36. Pension Reserve Fund

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Resolutions	36/1. The Conference directs that no further payments be made from the Pension Reserve Fund to the Methodist Ministers' Pension Scheme until further notice. 36/2. The Conference re-states unequivocally that the Pension Reserve Fund exists to support both the Methodist Ministers' Pension Scheme (MMPS) and the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) as the need arises, that they will be given equal consideration as the need arises and as permitted by charity law or the Charity Commission, and that no change will be made to either the use of the fund or the way in which income from the Connexional Priority Fund levy is calculated without first being satisfied that appropriate consultation has been undertaken with both Trustee Boards. 36/3. The Conference delegates to the Methodist Council authority to utilise the Pension Reserve Fund as part of the recovery plan arising from the 2017 valuation of the Pension and Assurance Scheme for Lay Employees of the Methodist Church. 36/4. The Conference directs that the Pension Reserve Fund shall cover the past service liabilities and any further deficit arising from increasing future service contribution rates for the period 1 September 2017 to 31 August 2019 of all participating employers as permitted by charity law or the Charity Commission within the Pension and Assurance Scheme for Lay Employees of the Methodist Church.

Summary of content

Subject and aims	The Pension Reserve Fund (PRF) was established by the Conference of 2009 to support both the Methodist Ministers' Pension Scheme (MMPS) and the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC). This paper seeks to update the Conference's commitment to the PRF and to address its potential use.
Main points	• Background to the PRF • Support for the MMPS and proposal to cancel planned payments • Support for the PASLEMC and potential use in relation to the 2017 valuation
Background context and relevant documents	2009 Conference report 31 'MMPS' 2012 Conference report 31 'MMPS'

1.0 Introduction

1.1 The Pension Reserve Fund (PRF) is a designated fund held under the managing trusteeship of the Methodist Council. It was established by the 2009 Conference (resolution 31/3) in order to provide support to both the Methodist Ministers' Pension Scheme (MMPS) and the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC).

1.2 The Conference determined in SO 974(1)(iA) that income to the PRF would be derived from the net proceeds of the Connexional Priority Fund (CPF) levy on the proceeds of the disposal of Model Trust property, and that it would receive 45% of these net proceeds until determined otherwise.

1.3 As at 31 August 2017 the balance of the PRF was £27.5m.

2.0 Use of the PRF to support the Methodist Ministers' Pension Scheme (MMPS)

2.1 In 2012 the Conference agreed that part of the past service deficit of £58.4m arising from the valuation at 31 August 2011 would be met by a payment of £10m into the MMPS to be spread equally over ten years on commencing on 1 September 2012.

2.2 As is reported elsewhere in the Conference Agenda, the most recent valuation of the MMPS has revealed a substantial improvement in the funding position of the scheme. The Finance Sub-committee (FSC) of the Strategy and Resources Committee has within its terms of reference to act on behalf of the 'employer' for both the MMPS and PASLEMC. In its discussions with the Trustee Board, the FSC has agreed that although the funding position has improved, there should be no reduction at this stage in the levels of contributions paid by either members or bodies, mainly Circuits, paying employer contributions. The FSC has reiterated the Church's commitment to retaining the MMPS as a defined benefit scheme as an expression of the covenant relationship between ministers and the Conference. Given the potential economic upheaval that will accompany the UK's exit from the European Union, and the continuing age profile of the MMPS membership it recommends that contributions remain at the current levels until the next valuation.

2.3 The MMPS Board has welcomed this move, but has indicated that it is content for the remaining two/three payments from the PRF to now be cancelled. Since the commitment to make ten payments was made by the 2012 Conference (Resolution 31/2), it is for the Conference to agree to ceasing those payments.

3.0 Use of the PRF to support the PASLEMC

3.1 In establishing the PRF, the Conference clearly indicated that it would be available to support both connexional defined-benefit schemes and this is clearly stated in SO 974(1)(iA). In 2015 the PRF duly made a payment of £448k as settlement of the past service deficit in the PASLEMC at that point.

3.2 As part of the 2017 valuation the PASLEMC Trustee Board followed current best practice by commissioning an external review of the 'employer covenant' with the scheme. As a multi-employer scheme this was relatively complex, but the advisers determined that the Methodist Council and the Central Finance Board were key as between them they are responsible for the vast majority of the liabilities.

3.3 One of the outputs of this external review was to highlight that the statutory expectations on the Trustee Board from The Pensions Regulator are significantly higher than they were in 2009. As a result it recommended that the Trustee Board should seek an updated commitment from the Conference that the PRF is available to support both schemes and that no changes will be made to either the mechanism by which the income level is determined, nor the use of the fund without prior consultation with both Trustee Boards. The view of the FSC is that there would be no intention by the Church to alter either of these parameters without first consulting with both Boards. However, it recognises the requirement on them to fulfil their fiduciary duties to the schemes and their members and to be able to demonstrate to The Pensions Regulator that they have engaged with the relevant employers and obtained current commitments regarding the 'employer covenant'. The Council now therefore asks the Conference to re-assert this position.

3.4 One final area where further clarity would be helpful relates to the use of the PRF in covering the shortfall liability for each employer that is a part of the PASLEMC. The Methodist Council is the managing trustee body for the PRF which is held as a designated fund within its consolidated accounts. There has therefore been some ambiguity regarding its use to back all of the scheme employers since this was not considered when the fund was established by the 2009 Conference. Advice has been obtained confirming that there may be some legal impediment to this, however the FSC now proposes that the Conference be asked to state explicitly that the PRF will cover the past service liabilities of the PASLEMC with regard to all employers; not just the Council and those which are consolidated into its accounts.

4.0 2017 PASLEMC valuation

4.1 The 2017 valuation has resulted in both a substantial past service deficit within the PASLEMC totalling £3.547m and also an increase in the future service contribution rate required above that currently paid by both employers and members.

4.2 Various options for making good this deficit are being fully explored, none of which include increasing contribution levels. Within the range of options available it is possible that some input will be required from the PRF, either as a lump sum or over several years. The employer has a statutory duty to agree with the Trustee Board a recovery plan with respect to the deficit and to lodge this with The Pensions Regulator within fifteen months of the valuation date; ie 30 November 2018. It is anticipated that final proposals will be brought to the Methodist Council at its meeting in October 2018. In anticipation of this potential requirement, the Council asks the Conference to agree in principle to the use of the PRF and delegates authority to the Council accordingly.

*****RESOLUTIONS**

36/1. The Conference directs that no further payments be made from the Pension Reserve Fund to the Methodist Ministers' Pension Scheme until further notice.

36/2. The Conference re-states unequivocally that the Pension Reserve Fund exists to support both the Methodist Ministers' Pension Scheme (MMPS) and the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) as the need arises, that they will be given equal consideration as the need arises and as permitted by charity law or the Charity Commission, and that no change

will be made to either the use of the fund or the way in which income from the Connexional Priority Fund levy is calculated without first being satisfied that appropriate consultation has been undertaken with both Trustee Boards.

36/3. The Conference delegates to the Methodist Council authority to utilise the Pension Reserve Fund as part of the recovery plan arising from the 2017 valuation of the Pension and Assurance Scheme for Lay Employees of the Methodist Church.

36/4. The Conference directs that the Pension Reserve Fund shall cover the past service liabilities and any further deficit arising from increasing future service contribution rates for the period 1 September 2017 to 31 August 2019 of all participating employers as permitted by charity law or the Charity Commission within the Pension and Assurance Scheme for Lay Employees of the Methodist Church.