The Methodist Church

Pension Funding Frequently Asked Questions

The Methodist Conference of 2021 took a decision to ask all churches, circuits and districts to make a voluntary contribution to the Pension Reserve Fund. The questions below should be read in conjunction with the communication sent out in July Pension Funding Communication and the report to the 2021 Methodist Conference on the Pension Scheme Valuation Pension Scheme Actuarial Valuation .

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 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 Pension Reserve Fund (PRF) or circuits, the 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 In all cases, the payment of the Assessment has to take priority. The ask is 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 it is recognised 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. (see also Question 11)

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 impact these plans.

A Important missional projects should not be curtailed in order to provide this funding. In fact, it is preferable that excess reserves be focussed on the 'God For All' initiative. This is why the ask is for just 15% of what is available. However, it is recognised there may be examples where 15% is not affordable because of existing commitments and 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 the Church has to agree any remedial action with the Trustees within a set timeframe. Having a mechanism in place to replenish the PRF is an important part of the current discussion with the Trustees. Asking for funds to be transferred by 31st December 2021 will allow an assessment of the success of this appeal. Should it be unsuccessful, further measures will need to be considered, including the possibility of proposing a compulsory levy to the Conference of 2022.

6. Why do we have to pay this money to the Pension Reserve Fund (PRF) 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 the potential scale and likelihood of having to make deficit payments to the pension scheme in future is reduced.

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 into 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 an assessment could be made in the next 3-5 years that these contributions were no longer required. 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.

Update: 20th August 2021

9. For some years an additional levy has been added to the property sale proceeds received in the Circuit Model Trust Fund (CMTF) which was introduced to cover the pension shortfall - why has this not been sufficient?

A. The property levy has helped create a healthy balance of money within the Pension Reserve Fund (PRF). The PRF will be used to pay the pension deficits that have arisen at this valuation. However, this will significantly deplete the funds of the PRF and even with ongoing contributions from the property levy, there is insufficient money in the PRF to mitigate the risks the pension scheme face. These risks include stock market performance; interest rate and inflation impacts; changes to life expectancy, and the changing regulatory environment. Unless these risks are mitigated (by topping up the PRF) the Trustees have indicated that they would need to very quickly change their investment strategy. This would de-risk the investment portfolio resulting in significantly lower investment returns over the long term. In doing this, the current deficit of c£30m would be recalculated to reflect the lower levels of investment income resulting in the deficit increasing to in excess of £100m.

In summary, by topping up the PRF with contributions from churches and circuits allows the Trustees to maintain an investment strategy that delivers longer term returns and reduces the overall call on the church's resources.

10. Why is there such a deficit on the ministers' scheme? How much is there still to cover (if all churches etc contribute 15%)? What are the long-term plans to fund the ministers' scheme?

A. The deficit is largely as a result of the economic conditions that were in place as at 31st August 2020. These economic conditions can improve or deteriorate over time. It is this volatility that is causing The Pensions Regulator to push all defined benefit pension schemes towards low-risk investment strategies (with the consequent loss of investment returns). Having a well-funded PRF provides assurance to the Trustees and supports an investment strategy that targets greater returns than it otherwise would.

The 15% is not to cover the existing deficit but to mitigate future deficits. The 15% will remain in the Pension Reserve Fund and only be transferred to the pension schemes if future deficits emerge. The need to collect the contributions now rather than when a future deficit actually emerges allows the existing long term investment strategy of the Trustees to be maintained. This seeks to maximise returns thus reducing the call on the church's resources.

Once the current valuation is agreed with the Trustees, attention will turn to the longer-term issues associated with funding the scheme.

11. The request is for 15% of funds, but which funds?

Does this include the CMTF? What about Benevolent and Endowment Funds (restricted) and the General reserve? What about the District Advance Funds (DAFs)?

A. Funds are classified in the accounts as either restricted (can only be used for a specific purpose), endowment (only the investment income can be used for a specific purpose) designated (has been set aside for a particular purpose but could be re-purposed) or unrestricted (can be used for expenditure that meets the purposes of the Methodist Church).

You can make contributions from your unrestricted funds. You can also make contributions from your designated funds if you specifically agree to do so. You cannot make contributions from restricted and endowment funds.

For churches, any monies held within their accounts need to be considered, including those of organisations that report to the Church Council (however, the rules about designated and restricted funds still apply). Typically, benevolent funds are restricted, but it is for each church to check its own funds. All accounts need to be reviewed including your bank account, monies held with the Trustees for Methodist Church Purposes (TMCP), and any monies you may hold with the Central Finance Board. Ideally, you should use the figures as at 31st August 2021, however, recognising that figures may not be available so soon after the year end you should use the most recent information available.

The same principles apply for circuits. It should be noted that in general there are no particular restrictions on the Circuit Model Trust Funds so these would be included. If circuits operate funds on behalf of their churches these should also be included, (though excluding restricted or endowment funds).

The same principles apply for districts. Where the District Advance Funds are not held in restricted funds they would form part of the overall total – but as they are generally fully committed it might not be appropriate to contribute 15% of them to this appeal.

To reiterate points already made, this appeal is not designed to divert funding from existing missional priorities. The 15% is an average so should be able to take account of where some funds are committed and other are not. It is for each organisation to understand what funds it has available for what purpose and then to determine how much it can afford to contribute to this appeal, with 15% simply being an indicative target. It is hoped many organisations will be able to contribute more than this to offset those who cannot afford to contribute.

12. Will what is collected affect the contribution rates to MMPS (26.9% for circuits, 9.3% for ministers)?

A. What is collected through this appeal is there to mitigate the future risk to pensions that have already accrued. It does not affect the cost of future accrual in the pension schemes. It is likely that there will continue to be pressure to increase the contribution rates to fund future accrual in the pension schemes. There are no proposals to increase contribution rates this year. Once the valuation is signed off with the Trustees this autumn attention will need to turn to the long-term future and funding of the scheme. This will include consideration of the future contribution rates.

13. Are the terms and conditions for Ministers being looked at?

A. The T&Cs for ministers are not being reviewed currently as this valuation is about the cost and funding of benefits that have already accrued. However, once this valuation is agreed attention will need to turn to the long-term future and funding of the scheme which will include looking at how benefits are best provided to ministers.

14. Of the pension deficit, what proportion relates to the ministers' scheme and how much to the lay scheme?

A. The deficit is split 46% Methodist Ministers' Pension Scheme (MMPS) and 54% Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC). However, these deficits will be funded from the existing Pension Reserve Fund. The 15% contribution that has been requested from church, circuit and district funds is to mitigate against future deficits. The value of the estimated risk of future deficits is approximately 85% MMPS 15% PASLEMC largely reflecting the relative size of the ministers' scheme versus the lay scheme.

15. Why aren't the lay employers contributing to their share of the deficits?

A. The Conference of 2018 has already determined that the Pension Reserve Fund is there to support deficits that accrue in the PASLEMC. The current proposal is about how the PRF is replenished. The majority of the PASLEMC relates to employees and former employees of the Connexional Team. The next largest employer is the Central Finance Board. Increasing costs to these bodies would just lead to these costs being passed back to churches either through the Assessment or CFB management charges.

16. Won't the post Covid-19 church end up selling lots of properties that will provide funding for the PRF?

A. It might. However, the Trustees of the pension schemes cannot rely on what might happen and have to deal with the circumstances as they find them. Clearly, if the point was reached where the PRF was overfunded either as a result of improvements in economic conditions, additional property levies, or reduced payments being made to the pension schemes, it would give the opportunity to review the current property levy.

17. Why not dramatically increase the property levy in order to replenish the Pension Reserve Fund?

A. This option has been considered. However, it is not favoured because: it still does not give certainty to the Trustees as it relies on future uncertain property sales; an increase in levy may impact on how many properties get put on the market, and there is already considerable lobbying for the levy to be reduced, not increased.

18. Many circuits have retained surplus manses that now generate rental income. These circuits will have lower cash balances in reserve as a result of not selling the manse and will therefore contribute less to this appeal – is this fair?

A. This is an appeal to all Methodist churches, circuits and districts to give according to their ability. The 15% target is indicative. It is expected that wealthier circuits consider giving more and that all circuits look at the financial position as a whole, including the issue of retained surplus manses. Devising a formula that is "fair" is hugely problematic given that different people view "fairness" in different ways and given the variety of circumstances that churches and circuits face across the Connexion.

19. Why doesn’t the Connexion know where the wealthy churches and circuits are and focus the ‘ask’ on them?

A. The Connexional Team has never routinely collected financial information from across the Connexion and it would be a significant change in role for it to do so. Nor does the Team have the resources (IT or people) to undertake such a significant data collection exercise. Such data is held by the Trustees for Methodist Church Purposes (in relation to Model Trust balances) and the Central Finance Board (for individual account balances), but in the absence of explicit information sharing agreements approved by the Conference, the Connexional Team do not have access to this information.

20. Rather than giving cash now can we pledge assets or cash that would be guaranteed should there be future deficits?

A. In order to meet their responsibilities, the Trustees cannot simply rely on pledges. For example, the structure of the Pension Reserve Fund is being changed to give the Trustees much more assurance that it will only be used for the benefit of the pension schemes and there will be restrictions on how it is invested. This will be written up in the legal agreements between the Methodist Council and the Trustees. For every individual church and circuit to enter into a separate legal agreement with the Trustees would likely be a very complex process and potentially expensive. The position is even more complex when it comes to pledging property.

A further difficulty is there is an explicit requirement from The Pensions Regulator for Trustees to reduce their reliance on the “sponsor” of the scheme (i.e. the Church) to meet future liabilities. Instead, the Trustee must work towards having all the necessary funding available to meet future liabilities. This becomes an increasing issue as a scheme matures. As PASLEMC is closed it will continue to mature and although MMPS remains open, it will be paying out substantially more in pensions over the next decade than it will be taking in in new contributions – so again is deemed ‘mature’.

Update: 10th September 2021

21. What are the funding levels of each scheme, how does this compare with historic levels and how will this proposal improve the position?

A. As explained above, the current deficits can be paid from the existing funds in the Pension Reserve Fund. This voluntary appeal from the Conference is to replenish the Pension Reserve Fund. Consequently, this appeal does not directly change the funding level of the pension schemes. Some historic information can be found in previous Conference reports and the Pensions website. The funding levels as at 31 August 2020 are as below:

£’000	MMPS	PASLEMC
Assets	487,452	77,160
Liabilities	501,685	93,837
Shortfall	(14,233)	(16,667)
Funding ratio	97.2%	82.2%

22. What is the long-term strategy for avoiding future deficits?

A. We are looking to agree a longer-term funding arrangement with the Trustees whereby the schemes are both funded on a low-risk basis (gilts plus 0.5%) in 15 years for MMPS and 10 years for PASLMC. Such an agreement is sensible because of the 'maturity' of each of the schemes. As both schemes are mature they will be paying out more in pensions than they are receiving in contributions so will need to sell investments. Whilst experience suggests that markets correct over the long term, investment sales will be required over the shorter term and the Trustees would not want to be a forced seller when markets are depressed.

23. Making a contribution takes our reserves below the level the Charity Commission regards as prudent so why are you saying we are sitting on vast reserves?

A. The Charity Commission guide to setting a reserves policy Charity reserves: building resilience does not set a particular target for reserve levels. It is important that every organisation has gone through a process of determining what level to set and why. It is very difficult to estimate what proportion of the c£300m reserve across the connexion is required to meet the Charity Commission guidance, but it is estimated to be around just £50m. Therefore, the total reserves are considerably in excess of what is required. However, we do not know the individual circumstances of each organisation and that is why the contributions are voluntary and that the resolution of the Conference made clear that giving is "according to their ability".

24. Do we need to budget for higher costs in future? We will have this same problem at the next valuation?

A. This appeal is to raise funds for the Pension Reserve Fund. If successful, it will help reduce (but not eliminate) the risk of future deficits and also provide a source of funding should further shortfalls emerge. It cannot be guaranteed that additional funding will not be required in future but the new arrangement with the Trustees means we will be reviewing the funding position annually and will not allow significant deficits to grow over three years.

As already stated in other answers, this all relates to the pensions already earned. As the MMPS remains open to new contributions it is likely that the cost of these will increase in future. Further work on this will be required over the course of this connexional year.

Further Information

Some treasurers have asked for more information concerning the requirements that The Pension Regulator is placing upon Trustees.

The Pension Schemes Act 2021 received Royal Assent in February 2021. The Pension Regulator has been consulting on how to implement the new provisions in the bill.

The requirement for trustees to reduce their reliance on the sponsor is referred to in TPR's recent consultation on the new funding code that can be found here: Consultation overview . It is also referred to in TPR's Annual Funding Statement that can be found at Annual Funding Statement 2021 | The Pensions Regulator . The 'requirement' for Trustees stems from their fiduciary duty to ensure that members receive the benefits they've been promised, and the need to reduce reliance on sponsors is a function of two things – the increasing maturity of schemes, which means that once schemes start paying out more than they're getting in their reliance would otherwise be increasing, and the fact that the strength of sponsor covenants are not predictable over duration of support that schemes require.

The requirement to reduce risk in the investment profile is referred to in section 10 of the consultation document Consultation document funding code of practice. It states the maximum exposure to growth assets that it would expect to see in a low dependency portfolio for a significantly mature scheme (such as MMPS) at 20%. MMPS has growth assets exposure of 58%. TPR has so far been less prescriptive on less mature schemes such as PASLEMC, but there is some reference to growth assets exposure of 40% for an average maturity scheme employing linear de-risking, whereas PASLEMC has 59%.

TPR's definition of a 'low dependency' discount rate of Gilts + 0.50% to Gilts +0.25% is in the consultation (p11 in the quick guide). 'Low dependency' is defined as 'where a scheme's funding and investment strategies are such that there is a low chance of requiring further employer support, and to the extent that such support is required, the amount of support is low relative the size of the scheme.'

In the Annual Funding Statement are tables setting out what TPR 'expects' from Trustees/sponsors of schemes currently negotiating Valuations, grouped by covenant strength, strength of technical provisions, and maturity. Based on their characteristics, PASLEMC would be a 'B1' whereas MMPS would be a 'B2' (pages 8-11). There is key expectation here of targeting better levels of funding, and lower levels of investment risk.

The Methodist Church

Glossary

Methodist Ministers' Pension Scheme (MMPS)

More details about the pension scheme can be found on the website:
[Methodist Ministers' Pension Scheme (MMPS)]

The Trustee of the scheme is the Methodist Ministers' Pension Trust Ltd. (MMPTL)
The directors of MMPTL are nominated by either the members or the Conference.

Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC)

More details about the pension scheme can be found on the website:
[Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC)]

The Trustee of the scheme is the Methodist Lay Employees' Pension Trust Limited (MLEPTL)
The directors of MLEPTL are nominated by either the members or the Methodist Council.
The scheme provides pensions for employees and former employees of:

- the Connexional Team;
- the Methodist Ministers' Housing Society;
- Cliff College;
- the Central Finance Board of the Methodist Church;
- the Trustees for Methodist Church Purposes;
- the Trustees of Wesley College Cambridge;
- Central Hall Westminster Ltd,and
- the Trustees of the Methodist Relief and Development Fund (All We Can).

The pension scheme is closed to future accrual.

Pension Reserve Fund (PRF)

A Connexional Fund of the Methodist Church that is designated to provide support to the MMPS and PASLEMC, particularly to fund deficits that might from time to time accrue. It receives the majority of its income from property levies that are charged when churches and manses are sold. It is invested with the Central Finance Board and receives investment income. It is a fund under the control of the Methodist Conference, not the Trustees of the pension schemes.