will be a designated fund which will potentially be used to support both the MMPS and the lay staff scheme (the Pension and Assurance Scheme for Lay Employees of the Methodist Church or "PASLEMC"). The purpose of the PRF would be to transfer money into either pension fund when that seems desirable; but if at some point in the future the PRF had excess reserves, these could be transferred back to serve the wider purposes of the Church.

9. While the principle of the PRF was welcomed by the Council, it recognised that there was no easy or painless way to accumulate reserves on a large enough scale to make a material difference to potential pension fund deficits. Various detailed funding options were explored by the Strategy and Resources Committee and the Council.

   In order to avoid the PRF being a further burden on the circuit assessments, it is proposed that it should be funded by a levy on property sales.

10. In the circumstances where a circuit property sale would currently result in a share of the proceeds being provided to the Connexional Priority Fund (CPF), the proposal is that the percentage levy should be increased. The current levy of 15% of the first £100k and 25% of additional receipts over £100k would rise to 20% of the first £100k and 40% thereafter.

11. Once the proceeds of this levy had arrived in the CPF, it would in future be divided three ways rather than split in the present two directions. Currently 50% of the levy proceeds go back to District Advance Funds (DAF) and the remaining 50% is retained by the CPF to enable it to make grants on application for particular projects. The proposal is for the PRF to receive 45% of the levy proceeds coming into the CPF from the Circuits and the remaining 55% would then be split equally between the distribution to DAFs and the CPF's grant making capacity.

12. For example, suppose a property is sold for £200,000.

Levy for the CPF:

20% of first £100k	=	£20k
40% of remaining £100k	=	£40k
Total Levy	=	£60k

Retained by CAF = £140k

Distribution of £60k Levy:

45% to PRF	=	£27k
27.5% to DAFs	=	£16.5k
27.5% retained for CPF	=	£16.5k

13. The flow of income from property sales is uneven and unpredictable but in an average year these proposals might generate around £2.5m for the PRF, which would represent around 1% of the assets of the MMPS, which is much the larger fund. The formula proposed would result in the income of the Circuit Advance Funds from property sales being around 25% lower than on the present formula, with a similar percentage reduction in the income coming in to the DAF and the CPF grant making capacity. It should be noted that this formula is a levy on property sales proceeds going into the CAFs; it is not a levy on the balance held in CAFs.

14. The Council fully recognises the valuable work done by CAFs, DAFs and the CPF and is fully aware that this formula for the PRF does reduce the money available for frontline mission. Nevertheless, the Council believes that the PRF is essential and in that way, it echoes the view of the MMPS Trustee. The formula chosen shares the burden as fairly as possible between Circuits, Districts and central resources. The fact that the PRF is a designated fund means that if the economy were to improve markedly and make this formula generate an excessive amount of money for the PRF, excess funds could be returned.

The Structure of MMPS

15. The size of the deficit described in the MMPS Trustee's paper, and the fact that the main reasons for it are not temporary, means that the Council believes a more fundamental review of the structure of the fund and the benefits it provides needs to be undertaken. The Council's intention would be that following a careful review a report was brought to the 2010 Conference.

16. While that work is at an early stage, the Conference might wish to express some views on the major questions underlying such a review. The following are examples:

    (i) MMPS is structured as a defined benefit "final salary" scheme, which means that ministers know what benefits they would receive on retirement and the cost of any economic fluctuations that make those benefits more expensive to provide is largely borne by the Church. Some people have argued this is an essential part of the implied moral commitment of the Church to its ministers. Is this view widely shared?

(ii) Due to the increasing cost of defined benefit (DB) schemes many UK employers have closed these schemes and introduced less costly defined contribution (DC) schemes for new employees. However this does not relieve them of the cost of funding the liabilities of the closed DB scheme. Unlike DB schemes it is not possible to predict the benefits that will emerge from a DC scheme, which are dependent on contributions and investment return. Would the Conference feel that moving away from the DB scheme was acceptable?

(iii) It is not possible legally to change the benefits in the Scheme for existing members in respect of their past service. If the benefits in the Scheme are changed to be less costly to the Church, should such changes apply to existing ministers in respect of their future service, or only to new entrants to the Scheme? If changes are restricted to new entrants, the financial impact on the Scheme is very slight for a large number of years.

***RESOLUTIONS**

31/1. The Conference received the Report.

31/2. The Conference agreed that the contribution of ministers to the pension scheme be increased from 7% to 9% of stipend from 1 September 2009 and that the contribution of those responsible for the payment of stipends be raised from 17% of stipend to 22% from 1 September 2009 and to 29% from 1 September 2010.

31/3. The Conference agreed to the establishment of a designated Pension Reserve Fund.

31/4. The Conference agreed that, with effect from 1 September 2009, the Connexional Priority Fund levy on the proceeds of property sales in accordance with SO 972 will be increased from 15% to 20% on the first £100k of such proceeds and from 25% to 40% on the balance of proceeds.

31/5. The Conference amended Standing Orders as follows with effect from 1st September 2009:

972(1) When trustees dispose of property on which a levy is chargeable under Standing Order 970 they shall, subject to Standing Order 973, contribute part of the proceeds to the fund as follows:

(i) up to £100,000 or the first st £100,000.... ~~15%~~ ***20%***
(ii) on any excess over £100,000.................... ~~25%~~ ***40%***

974(1) The purposes of the fund are:

(i) to distribute annually to some or all of the district Advance Funds a ~~sum equal to 50%~~ ***the appropriate proportion*** of the balance …
(iA) to allocate the appropriate proportion of that balance to such fund as the Conference may designate as a Pension Reserve Fund to be held in respect of the liabilities of the Methodist Ministers' Pension Scheme and the Pension and Assurance Scheme for Lay Employees of the Methodist Church
(ii) subject to (i) ***and (iA)*** above, to make grants out of income or capital to Local Churches, Circuits and Districts …
(iii) subject to (i) ***and (iA)*** above, to make payments out of capital … ;

and for the purposes of heads (i) and (iA) above, "the appropriate proportion" means in each case such proportion as may be determined by the Conference from time to time.

31/6. The Conference resolved that the appropriate proportion for the purposes of S.O. 974(1)(i) is 27.5% and that the appropriate proportion for the purposes of S.O.974(1)(iA) is 45%.