

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

### Actuarial Valuation

1. An actuarial valuation of the Scheme was carried out as at 1 September 2008 and copies of the final report are available from the Secretary of the Methodist Ministers' Pension Trust Limited.
2. The results of the valuation in respect of service prior to the valuation date show that the Scheme's financial position is as follows:-

	£'000	£'000
Value of past service liabilities		
Active members	106,527	
Deferred pensioners	8,057	
Pensioners	200,145	
AVC Scheme and Long Service Arrangement	4,505	
Funding Target		319,234
Market value of the assets		280,384
Funding deficit		38,850
Funding target ratio		87.8%

The funding deficit can be expressed as an addition to the contribution rate of 12.5% of stipends over the average working lifetime of current active members. At the valuation date this was about 12 years.

3. The contribution rate required to pay the benefits expected to accrue to members in future, based upon the current benefit structure, is as follows:-

	% of Stipends	
Cost of future benefits	22.2	
Allowance for expenses	1.5	
Future service contribution rate		23.7

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4. The contribution rate required to pay both future and past service benefits, is as follows:

	% of Stipends	
Past Service	12.5	
Future Service	23.7	
Total joint contribution rate		36.2
Current member contribution rate		7.0
Church rate if member rate unchanged		29.2

5. There were two principal reasons for the funding deficit of just under £39 million, namely;
- changes in the financial markets, including a significant fall in the Fund's assets and;
  - improvements in the life expectancy of members.

Approximately two-thirds of the deficit is attributable to the latter.

The Trustee, when deciding upon the mortality assumptions to adopt for this actuarial valuation, took into account the Pension Regulator's (see below) expectation that schemes should use prudent mortality assumptions. The Trustee therefore adopted assumptions based on standard actuarial tables that reflect more recent general mortality experience than used at the last valuation three years ago, further adjusted to reflect the better life expectancy of ministers than the population as a whole and to make allowance for future improvements.

Further details are given in Appendix 1 at the end of this report.

To illustrate the impact on the funding position of the change in mortality assumptions, at the 2005 valuation it was assumed that a male then aged 45, retiring at age 65, would live for a further 19.8 years but for this valuation a male aged 45, retiring at age 65, would be expected to live for a further 24.7 years (almost 5 years longer). The comparable figures for a female aged 45 were 22.8 years (in 2005) and 25.8 years (in 2008) – an improvement in life expectancy of 3 years.

Note: *The Pensions Regulator is an independent body set up by the government to regulate occupational pension schemes. Its role is principally to protect the pensions of members of schemes and to reduce the risk of schemes making a claim on the government's Pension Protection Fund.*

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6. The Trustee of the Scheme is willing to accept a two-stage increase in contributions, the first from September 2009 and the second from September 2010. However this means that the overall contribution rate required to eliminate the past service deficit becomes 14% (rather than 12.5%) because up to two years' deficit contributions will have been lost and the remaining deficit recovery period will be shorter. The Trustee is unwilling to defer the increase over more than two years because this would be difficult to justify to the Pensions Regulator.

7. The Trustee is required by the Pensions Regulator to assess the financial covenant of the Church, that is, its willingness and ability to meet future pension contributions as they fall due. The Trustee could be asked by the Regulator to explain how this will be achieved. In reviewing the financial covenant the Trustee was encouraged by the Methodist Council's proposal that a Pension Reserve Fund be established which would give some comfort to the Trustee that the Church would be able to afford future contributions if the deficit position worsened, as this Fund would then be available to meet part or all of the increased costs. **The Trustee therefore urges the Conference to approve the Pension Reserve Fund.**

8. The Methodist Council is also proposing to Conference that the contributions for current active

members should be increased from 1 September 2009 from 7% to 9% of stipends. The active members of the Scheme have been consulted about this proposal and a summary of the comments received is included in Appendix 2 at the end of this Report.

9. In conclusion, the Conference is being asked to approve an increase in contributions to the Scheme of 7% in 2009 and a further 7% in 2010. **(See Resolution 1 below).**

**NOTE** The Conference should note that;

- (i) if it does not approve the Pension Reserve Fund, the Trustee may have to consider adopting more prudent assumptions for the valuation, which could lead to even higher contributions; and
- (ii) if it does not approve the increase in contributions the Trustee will have to reduce the future service benefits of the Scheme for active members.

### General

#### 10. Increase to pensions in payment

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 Index of Retail Prices (RPI) 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

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maximum of 2.5% on pensions earned for pensionable service completed after 31 August 2006.

The annual rate of increase in the RPI for January 2009 was 0.1% per annum. In view of the current funding position of the Scheme the Trustee is unable to recommend to the Conference an increase above the guaranteed increase of 0.1% per annum. This will be applied from 1 September 2009 to pensions in payment which commenced on or before 31 August 2009 and to ill health pensions which commenced on or before 1 September 2008. (See Resolution 32/2 (i).)

### 11. Increase in deferred pensions

The deferred pensions of members of the Scheme who have ceased to be active contributing members, are increased in deferment up to Normal Pension Date in accordance with a statutory minimum increase, namely, in line with increases in the RPI over the revaluation period with a cap of 5% per annum. The cap has been reduced to 2.5% per annum in respect of periods of pensionable service on and after 6 April 2009. The Trustee has adopted the new minimum increase in respect of pensionable service for new deferred pensioners on and after 6 April 2009 (See Resolution 32/2 (ii).)

### Directors of Methodist Ministers' Pension Trust Limited

12. On the recommendation of the Methodist Council, Mr Michael Willett, Sir Michael Partridge and Mr Keith Woodley, retiring directors of Methodist Ministers' Pension Trust Limited are nominated for re-appointment. (See Resolution 32/3 (i).)
13. The Revd David S H Hulme has been re-elected as director of Methodist Ministers' Pension Trust Limited by the active members of the Scheme to serve a further three-year term of office from 1 September 2009. (See Resolution 32/3 (ii).)
14. The Revd Robert Foster has been elected as director of Methodist Ministers' Pension Trust Limited by the active members of the Scheme to take office on 1 September 2009 in place of the Revd Pam Garrud who is resigning as a director on 31 August 2009 (Resolution 32/3 (ii).)
- 14a. Mrs Ruth Edmundson has been re-elected a director of Methodist Ministers' Pension Trust Limited by the pensioner members of the Scheme to serve a further three-year term of office from 1 September 2009.
15. The full list of directors of Methodist Ministers' Pension Trust Limited would then be:-

Mr Michael Willett (Chair)

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Mr Graham Danbury  
Mrs Ruth Edmundson  
Revd Stuart Ellis  
Revd Robert Foster  
Revd David Hulme  
Sir Michael Partridge  
Mr Colin Pearson  
Mr Keith Woodley

### \*\*\*RESOLUTIONS

- 32/1.** The Conference increased the total contributions payable to the Scheme by 7% of stipends with effect from 1 September 2009 and by a further 7% of stipends with effect from 1 September 2010.
- 32/2.** The Conference noted;
- (i) the basic increase to pensions in payment from 1 September 2009
  - (ii) the revised statutory increase in deferred pensions for new deferred members from 6 April 2009.
- 32/3.**
- (i) The Conference re-appointed Mr Michael Willett, Sir Michael Partridge and Mr Keith Woodley as directors of Methodist Ministers' Pension Trust Limited.
  - (ii) The Conference noted the reappointment of the Revd David Hulme and the appointment of the Revd Robert Foster as member-nominated directors of Methodist Ministers' Pension Trust Limited.
  - (iii) The Conference noted the reappointment of Mrs Ruth Edmundson as a member-nominated director of Methodist Ministers' Pension Trust Limited.

### Appendix 1

#### Mortality Assumptions

There has been a lot of research into life expectation/projections since the last actuarial valuation and the latest thinking is that the mortality assumption used for the previous valuation may no longer be regarded as prudent.

Projecting future life expectancy is, of course, very uncertain and there are a wide range of views from experts in the field. There is, of course, no one correct assumption but instead a range of reasonable assumptions. The Trustee has received actuarial valuation results on a range of different assumptions to illustrate the sensitivity of the results to the assumptions adopted.

The Trustee, when deciding upon the mortality assumptions to adopt for the 2008 valuation, had regard to comments made by the Pensions Regulator on the subject of life expectancy assumptions. The Pensions Regulator expects prudent assumptions to be made regarding life expectancy.

The basic influences on life expectancy are age and sex but mortality rates also depend on other factors such as size of the pension, which is a proxy for social class and occupation of pensioners before they retired. On average, it is expected that ministers will exhibit better life expectancy than the population as a whole.

There were two basic decisions that needed to be made regarding the mortality assumptions. Firstly, a base table had to be selected, which reflects the scheme's current mortality experience and secondly, allowance then had to be made for future improvements.

Mortality assumptions for pension scheme valuations are generally based on standard tables issued by the Continuous Mortality Investigation Bureau (CMIB). The CMIB has published a new series of standard tables since the previous valuation, the "00 tables", which are based on life company experience between 1999 and 2002. The Trustee adopted this standard table as the base table, but with adjustment to reflect the actual mortality experience of the scheme over the intervaluation period.

The Trustee then adjusted the tables further to allow for future improvements in mortality. Studies have shown that each cohort of pensioners is living longer than previous generations. For example, ministers reaching age 65 now are, on average, expected to live longer than ministers who retired, say, 15 years ago. Also, ministers now aged, say 45, are expected to live longer when they attain age 65 than current 65 year olds. This expectation must be built into the life expectancy assumptions.

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It is important to remember that there is a high degree of uncertainty in projecting future life expectancy and the mortality assumptions used will need to be reviewed at subsequent valuations.

### Appendix 2

#### **Summary of comments received from active members regarding the proposed increase in member contributions**

A letter was sent by Nigel Wrighton, Secretary to the Trustee and Pensions Manager, to all active members of the Scheme on 20 April 2009 informing them of the result of the actuarial valuation and of the Methodist Council's proposal to increase member and Church contributions. Members were invited to comment within the statutory 60-day consultation period. A summary of the comments received by the time of going to press is given below.

Comments were received from a total of thirteen members, of these nine were in support of the proposal to increase member contributions and three against. Some members suggested alternative methods of reducing costs eg. increasing the retirement age and/or reducing the pension accrual rate. The following are extracts from the emails and letters received.

"I think 2% is a reasonable increase towards our pension contributions. I am happy to pay this."

"Thank you for your letter regarding the increase in pension contribution. Having heard your explanation at Methodist Council I am very much in agreement with the proposal."

"I totally agree with the need to raise the percentage for the member's contribution. I am less happy about the need to raise the contributions of the Circuit."

"We are the ones who are living longer, surely shouldn't we be asked to contribute more than an extra 2% for the security we shall receive in our retirement?"

"I appreciate the efforts which you and your colleagues have gone to in your stewardship of the scheme. I would suggest that what we do should be respected and properly provided for. I am keenly aware of the increasing cost to my circuit, I do nevertheless request that I am not asked to carry a burden of guilt simply because I have the same kinds of financial needs as anyone else. I would hope that the tone of the debate to be had pays due regard to this."

"In the current financial climate such an increase could have significant consequences on ministers struggling to manage. No mention has been made in your letter of other

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alternatives. The demands on a reducing pool of ministers and a diminishing Circuit membership to fund the Scheme may be unsustainable.”

“I find any request to increase personal contributions unpalatable because the cost of living has increased significantly and sadly I do not believe our stipends have really increased in line with this.”