The Methodist Church

Pension Deficit Funding

> "The ordained ministry is a precious gift that is cherished in the life of the Methodist Church. Part of the covenant between the Church and those called to ordination is the provision of a pension in retirement."

The 2021 Methodist Conference received a report on the deficit that has accrued in the Methodist Ministers' Pension Scheme and the Pension and Assurance Scheme for Lay Employees of the Methodist Church. It can be found here: Pension Scheme Actuarial Valuation.

Whilst the current deficit can be funded from the Pension Reserve Fund (PRF), it is necessary to replenish the PRF to provide assurance to the Pension Trustees, support the current investment strategy and mitigate against future potential deficits.

It is estimated that the total reserves held by churches, circuits and districts are at least £300m. Whilst some of these funds will be restricted or already committed to important missional priorities, a target has been set for contributions to the Pension Reserve Fund of 15% (£45m) of the total reserve.

Consequently, the 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.

All churches, circuits and districts are asked to review at the next appropriate meeting, their ability to contribute to this appeal for funding. It should be noted that the 15% is the total target, but as some will struggle to meet this target, we ask those that can to give more.

In order to facilitate the smooth processing of payments, we are working closely with the Trustees for Methodist Church Purposes and the Central Finance Board to provide a simple mechanism for making the payments. We will also provide details of how payments can be made by direct transfer or by cheque. This information will be communicated to treasurers in the coming weeks.

In the meantime, you may find the information below helpful in considering how your church, circuit or district responds.

Questions and Issues

1. Why isn't the Connexion sorting this issue, they are sat on millions?

A. The Connexional Funds are largely sat in restricted funds and we do not carry excess reserves that could be used for this purpose. Also, pension costs are part of the cost of ministry and therefore this issue is a shared one. The Connexion is offering up all its major connexional properties as a "contingent asset" i.e. should a pension deficit arise that cannot be funded from the PRF or circuits, the pension trustees would have the right to sell the properties to cover the debt.

2. My church can't afford to pay its Assessment, let alone contribute to this appeal, what should we do?

A We are only asking that churches give what they can, with an indicative target of 15% of reserves. If a church has no reserves or all its monies are in restricted funds we recognise they would not be able to contribute to this appeal.

3. Most of our reserves are already committed so we can't afford to give 15%.

A The total reserves across the whole connexion have been steadily increasing for at least the last 10 years with only a small dip during the pandemic. It appears our ability to spend money doesn't keep pace with our ability to raise money from the sale of churches and manses. In reviewing what you can afford to contribute, you should not just look at how much you have in reserve today, but what you have carried in reserve over recent years, and what the future looks like for your reserves.

4. We are just about to launch some exciting missional projects as we emerge from Covid-19 and giving away 15% of our reserves would wreck these plans.

A We do not want any important missional projects to be curtailed in order to provide this funding. In fact, we would prefer excess reserves to be focussed on the 'God For All' initiative. This is why we have asked for just 15% of what is available. However, we recognise there may be examples where 15% is not affordable because of existing commitments and we ask those who can contribute more than 15% to do so to protect those who cannot.

5. Why are you asking for money at a time of great uncertainty for the church and when financial plans remain subject to significant risk?

A The pension schemes are valued every three years and we have to agree any remedial action with the pension trustees within a set timeframe. Having a mechanism in place to replenish the PRF is an important part of our current discussion with the trustees.

6. Why do we have to pay this money to the Pension Reserve Fund now, why can't we just pay if and when future deficits crystallise?

A. By transferring the money in to the PRF it provides assurance to the trustees that the money is available should future deficits arise. In turn, this gives confidence to the trustees to pursue an investment strategy that targets longer term returns (because short term fluctuations are protected by the existence of a strong PRF). By pursuing higher longer term investment returns, this reduces the total amount of funding the church has to pay to the pension schemes. In summary, by paying money into the PRF we reduce the potential scale and likelihood of having to make deficit payments to the pension scheme in future!

7. Won't the pension deficit sort itself out as the economy recovers post-Covid?

A It might. However, this is not simply about the impact of the pandemic. The pension scheme has liabilities that last for many decades in to the future and the value of those liabilities can change due to inflation, interest rates, life expectancy etc. Also, as described above, putting money into the PRF is both to provide a source of funding for future deficits, but also to reduce the potential scale and likelihood of future deficits arising.

8. If these contributions to the PRF are not ultimately required by the Pension Scheme will they be returned to us?

A. Given the long term nature of the pension scheme, it is unlikely that we would be in a position to determine these contributions are no longer required in the next 3-5 years. Realistically, it should be assumed these monies would be held for considerably longer than this. However, the Conference paper is clear that these monies will only be used for the benefit of the pension schemes. Should at some point in the future they be determined no longer required, it would be for the Conference to determine what happens to the funds.