

# Paper G3

## URC pension schemes – integrated risk management project

### Pensions executive and finance committee

#### Basic information

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<b>Action required</b>	None – for information only at this stage; an extensive process of consultation is ahead, as explained in the paper.
<b>Draft resolution(s)</b>	None

#### Summary of content

<b>Subject and aim(s)</b>	<p>The URC faces some serious and potentially costly challenges in relation to its two pension schemes. The integrated risk management (IRM) Project is a way of reviewing, in a holistic way, all these issues for both pension schemes so that the URC as ‘employer’ and the trustees of the two schemes can agree on appropriate action. The aim of this paper is to summarise the challenges, and to describe the IRM project including the process of extensive consultation which is just beginning.</p>
<b>Main points</b>	<p>The URC has two pension schemes. Both are Defined Benefit (DB) schemes, which means that the benefits for each member are based on their length of service and their final salary / stipend. All costs, except for member contributions, and all risks are carried by the employer. (See 1.1. to 1.3.)</p> <p>The cost of all DB schemes continues to increase, because of the persistent historically low interest rates. This increases the cost of future benefits but it also increases the risk of further costs in relation to benefits already earned. (see 5.3.)</p> <p>The requirements of the Pensions Regulator are becoming much more onerous for all DB pension schemes. This is partly in response to recent failures of commercial enterprises leaving their pension schemes with insufficient funds to meet their obligations. The main issues are set out in 5.4 to 5.7. In summary, the Regulator is wanting to reduce the risks to scheme members by a combination of higher levels of funding,</p>

	<p>less risky investment strategies and stronger guarantees from employers.</p> <p>The IRM project is a way of assessing all the risks and other issues involved in the provision of pensions in a holistic way (as many of them are inter-related) and trying to agree a way forward which is acceptable to all parties. The process of consultation will involve representatives of the URC Trust and all the Synod Trusts and then all the associated councils of the Church. This process will take some time and, hence, this paper to Mission Council is for information only at this stage.</p>
<b>Previous relevant documents</b>	None.
<b>Consultation has taken place with...</b>	Synod Treasurers.

## Summary of impact

<b>Financial</b>	None at the moment.
<b>External (e.g. ecumenical)</b>	The trustees of the Final Salary Scheme for lay staff.

This paper is set out as follows:

Section	Contents
1	The two URC pension schemes
2	Legal responsibilities and regulations
3	Coping with uncertainty and managing risk
4	Actuarial valuations and pension scheme deficits
5	A summary of the challenges we face
6	The Integrated Risk Management (IRM) project and consultation process

## 1. The two URC pension schemes

### 1.1 Defined Benefit (DB) pension schemes

The URC operates two pension schemes – one for ministers and church related community workers and the other primarily for lay staff. Both these schemes are Defined Benefit (DB) schemes. This means that the benefits of each member are determined by their years of service and their final salary/stipend. Apart from member contributions, all the costs and all the risks are with the employer. For each month that a person works, the employer and the individual make contributions into the pension fund. These contributions are invested. The size of the contributions is calculated by the actuary (see section 4) based on a projection of the cost of delivering the person's pension entitlement throughout their retirement. This projection is based on assumptions about investment returns, inflation, and mortality among other things. If the actual cost is higher than the projected cost then the employer has to pay the difference.

The most common alternative to a Defined Benefit scheme is a Defined Contribution scheme. Here, it is the contributions paid into the pension scheme which are fixed. Those contributions are invested. When a person retires their personal pension fund may be used to purchase an annuity which pays them a pension. Recent government legislation has introduced other more flexible options. In this case all the risks are transferred from the employer to the member.

## **1.2 URC Ministers' Pension Scheme**

The URC Ministers' Pension Scheme is almost exclusively providing for the pensions of URC ministers and church related community workers. A very small number of ecumenical bodies have become participating employers because they have employed URC ministers.

The URC Ministers' Pension Scheme is managed 'in house', albeit through an independent trust company. The URC Ministers' Pensions Trust Limited (URC MPT) acts as trustee of the scheme. All the directors of the URC MPT are URC members.

## **1.3 URC Final Salary Scheme**

The URC Final Salary Scheme is primarily for lay staff employed by the URC plus a small number of ministers. Around two thirds of the members are past or present employees at Church House. The remainder of the members are past or present employees of Northern College and some of the synods. This means that some of the synods are participating employers in this scheme, with associated legal responsibilities.

The URC Final Salary Scheme is managed externally by TPT Retirement Solutions (formerly known as The Pensions Trust). TPT acts as the scheme trustee. TPT consults with the URC as employer, but TPT makes the decisions about the scheme.

## **1.4 The URC pension schemes are becoming more mature**

The value of the assets of the URC Ministers' Pension Scheme doubled over the nine years up to the last actuarial valuation. Its liabilities also increased in proportion. However, the number of pensioners receiving pensions from the scheme is slowly increasing whereas the number of active members is reducing. As a result of this, the total value of annual benefits paid out by the scheme now slightly exceeds the value of contributions being paid into the scheme. So, the size of the assets and liabilities of the scheme has started to reduce. The rate of this reduction will increase over time.

The same trend is happening with the Final Salary Scheme for lay staff, though at a slower pace. Here, the number of active members has remained fairly static. The annual contributions paid into this Scheme are still slightly higher than the annual benefits paid out.

## **1.5 URC Pensions Executive**

The URC Pensions Executive is liaising with the trustees of both pensions schemes on behalf of the URC.

## **2. Legal responsibilities and regulations**

### **2.1 The Pensions Regulator**

Parliament enacts legislation which provides a framework for the operation of pensions schemes. The Pensions Regulator is then responsible for providing detailed guidelines and for monitoring the compliance of both trustees and employers.

The Pensions Regulator has recently been very active in issuing new guidelines on a piecemeal basis. New comprehensive draft guidelines were meant to be issued for consultation in the autumn of 2019. However, these were supposed to be preceded by a new pensions Act of Parliament and, not surprisingly, this has been delayed. This leaves trustees and employers in a difficult and uncertain position in trying to foresee and plan for what the future requirements of the Pensions Regulator will be.

The requirements of the Pensions Regulator are becoming increasingly onerous on trustees and employers. The Regulator is, in part, responding to problems that have arisen in practice which have put the security of people's pensions at risk. The Regulator is particularly concerned with the potential for employers to fail or become unable to meet their legal responsibilities in relation to their pensions schemes; the proportion of income being used to meet pensions costs compared, for example, with the proportion used to pay dividends; the investment risks being taken by pensions trustees; and the particular cash flow problems that can arise with maturing schemes.

As an example of this, the Regulator's compliance team have still not accepted the results of the 2018 actuarial valuation of the Ministers' Pension Fund (the results of which were reported to Mission Council in November 2018, paper G2). This is in spite of the fact that the actuary and the trustee and the URC Pensions Executive were of the view that we had taken a slightly more prudent approach than in the previous valuations, and that the deficit on the Ministers' Pension Fund had reduced much faster than expected at the time of the previous valuation. See 5.4.

### **2.2 Responsibilities of the trustee**

The primary responsibility of the trustee of a Defined Benefit pension scheme (and of the Pensions Regulator) is to ensure that the benefits that have already been earned will be paid when they are due. This responsibility involves, among other things, deciding on an appropriate investment strategy; agreeing with the actuary and the employer on an appropriate funding level; and monitoring the financial strength of the URC as employer and its ability to meet its present and future obligations (referred to as the 'employer covenant' by the Regulator and those involved in managing pension schemes).

### **2.3 Responsibilities of the employer**

As already described, the employer is legally responsible for paying the benefits already earned by members of a Defined Benefit scheme – whatever the cost. If the money

already invested in the pension fund proves to be insufficient then the employer is legally obliged to provide the difference.

The failure of some employers to meet their responsibilities to their pension funds, whether by accident or design, is the background to the increasingly onerous regulation.

The employer is also generally responsible for deciding what pensions benefits will be offered to scheme members in the future, albeit in accordance with the scheme rules. It is, therefore, important for the employer to keep under review the continued appropriateness as well as the affordability of the present arrangements. See 5.3.

## **3. Coping with uncertainty and managing risk**

### **3.1 Risk is inherent and unavoidable**

The purpose of pension schemes is to invest money paid by employers and scheme members now in order to pay pensions to scheme members in the future. Those pensions might be payable 70 years after the money has been paid over to the scheme. Uncertainty and risk are, therefore, unavoidable and significant elements of the operation of pension schemes – especially defined benefit schemes.

The Pensions Regulator is always seeking to minimise these risks. One of the primary roles of the trustee, in consultation with the employer, is to manage these risks.

### **3.2 Risks associated with the assets**

Money paid now for pensions that might be payable long into the future has to be invested. Investments carry risks often in proportion to their likely returns. Low risks usually mean low returns which mean the cost of pensions rises. Higher returns usually involve taking higher risks. To enjoy long term higher returns, the employer has to be able to cope with the risk of short term falls in value caused by fluctuations in the financial markets.

Whatever investment strategy is adopted, there will always be a degree of uncertainty about what the value of the assets will be at the time when the liabilities have to be met. The trustee and the employer have to strike a balance, taking a long-term view.

### **3.3 Risks associated with the liabilities**

Although, as explained above, the benefits to be paid by a defined benefit scheme are pre-defined, that does not mean that they are known.

Every month worked by a member of a defined benefit scheme entitles them to a fixed percentage of their final salary/stipend as a monthly pension from the date when they retire. The main uncertainties are around inflation and life expectancy. What will that final salary/stipend be? For how many years will the member or the member's spouse or dependents receive a pension?

### **3.4 Risks associated with the employer**

For the Pensions Regulator and the trustee, a key issue is the strength of what is called the employer covenant. How likely is it that the employer will be able to meet its

obligations? It is important to remember that this is primarily in relation to the benefits already earned by members of the defined benefit schemes for their past service, and not about what benefits might be earned in the future.

The risk is that the money already provided may prove to be insufficient and the issue is that the employer may then be unable to pay what is needed. The Pensions Regulator is increasingly concerned about this, not least because of the number of employers who have disappeared leaving their staff pension schemes significantly underfunded.

## **4. Actuarial valuations and pension scheme deficits**

### **4.1 General**

Every three years, a defined benefit pension scheme is subject to an actuarial valuation by an independent actuary. The assets and liabilities of the scheme are estimated, taking account of all the risks and uncertainties mentioned above and many others. Expected investment returns and expectations of inflation are key factors.

The effective date of these valuations is fixed for each scheme. This means that a valuation can be affected by a short-term fluctuation in the financial markets. Nevertheless, the results of the valuation determine the level of contributions required to be paid into the scheme for the three years until the next valuation.

There is more than one way of putting values on the assets and liabilities. The 'technical provisions' basis is based on what are considered to be a prudent set of assumptions and is the one normally used to determine the rate of future contributions. At the moment, these assumptions are agreed for each scheme between the actuary, the trustee and the employer. This is one area where the new regulatory guidance may be more prescriptive than it is at present.

The most prudent valuation is called the 'solvency basis', which is defined by regulation. It is, in effect, the cost of selling the scheme's liabilities to an insurance company, which then takes on all the legal responsibility for, and the risks of, paying the benefits earned.

### **4.2 Dealing with deficits**

If the valuation of the liabilities is higher than the valuation of the assets, then there is a deficit on the pension scheme. Based upon the assumptions used by the actuary, the scheme does not yet have enough money to pay the benefits that its members have already earned.

If there is a deficit on a scheme, then a 'recovery plan' is agreed with the employer which requires additional deficit contributions to be paid into the scheme over a number of years until the deficit is eliminated.

### **4.3 Schedule of contributions**

A key outcome of each actuarial valuation is a 'schedule of contributions' agreed between the actuary, the scheme trustee, and the employer. This sets out the

contributions that will be paid into the scheme by the employer and by the members. This schedule remains operational until a new one is agreed, usually after the next actuarial valuation.

The URC is currently paying future service contributions and deficit contributions on both of its pension schemes.

#### **4.4 URC Ministers' Pension Scheme**

The last actuarial valuation of the Ministers' Pension Scheme took place as at 1 January 2018. On the technical provisions basis, the deficit was estimated at £3.9 million on assets of £140 million. This compared with a deficit of £16.6 million three years previously. The actuary and the URC MPT and the URC agreed that the annual deficit contributions could be reduced from 2019 by about £500k to £565k with the aim of clearing the deficit by 2025 (earlier than the target date at the previous valuation).

On the basis of this valuation, from 1 January 2019 the employer future service contributions went up from 14.90% to 21.95% of stipend. Active members contribute 7.5% of stipend. This scheme has benefited from good investment performance. The increase in future service contributions is almost entirely due to the extended duration of the current exceptionally low interest rates.

On the solvency basis, the deficit was £73.2 million.

As stated above, the Pensions Regulator has recently written to the trustee to express serious concerns about the basis of this valuation. See 5.2 below.

#### **4.4 URC Final Salary Scheme**

An actuarial valuation of the Final Salary Scheme is being carried out by the scheme actuary as at 30 September 2019. Preliminary results will be available early in 2020.

The previous valuation was as at 30 September 2016. This showed a deficit on the technical provisions basis of £5.7 million on assets of £23 million. The deficit had increased substantially since the previous valuation.

After consultation with all the participating employers, it was agreed to make capital contributions of £3.4 million into the scheme in order to keep the overall level of regular contributions the same. From 1 January 2018, employer future service contributions went up from 17.6% to 25.1% but deficit contributions went down from 10.5% to 3.0% so overall there was no change. Active members continue to contribute 7.5% of salary.

On the solvency basis, the deficit in September 2016 was £29.5 million.

## **5. A summary of the challenges we face**

### **5.1 Just a summary**

What follows is a brief and incomplete summary of the issues that need to be addressed in relation to the two URC pensions schemes. This is a complex and evolving situation. Updates and more details will be provided at the forthcoming consultations (see 6.2 below).

## **5.2 Legal financial and conciliar structures of the URC**

The URC does not have anything like a normal corporate structure and it is not hierarchical in the way some of its sister churches are. The URC family consists of a large number of inter-related but separate legal entities. The financial assets of the URC are held in many places. In particular, there are 14 separate trust companies holding assets on behalf of the 13 synods and General Assembly. This disconnection causes real concerns for the Pensions Regulator (see 5.7) but it also creates challenges for the Church.

The URC Trust holds financial assets in trust for General Assembly but really on behalf of the whole URC. The URC Trust assumes responsibility for the payment of the stipends and pensions of all URC ministers and Church Related Community Workers, most of whom are or were in local churches. The URC Trust also pays the salaries and pensions of the current and previous staff at Church House.

The URC Trust can only take on these responsibilities on behalf of the whole URC on the basis that it continues to receive the income to the Ministry and Mission fund. Almost all this income is, legally, voluntary donations from local churches and synods.

The Church could have an interesting debate about which URC body or bodies are legally liable for dealing with the pensions challenges that we face, but that would not be productive. The financial reality is that the URC Trust alone does not have the resources to deal with these issues, any more than it could fund the Ministry and Mission Fund expenditure without the contributions from local churches and synods.

The broader financial reality is that the synod trusts, taken together and excluding manse held in trust, hold more than twice the financial assets of the URC Trust. Those assets held by the synod trusts are growing faster than those held by the URC Trust, mainly because of the net proceeds of sale of redundant properties. See 6.5 below.

“A family problem requires a family solution” was a slogan adopted by the Baptist Union in relation to what was a much bigger financial crisis with its pension scheme. The circumstances of the URC may be very different but the message is the same. As a family, we have the resources to deal with these challenges and the obligation to do so.

## **5.3 Increasing costs of defined benefit pension schemes**

Defined benefit pension schemes have suffered from significant increases in costs over a period of at least 15 years. This has been due to a number of factors including the strengthening of regulation requiring more prudent valuations; the collapse in the value of asset values following the 2008 financial crisis and other financial shocks; and the prolonged extraordinarily low interest rates that have been the consequence of the quantitative easing by many central banks since 2008. The overall effects have been not only to increase deficit recovery payments, required because of higher pension fund deficits, but also to increase the cost of accruing future service benefits.



In 4.3 and 4.4 above, the current level of contributions to the two pension schemes is provided. If there was an actuarial valuation of the Ministers' Pension Scheme today (mid-September), the future service contributions would have to go up by around another 5%. Comparable figures are not available for the Final Salary Scheme, but it is almost inevitable that the URC will face further increases in the level of future service contributions following the current valuation of the Final Salary Scheme and the 2021 valuation of the Ministers' Pension Scheme.

Because of the level of these rising costs, most defined benefit pension schemes have closed. The URC General Assembly has more than once decided to ignore this trend and to maintain what it has perceived to be the 'gold standard' of pensions provision.

In 2012, General Assembly decided to retain the defined benefit scheme for ministers, but agreed to make changes in the rules, including an increase to the normal retirement age and an increase to the members' contribution rate. The final paragraph of the recommendation paper to that General Assembly said: "Whilst we are aware that more radical proposals could have been made to the nature of the scheme, the retirement age or the accrual rate, we believe the above proposals are appropriate at the present time. In particular, we believe that they provide a way to reduce the Church's contribution to the Fund whilst continuing to meet the Church's moral obligation to care for its ministers when they or their dependents are not in a position to care for themselves. We accept that it may be necessary to carry out further reviews in the future." Similar changes were made to the Final Salary Scheme in 2016.

The increasingly prudent approach of the Pensions Regulator is likely to continue to put upward pressure on the cost of defined benefit pension schemes. On the other hand, partly because of recent changes in the law, more flexible alternatives are now available. These factors make it necessary for General Assembly (possibly informed by a prior discussion at Mission Council) to revisit this issue to see if it remains of the same mind. To properly inform this debate when it happens, some exploratory work has been initiated to identify what possible alternatives to the current defined benefit pension schemes might look like.

The questions that have to be asked and answered are not just whether the current arrangements remain affordable but also whether they remain the most suitable way for the URC to provide good pensions to its present and future ministers, Church Related Community Workers, and staff. It seems reasonable to assume that General Assembly will not change its view concerning the moral obligation of the Church to the members of its pension schemes.

It is vitally important, especially for the members of the two schemes, to be clear that: no decision has been taken to change or propose to change either or both schemes; any change can not affect benefits already earned for past service but can only affect the benefits earned in the future following the implementation of the change; and consultation with members will take place before any changes are agreed.

### **5.4 Dealing with the existing deficits on the two pension funds**

It has already been noted that, only recently, the Pensions Regulator has written to the trustee of the Ministers' Pension Fund to express serious disquiet about the basis of the

2018 valuation and about the schedule of contributions that was agreed. A meeting with the Regulator has been fixed for early October. The worst outcome of this would be a requirement to revalue the Ministers' Pension Fund as at the beginning of 2018 on a more prudent basis. This would give rise to a larger deficit which would then require increased deficit contributions. The trustee is of the view that this would be unreasonable and is hoping to avoid it. However, it is possible that some urgent action will be required – for example, regarding the reduction in deficit contributions from January 2019. It is likely that the URC Trust will be able to deal with any urgent actions that are necessary in the short term (and to that end the URC Trust has set aside £1.5 million as additional funding should this be required), but these conversations with the Regulator could have wider and longer-term implications.

Putting to one side these concerns of the Regulator and their implications, the current (mid-September) positions are that the Final Salary Scheme has a more or less zero deficit and the Ministers' Pension Fund may have a deficit of around £3 million. It should be noted, however, that the financial markets are currently extremely volatile. For example, the estimated deficit on the Ministers' Pension Scheme has varied between £1 million and £5 million since the last valuation and even within the last three months.

It may be that, as part of an overall strategy for dealing with all these issues, it might be decided to clear these current deficits more quickly out of capital so that they cease to be a long-term burden on the Ministry and Mission fund.

### **5.5 Dealing with future financial shocks**

In 2009, immediately after the 2008 financial crisis, the deficit on the Ministers' Pension Fund was valued at £22.8 million and the Pensions Regulator agreed a 21-year deficit recovery plan to deal with this. The URC is currently ahead of this plan. The Pensions Regulator has now made it clear that he expects deficits on pension funds to be dealt with much more quickly – typically, in less than five years.

The timing and impact of a future shock in the financial markets is, of course, unpredictable. Actuaries use financial modelling to arrive at what they consider to be a sensible level of provision against such shocks. They put a value on the estimated cost to a pension scheme of an event that has a 1 in 20 chance of occurring in any year. The recently calculated estimates were £20 million for the ministers' pension scheme and £4 million for the final salary scheme. Actual financial shocks may be smaller or larger and may happen a number of times over the future life of the pension schemes. These estimates only provide an order of magnitude of the risks.

It is clear that, if such deficits were to arise, the deficit recovery payments that would be required to clear them over a five year period could not be financed out of the ordinary income of the Ministry and Mission Fund nor out of the income of the URC Trust and the synod trusts. That makes it necessary for the URC family to plan for the possibility of such an event or events, rather than to react afterwards. The URC family needs to decide how best to ensure that such cash could be made available if and when required. This could be by putting such money into one or more designated funds set up for this purpose, or by the provision of some form of guarantee(s) that the funds would be available if needed the trustee and the Regulator, as well as the different parts of the URC family, need to be convinced that adequate arrangements are in place.

The size of the amount of money, or guarantee, required would reduce over time as the pension funds reduced in size and their investments were moved into less risky assets.

Since 2010, a limited guarantee has been provided to the Ministers Pensions Trust by the URC Trust. This is dealt with in 5.7 below.

### **5.6 Long-term funding requirements**

It is clear that there will in future be a much stronger regulatory requirement to strengthen and de-risk the funding of the two URC pension schemes over the long term. This is the issue about which there is currently least clarity but which could actually prove to be the most challenging. It relates to the fact that both the URC pension schemes are maturing in the way described in 1.4 above.

‘Strengthening’ the funding is about gradually, over a number of years, increasing the prudence of the actuarial valuation of the schemes. The effect of this is to require a higher level of assets to be held to provide extra cover for the liabilities of the schemes.

‘De-risking’ the schemes is about reducing or removing the future dependence of the schemes on the URC as employer. Typically, this is achieved by a planned move of the assets of the schemes into more secure, less volatile investments (like government bonds). This would reduce the amount that would need to be held or guaranteed in relation to possible future financial shocks. However, lower risk means lower returns which inevitably means higher costs.

The Pensions Regulator is apparently open to bespoke approaches for employers that do not fit the standard model. The URC definitely does not. The URC might, for example, want to argue that there is no justification for assuming that reliance on the URC as employer needs to be reduced over time, especially given the relative strength of the URC family balance sheet. At the moment, it is not clear what a bespoke solution for the URC that is acceptable to the Regulator might look like. It will require increased funding levels over a number of years, but the amount and the timeframe are not known.

### **5.7 Legally binding guarantees or equivalent arrangements**

The trustees of the two URC pension schemes have up to now judged that the employer covenants with the URC are strong. That assessment has been built on the previous pattern of payments into the pension schemes by local churches and synods via the Ministry and Mission Fund; on the willingness of synods to contribute significant sums to previous deficit funding when required; and on the financial strength of the combined balance sheets of the URC Trust and synod trusts.

As mentioned before, the Pensions Regulator is not comfortable with the dependence of the URC schemes on what are, legally, voluntary donations to the Ministry and Mission Fund. He is also concerned about the partial reliance of the employer covenant on the financial assets of the 13 synod trusts because they are legally independent.

The first of these concerns was partially addressed in 2010 by a legally binding guarantee provided by the URC Trust to the trustee of the Ministers’ Pension Fund. This, essentially, underwrote the expected giving to the Ministry and Mission Fund from which the contributions to the pensions scheme would be paid. However, the wording suggests that the Trust also guarantees the clearing of the deficit on the Fund. The

maximum exposure in this guarantee is £16 million which was the size of the deficit on the Ministers' Pension Fund at that time. This guarantee is subject to the funds being available. The wording of this guarantee will need to be revisited.

The regulatory guidance issued in 2015 now applies to both URC pension schemes. This makes clear that, as far as the Ministers' Pension Fund is concerned, the financial support of the scheme provided by the financial assets of the synods is regarded as 'informal' and should not be taken into account when assessing the long-term strength of the URC employer covenant. If these synod assets are excluded from consideration then the URC employer covenant will be considered to be much less strong, which will lead to a requirement for a more prudent valuation of the pension funds, which will in turn lead to higher costs. The only way to avoid this is to put guarantees, or equivalent arrangements, in place between the synod trusts and the trustee of the ministers' pension scheme, similar to the one provided by the URC Trust.

The underlying concern of the Pensions Regulator, especially with maturing pension schemes, is that the employer will become insolvent or otherwise become unable to provide further financial support to its pension schemes, should that become necessary. The ministers' scheme actuary has suggested that the circumstances of the URC might ideally be dealt with by an overall guarantee over the assets of the URC Trust and the synod trusts, up to the level of the pension fund deficits on the 'solvency' basis. That is currently around £100 million, though the figure would reduce over time as the assets of the pension schemes were de-risked. This might be considered as a very low risk guarantee but one made necessary by the unique legal structure of the URC.

The figure of £100 million may be unrealistic. However, the stronger the guarantees that can be provided by the URC, the lower the costs and the longer the timeframes are likely to be of the long-term funding arrangements dealt with in 5.6.

### **5.8 Health warning**

As stated in 5.1, this section is not a complete description of all the risks and issues being faced by the URC pension schemes and being considered by the IRM project.

## **6. Integrated Risk Management (IRM) project and consultation process**

### **6.1 Integrated risk management**

Integrated risk management (IRM) is an accepted way of assessing all the risks that affect pension schemes in an integrated way, recognising that many of them are inter-related. The aim of this approach is to arrive at a way forward which is acceptable to all parties – the Pensions Regulator, the trustees, and the employer.

Following the 2018 valuation of the Ministers' Pension Fund, an IRM project group was set up consisting of Chris Evans (Convenor), Bridget Micklem, Ian Hardie, John Piper and Lyndon Thomas. This group includes the Convenor of the URC Pensions Executive, the URC Treasurer and Deputy Treasurer and four directors of the URC Ministers' Pension Trust. Others, such as the URC investment committee, are being involved in the work when needed.

The role of the IRM group is to carry out or co-ordinate the work that is necessary to enable the URC as employer and the respective trustees of the two URC pension schemes to plan appropriately for the future.

## 6.2 Consultations

The IRM group considers it of the utmost importance that there is a genuine consultation about these matters with the wider URC and that this is not restricted to those who might be considered to be finance or pensions 'geeks'. But the unavoidable reality is that the issues are complex and full of uncertainty.

It is also possible, as described in 5.4, that some urgent action may be necessary to meet the immediate concerns of the Pensions Regulator. Any such action will have to be taken account of retrospectively in the consultation process and in its outcomes or recommendations.

The URC Finance Committee has accepted the role of "technical reader" of any output from the IRM project group on behalf of the URC. It is hoped that this will enable others involved in the consultations to accept that any such output from the IRM group is technically sound and consistent, whether or not they agree with any of its conclusions or recommendations about how these issues should be addressed.

Briefing papers were issued in spring 2019 first to the synod treasurers and then to synod officers and synod trust directors and to the URC Trust directors. These were like earlier versions of this paper.

Although, as described above, there are several issues on which the project group is not yet clear, the group now wants to engage in a more interactive process of consultation with the wider URC family.

To this end, a number of consultations have been set up for the end of November and early December 2019. The IRM group hope that synod officers, including synod moderators, and trust directors from each synod as well as URC Trust directors and officers will be well represented at these consultations. These first consultations will be primarily about imparting information and trying to answer people's questions.

There will then be a period in which participants will be encouraged to discuss the issues with their local colleagues and, crucially, to share with the IRM group any ideas about how to deal with these matters.

The IRM group anticipates having a second round of consultations in the spring of 2020. These will be much more in the nature of a conversation beginning to explore possible ways forward. Further meetings will be arranged as required.

## 6.3 Further work by the IRM project group

At the same time as these consultations are happening, the IRM project group will continue its work. In particular, it will be having further discussions with the Pensions Regulator and with the trustees of the two URC pension schemes. Regular updates will be provided to those involved in the consultation process as information becomes available.

## 6.4 Decision making and timetable

It is likely that a range of decisions will be required of both the various trust bodies that are affected and of the associated councils of the church. The current thinking of the IRM project group is that it should first seek an agreement in principle between the various trusts and then put the proposals to the church councils – i.e. General Assembly (possibly via a prior discussion at Mission council) and the synods.

The timetable is partly at the mercy of the Pensions Regulator and is very much dependent on how the consultations progress. Ideally, the IRM group would like to achieve agreement in principle during the second half of 2020.

## 6.5 This is a challenge and not a crisis

There is no getting away from the fact that the URC faces some significant challenges regarding the present and future funding of the two URC pension schemes. It would not be surprising if this paper left members of Mission Council feeling gloomy as well as confused.

The IRM group want to be clear that they consider this to be a challenge rather than a crisis. That is because of the financial resources being held by the URC Trust and by the synod trusts.

At the end of 2017, the combined net assets of the URC Trust and the synod trusts were around £220 million. (This excludes manses held in trust by some synods.) This total had grown by around £70 million over five years. Part of the reason for this was the sale of redundant buildings. The value of church buildings does not normally appear in synod trust balance sheets whereas the proceeds of sale of such buildings does. Of course, this money supports and enables a great deal of really important work for the kingdom in and beyond the URC. Also, some of this money represents restricted funds.

The URC has got smaller numerically but not financially. The URC family should and must bear the cost of and responsibility for the pensions benefits of those who have served it in the past as well as those who serve it now. In that context, it does not seem inappropriate to use some of the proceeds of sale of now redundant church buildings to carry some of this financial burden.