Paper G4

URC Future Pensions – time for a change of approach

Pensions Committee and Finance Committee

Basic information

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Action required	Resolutions.
Draft resolution(s)	**Resolution 19** **1. The General Assembly, being representative of Local Churches, Synods and the whole Church, confirms the Church's commitment to the pensions promises already made, and wishes any consideration of future pension arrangements for the Church's Ministers of Word and Sacraments, Church Related Community Workers, missionaries and staff to keep clearly in mind:** **a) The Church's warm gratitude for the commitment, gifts and service of those who work among us and serve in our name** **b) The Church's desire to deal with these people honourably in their retirement** **c) The Church's desire to act as a responsible employer, for the people we employ and for our stipendiary office-holders.** **Resolution 20** **2. General Assembly, recognising that the significant changes to the legal and regulatory framework for defined benefit pension schemes are making the two current URC pension schemes disproportionately expensive for the benefits they deliver, agrees in principle to the closure to future accruals of both the Ministers' Pension Fund and the Final Salary Pension Scheme.** **Resolution 21** **3. General Assembly acknowledges the careful work that has already been done on these complex and sensitive matters, authorises further work to be done on developing new pensions arrangements for office**

	holders and staff, with the aim of presenting detailed options to Mission Council in November 2021, and then final proposals to General Assembly 2022, for implementation no sooner than January 2023.

Summary of content

Subject and aim(s)	This paper asks General Assembly to make a decision in principle to close the two current URC pension schemes to future accruals and to authorise the complex and costly process of developing new pension arrangements for office holders and staff. Those proposed plans will be brought back to a subsequent meeting of General Assembly for approval.
Main points	The key issues are dealt with in Part B of this paper. The Church's commitment to provide good pensions for its office holders and staff remains as strong as ever. If there is any change to pension arrangements, this will primarily affect benefits that will be earned in the future. The pensions earned by past service are protected. The United Reformed Church has two pension schemes, the Ministers' Pension Fund and the Final Salary Scheme. Both are defined benefit schemes. The annual Church contributions to the Ministers' Pension Fund will almost double in 2022 – an increase of more than £1.5 million. This is because of the extra prudence required by the Pensions Regulator. This estimated increase is much higher than was reported to Mission Council in March 2021. There are good alternatives available that should provide equivalent benefits to those from the current pension schemes, whilst avoiding this unsustainable increase in costs. Changing pension arrangements would be a complex and costly process. That is why it is necessary to ask Assembly to make a decision in principle, in order to authorise that work.
Previous relevant documents	Paper titled 'URC Pension Schemes – facing up to some serious challenges' written for General Assembly 2020 and considered by Mission Council in July 2020. Paper titled 'URC Future Pensions – a document for discussion' considered by Mission Council in March 2021.
Consultation has taken place with...	The URC Integrated Risk Management project group. External consultants have helped with some financial modelling.

Summary of impact

Financial	The objective of changing the Church's pension arrangements is not, primarily, to reduce costs, but to deal with the expected increase in costs from 2022 to a level that is unsustainable and

	that may no longer be the most cost-effective way to provide good pensions to the Church's office holders and staff.
External (e.g. ecumenical)	None.

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Part A: Introduction

1. Purpose and scope

1.1 A discussion paper on the future of the two URC pension schemes was presented to Mission Council in March 2021. The feedback from the discussion groups at Mission Council has led to what is hopefully the simplification of the format of this paper. Part B is the most important part of this paper. Much of the detailed information is now relegated to Parts C and D, which are in the nature of appendices.

1.2 The subject matter of this paper is unavoidably complex. Some members of Mission Council struggled to understand what was presented to them and some suggested that the 'experts' ought to decide what should be done. However, the Church makes its important decisions in its councils and, in this case, it is clear that the appropriate council is General Assembly, where decisions can be taken on behalf of the whole Church. The purpose of this paper is to enable members of General Assembly to engage with the issues, and to gain sufficient understanding to make wise decisions about the future.

1.3 Part B focuses on the key issues and the three resolutions.

1.4 Part C provides a brief introduction to the nature of Defined Contribution pension schemes, which are very different from Defined Benefit schemes. It also describes the significant gaps in our current knowledge. If General Assembly authorises the necessary work, it should be possible to present Mission Council in November with comprehensive and fully costed options which can then be developed into proposals for approval at General Assembly 2022.

1.5 Part D provides comparisons of the estimated income in retirement from the current Ministers' Pension Fund, and two examples of Defined Contribution schemes with different approaches to Church contributions for three sample members. These examples are illustrative only. The properly worked out options may be quite different.

2. Some definitions and explanations

Defined Benefit pension schemes

The United Reformed Church has two active pension schemes, and they are both Defined Benefit pension schemes.

A defined benefit pension scheme is one where the method of calculating a member's pension is pre-determined. In both the URC schemes, the calculation is based on years of service and salary or stipend at, or close to, retirement.

The costs of such a pension scheme depend on many unpredictable things like inflation and interest rates; investment performance; and the length of time members live in retirement. This means that the actual costs cannot be known until the last member has died. The estimated costs are formally calculated by the scheme actuary every three years. The sponsor or employer is obliged to meet the actual costs, whatever they turn out to be, less any contributions from the members.

The calculation of the benefits from a defined benefit pension scheme is pre-determined, but that does not mean that the real purchasing power of those benefits

is known in advance. That depends, for example, on how salary or stipend increases have compared with inflation increases over a member's working life.

Defined Contribution pension schemes
Defined contribution pension schemes are the most common alternative to defined benefit pension schemes. These are discussed briefly in Part C of this paper.

Current URC pension schemes
The URC Ministers' Pension Fund (MPF) is the pension scheme that covers almost all ministers and church related community workers. A member of this scheme earns a pension of 1/80th of stipend for each year of pensionable service. For those who retire at normal retirement age, pension is based on the stipend at that date.

The URC Final Salary Pension Scheme is mostly for lay staff. A member of this scheme earns a pension of 1/80th of salary for each year of pensionable service. The calculation of pension at retirement is based on the highest 12 months' salary in the previous three years. Two-thirds of the members are employees at Church House or at Westminster College and, so, the United Reformed Church is the principal employer. The other members are or were staff at most of the synods or at Northern College, so those bodies are also participating employers.

Sponsor / Employer
Ministers and church related community workers are office holders rather than employees, though for pensions purposes this really makes no difference.
The United Reformed Church is identified as the sponsor of the MPF and the principal participating employer of the Final Salary Scheme.

Trustees
Every pension scheme has a trustee body which acts independently of the sponsor. The trustee must always act in the best interests of all the beneficiaries of the scheme. In relation to defined benefit pension schemes, the primary responsibility of the trustee is to ensure that the benefits already earned by the members are paid when they are due.

The trustee of the URC MPF is an 'in house' corporate trust called the URC Ministers' Pension Trust Limited. All its directors are members of the URC.
Its professional advisors are different from those used by the church.

The provider of the URC Final Salary Scheme is TPT Retirement Solutions (formerly the Pensions Trust). TPT is a large specialist provider dealing with many different schemes. Its trustee is called Verity Trustees Limited, which acts as trustee of all its schemes. TPT's trustee has generally taken a highly prudent approach. This means that the level of contributions by the Church and the investment strategy adopted have already addressed many of the issues now facing the MPF.

The Pensions Regulator
Acts of Parliament provide the legal framework for pension schemes. The Pensions Regulator is the body responsible for issuing detailed regulations and guidance, for monitoring compliance and, if necessary, for enforcement.

Maturity

Defined benefit pension schemes mature over time. That means that the number of members retired and receiving pensions grows, whereas the number of members in work typically stays the same or, as in the case of the MPF, reduces. The financial effect of this is that there comes a point when the expenditure from the scheme exceeds the income to the scheme, investments have to be sold, and the size of the scheme starts to reduce. This is a natural phenomenon. This has happened with the MPF. It is still a little way off for the Final Salary Scheme.

The 'Long Term Objective' (LTO) of a defined benefit pension scheme is the funding and investment strategy, which its trustee must determine. One measure of significant maturity is the point at which 5% of the liabilities of the scheme are being paid out each year. 2030 is the estimated date when this will happen for the MPF. The Pensions Regulator expects the assets of a defined benefit pension scheme to have been substantially de-risked by this date. It is this prudent approach to the funding of maturing pension schemes which is the primary cause of the anticipated substantial increases to contribution rates.

De-risking: The assets of the MPF are currently invested in equities (30%); property (10%); and gilts or government securities (60%). The valuation in 2030 is expected to assume that at least 80% of the assets will be gilts.

Part B: Key issues and resolutions

3. The Church's commitment to its office holders and staff

3.1 Resolution 1

The General Assembly, being representative of Local Churches, Synods and the whole Church, confirms the Church's commitment to the pensions promises already made, and wishes any consideration of future pension arrangements for the Church's Ministers of Word and Sacraments, Church Related Community Workers, missionaries and staff to keep clearly in mind:

a) The Church's warm gratitude for the commitment, gifts and service of those who work among us and serve in our name;

b) The Church's desire to deal with these people honourably in their retirement;

c) The Church's desire to act as a responsible employer, for the people we employ and for our stipendiary office-holders.

3.2 The above wording is, deliberately, the same as that agreed by Mission Council in July 2020 on behalf of General Assembly. This was by no means the first time that General Assembly, or Mission Council on its behalf, has reaffirmed its commitment to provide good pensions to office-holders and staff in the United Reformed Church.

3.3 This understanding of the Church's commitment to its office holders and staff is the starting point for any discussion about the future of the two URC pension schemes. There is no intention to go back on, or to weaken the commitments that have previously been made. On the contrary, the objective is to maintain that commitment in the future, but in a way that recognises that the legal and regulatory framework in which defined benefit pension schemes operate has changed

significantly. The seriously negative impact of these changes on the Church and, potentially, also on the members of the pension schemes, is impossible to ignore.

4. Making an ‘in principle’ decision

4.1 Resolution 2

General Assembly, recognising that the significant changes to the legal and regulatory framework for defined benefit pension schemes are making the two current URC pension schemes disproportionately expensive for the benefits they deliver, agrees in principle to the closure to future accruals of both the Ministers’ Pension Fund and the Final Salary Pension Scheme.

4.2 A decision for General Assembly

General Assembly has always been the body to take decisions regarding changes to the terms of the MPF. General Assembly has also more than once decided that the two URC pension schemes should be kept in line with one another. It is being assumed that this is still the right approach to take.

There are many who will be affected by any change to pension arrangements – not only the members of the two pension schemes, but also the local churches and synods that provide the funding that pays for the Church’s pension provisions; all participating employers in the Final Salary Scheme; and the trustees of the two existing pension schemes.

If this resolution is approved then appropriate consultation with all those affected will be important, and in some cases is legally required, before any changes are implemented. However, General Assembly is the only body the Church has that can make decisions of this kind on behalf of the whole Church.

4.3 An ‘in principle’ decision at this stage

The development of new pension arrangements for the Church’s office holders and staff would be a complex task involving significant cost and time. It would be imprudent to embark on this task without first seeking agreement in principle for the way ahead from General Assembly. That is the main purpose of this paper.

This paper focuses on why those presenting it believe that change is unavoidable, and that the need for change is urgent.

Assembly is only being asked to make an ‘in principle’ decision at this stage. If the necessary work is authorised, then detailed proposals will be brought to a subsequent meeting of Assembly for approval.

4.4 Any change will only affect ‘future accruals’

The pensions already earned by members of defined benefit pension schemes will be protected. Any change made to pension arrangements will relate, primarily, to the benefits earned for service from the date of the change.

It is suggested that the earliest effective date for change will be 1 January 2023.

5. Escalating costs of the existing URC pension schemes

5.1 Affordability – can the Church afford the rapidly escalating costs?

The Church's contribution to the Ministers' Pension Fund in 2020 was £2.1 million. This was roughly 10% of the total Ministry and Mission Fund budget.

The estimated cost in 2022 is jumping to £3.5 million – an increase of around £1.5 million.

Over recent years, the income to the Ministry and Mission Fund has been slowly declining. There is no way that it could be expected to cover such a massive and ongoing increase in costs.

5.2 Actual and estimated cost

The actual costs of defined benefit pension schemes will not be known until the last pensioner has died. In the meantime, those costs have to be estimated.

If the estimated cost of pensions already earned increases, that can create a deficit on the pension scheme which the Church has to deal with by making additional payments into the scheme.

The estimated cost of pensions that will be earned by future service are met by regular 'future service contributions' paid by the Church and by the members.

The cost of these future service contributions by the Church, and any deficit contributions, are included in the annual URC Ministry and Mission Fund budget.

5.3 Ministers' Pension Fund – previous increases in these future service costs

Since 2010, the contributions by members have been fixed at 7.5% of stipend.

In 2010, the future service contributions paid by the Church were 12.35% of stipend. Based on the number of ministers in 2020, **the cost of these contributions would have been £1,166,000**.

The Church is currently paying future service contributions at the rate of 21.95% of stipend. **The total cost of these Church contributions in 2020 was £2,072,000**.

The main reason for this rise in costs has been the historically low interest rates that have persisted and indeed continued to decline since 2008.

5.4 Ministers' Pension Fund – estimated future increases in these costs

As stated above, the total Church future service contributions to the MPF are now estimated to rise by around £1.5 million to £3.5 million in 2022. This allows for the expected reduction in the number of ministers. This is a much larger increase than the estimate included in the paper to Mission Council. Assuming no increase in the members' contribution rate, the Church contribution rate will rise from 21.95% to 41.25%.

The main cause of this increase is the Pension Regulator's requirement for extra prudence by defined benefit pension schemes that are maturing.

The annual cost to the Church is estimated to **increase by a further £300k by 2030.**

5.5 Final Salary Pension Scheme

The Final Salary Scheme is much smaller than the ministers' scheme and, therefore, the total costs for the Church are not so significant. The total contributions by the Church in 2020 were £490,000.

Nevertheless, costs are increasing. In 2010, the Church paid future service contributions of 16.9% of salary with members contributing 6% of salary. By 2021, the Church future contributions plus expenses had risen to the equivalent of 25.3% and member contributions had risen to 7.5%.

The Final Salary Scheme is maturing, though not as quickly as the MPF. It is, therefore, possible that there will be further increases in these future service contribution rates in the future.

5.6 Questions regarding 'value for money'

The massive increases expected in the future service contribution rates are caused by the requirement for the liabilities of the MPF to be valued more prudently. In particular, the assumed return on the invested assets is significantly reduced. This is linked to the assumption that the assets of a defined benefit pension scheme will be progressively de-risked as it approaches maturity. If the assets of a pension scheme are de-risked it is likely that the investment returns will be lower, which means that it will cost the Church more to deliver the promised benefits.

Affordability is not just about whether there is enough money in the bank to meet the costs. It is also about the impact on other aspects of the Church's life and work of such a large rise in pension costs. Even if affordability was not an issue, this projected rise in costs would demand a serious look at alternative ways of providing pensions that might deliver equivalent benefits at a lower cost. Defined benefit pension schemes have long been viewed as the 'gold standard' in pension provision. This view is being seriously challenged by the significant extra funding now needed as the consequence of the increased prudence required, with the associated constraints on investment strategy. Good alternatives are available.

5.7 Staying with the existing pension schemes

If Assembly decides to stay with the existing pension arrangements, then the trustee of the MPF will be seeking much stronger assurances from the Church about how the increased level of contributions will be funded. This could be through increased guarantees and / or through even more prudent valuations, resulting in higher contribution rates.

6. Developing alternative pension arrangements

6.1 Resolution 3

General Assembly acknowledges the careful work that has already been done on these complex and sensitive matters, authorises further work to be done on developing new pensions arrangements for office holders and staff, with the aim of presenting detailed options to Mission Council in November 2021, and then final proposals to General Assembly 2022, for implementation no sooner than January 2023.

6.2 A time-consuming and potentially costly task

As stated above, a considerable amount of detailed work is necessary in order to develop new pensions arrangements that are a good fit for the Church and for the members of its two current pension schemes. Some of this work will have to be done by external consultants with the appropriate expertise. The purpose of this resolution is to authorise that work, and the associated cost. The aim will be to develop some detailed and properly costed options for consideration by Mission Council in November 2021.

It is a legal requirement to formally consult with the members of the existing pension schemes about proposed changes. It will also be necessary to consult with the trustees of the two existing schemes and with the other participating employers in the Final Salary Scheme.

Final proposals will be brought to a future meeting of General Assembly for approval – hopefully in 2022.

A very rough estimate of the costs of developing new pension arrangements is £50,000 to £100,000.

6.3 Making changes to the existing schemes is not an option

The Church has previously, on occasions, managed the cost of its pension schemes by changing the rules – for example, by increasing the normal retirement age, or by increasing the rate of contribution required from members. Given the scale of the projected increase in costs, these could only be brought under control by making severe changes to both the current schemes at unacceptable cost to the members, either now in higher contributions, or at retirement in reduced benefits.

6.4 Defined Contribution schemes – now a genuinely good option

The most common alternative form of pension scheme is a Defined Contribution scheme. Some general information on these is provided in Part C of this paper.

Some employers have used the change from a Defined Benefit to a Defined Contribution pension scheme as an opportunity to reduce costs by providing less attractive retirement benefits. This has created the false impression that Defined Contribution schemes are inherently inferior. This doesn't have to be the case.

It is true that in a defined contribution pension scheme the investment risk is transferred from the employer or sponsor to the members. However, it is also true that there are not the same constraints on investment strategy and, therefore, that significantly higher rates of return might be achieved. It is also true that the individual member of a defined contribution pension scheme has a great deal of flexibility – for example, to make financial arrangements for their retirement that fit their personal circumstances. It would, therefore, be wrong to assume that a change would be disadvantageous to scheme members. A lot of detailed work is necessary before it will be possible to suggest what a generous defined contribution pension scheme for the Church might look like.

It is also important to note that recent pensions legislation has provided for further flexibility, which suggests that other options may be available in the future. Advice will be sought on these developments.

Part C: Defined Contribution pension schemes – an introduction

7. Same purpose but different approach

7.1 The purpose of all pension schemes is essentially the same. By setting aside funds during a person's working life, and investing them, the intention is to provide income in the person's retirement.

7.2 Defined Contribution pension schemes operate in a very different way from Defined Benefit schemes. This means that comparing their costs and their benefits is not at all straightforward.

8. Defined Contributions

8.1 The employer / sponsor and the members make regular contributions into a Defined Contribution pension scheme, as they do to a Defined Benefit scheme. However, in this case, the level of the contributions is fixed, though it can be changed after due notice has been given to members.

8.2 The income that will be available in retirement is not fixed. This will depend on the performance of the investments and on the choices made by each member.

9. Personal pension pots

9.1 Each member of a Defined Contribution pension scheme has their own pension pot, consisting of the contributions made on their behalf plus the accumulated investment gains on those contributions. This pension pot is held by the trustee of the pension scheme on behalf of the member. When a member dies, their pension pot can be inherited and is subject to special taxation provisions.

10. Choices while working

10.1 Some Defined Contribution pension schemes allow members to make contributions at different rates, usually between fixed minimum and maximum limits.

10.2 A Defined Contribution pension scheme is usually set up with a standard approach to things like investment strategy, but individual members often have the ability to choose a different approach in relation to their own pension pot.

11. Choices at and after retirement

11.1 Each member of a Defined Contribution pension scheme has important choices to make as they approach retirement and then regularly afterwards. These choices are mainly to do with the rate at which income is taken out of the pension pot that has been accumulated. That may well depend on the personal circumstances of the member, and these may change over time. It is important that individuals obtain independent financial advice to help them with these choices. Once a pension pot has been spent, it is gone.

11.2 Annuity

One choice at retirement is to use the personal pension pot to buy an annuity. The annuity would be a monthly income, often increased annually in line with inflation, and possibly with a spouse's pension payable on the death of the member. So, an annuity would feel like a pension from a Defined Benefit pension scheme.

Annuities are, typically, provided by insurance companies which have to take a very prudent approach to investment policy, as they are carrying all the risks, and they aim to make a profit. In recent years, annuities have delivered poor value for money and have been used less often – at least in the early years of retirement. However, they do deliver certainty, which is important for some people and they usually remove the need for active involvement.

11.3 Drawdown

The other approach for members of Defined Contribution pension schemes is called 'drawdown'. Here, each member decides on the amount of cash to be taken from their investment pot to provide income in retirement – this decision is reviewed regularly (eg annually) and can be revised. The rest of the pension pot remains invested. The decisions of each member will depend on such things as other income, dependents, housing costs, state of health, and lifestyle choices. For example, one member might decide to take out less money initially in case care costs become an issue later, where another member might decide to take out more money initially in the expectation that expenditure will reduce in later years.

Clearly, such an approach requires the active involvement of the member in their own financial planning.

11.4 It is possible to use drawdown in the early years of retirement, and then to purchase an annuity some time later with whatever is left of the pension pot at that date. Recent legislation has indicated that other options may be available in future.

12. Other costs and benefits

12.1 Both the current URC pension schemes provide benefits on the death of a member in service or when they have left service but before their normal retirement date. Both schemes also provide for pensions to be paid to members who have to retire early on grounds of ill health.

If the Church moves to a Defined Contribution pension scheme, and if the Church wants to continue to provide benefits of this nature, then they will have to be provided separately from the new pension scheme.

12.2 If new pension arrangements are introduced, the two existing defined benefit pension schemes will still have to be operated more or less as before - albeit with no accrual of additional pension benefits for the members.

12.3 The total cost of these items is significant, and will have to be taken into account in deciding what level of contribution the Church can afford to make into any new pension scheme.

13. Work to be done

13.1 It will be important to explore a variety of possible structures for a new URC Defined Contribution pension scheme, plus any benefits provided in addition to that scheme, in order to work out what might be the best fit for the Church and the members of its pension schemes.

13.2 A starting point for this work will be to see what benefits might be delivered for roughly the same cost as the Church is currently paying in future service

contributions. It will then be necessary to compare those projected benefits with the benefits from the existing pension schemes.

13.3 Another important part of the work will be to explore how best to ensure that members of both the current pension schemes receive appropriate support, both before and after any change takes place and that they are encouraged to plan properly for their retirement, taking independent financial advice when necessary. Some of this support will need to come from the pension provider, and some from the Church.

13.4 There is a lot of detailed work to be done before it will be possible to make firm and detailed recommendations about the best way forward.

Part D: Defined Contribution pension schemes – some illustrative examples

14. Comparisons of benefits for members

14.1 Illustrations only

The following examples are provided to help explain how Defined Contribution pension schemes work and the benefits they might deliver. They are not necessarily indications of what the Church might do. In particular, the levels of contributions by the Church and by the members that are eventually recommended may be higher or lower than in the examples explained below.

Before Assembly makes a decision about proposed new pension arrangements, it will want to know what the benefits provided by a proposed new pension scheme are likely to be compared with the benefits from the current schemes, and it will also need to know how the estimated costs compare. Until the other work described in section 12 has been done, it will not be possible to estimate what the total costs will be. In particular, the issues of ill health, early retirement and death in service benefits are yet to be explored, and they are not covered by the examples below.

14.2 Choices of examples and other assumptions

The results of financial modelling are provided for two structures of Church contributions and for three sample members of the Ministers' Pension Fund (MPF).

The first example assumes Church contributions into a new Defined Contribution pension scheme of 17.5% of salary / stipend and member contributions of 7.5% of salary / stipend. The results of this modelling suggest that this example would be too expensive, and that it is likely to deliver benefits for younger members that are substantially larger than the current arrangements.

The second example assumes age-related Church contributions of 12.5% up to age 42; 15.0% from age 43 to 57; and 17.5% from age 58; and member contributions at 7.5% for all members. For members aged 58 or over, these two examples are the same. Again, the modelling results suggest that this might be over-generous to younger members. If the final recommendation is for age-related contributions, the age ranges and / or the levels of contribution may differ from those in this example.

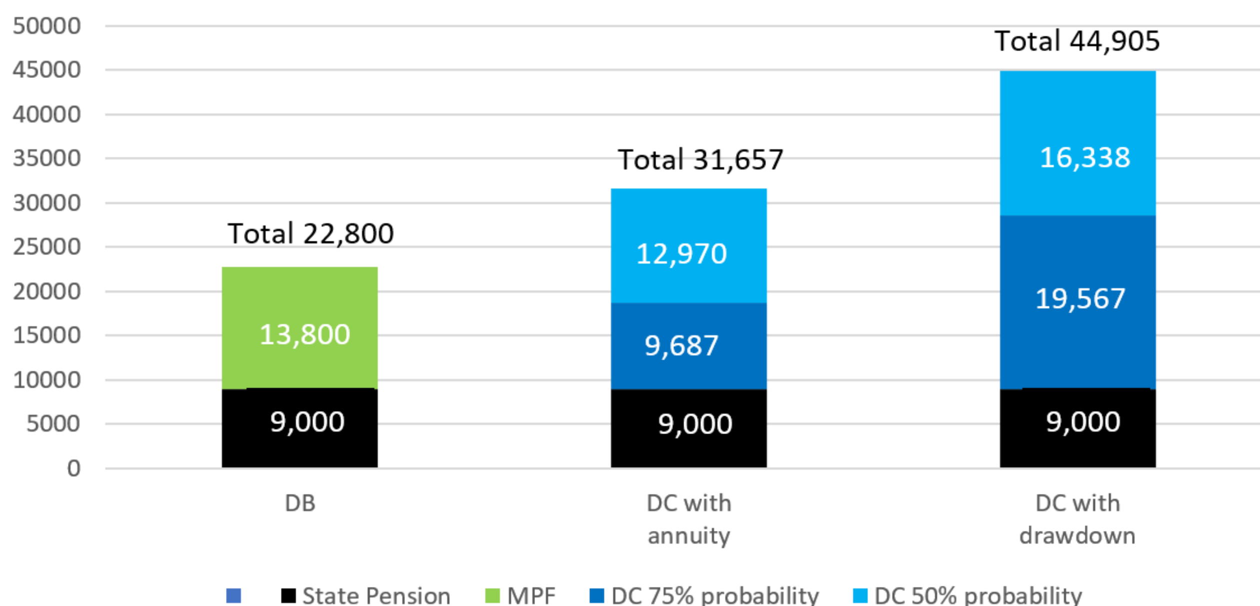
For each example, three sample members are considered, all of whom entered ministry at age 28. The first is aged 28 and has just entered ministry and, therefore, has no accrued pension in the MPF. The second is aged 43 and has an accrued pension in the MPF based on 15 years of service. The third is aged 58 and has an accrued pension in the MPF based on 30 years of service.

All the figures are expressed in current prices. It is assumed that inflation will have the same effect on stipend levels, on DB pensions in payment, and on DC investment returns which will be reflected in DC pensions. Of course, none of this may be true but it is a reasonable assumption for this purpose.

The impact of taxation and the option of a tax-free commutation are ignored.

15. Income in retirement: Comparison of the current Ministers' Pension Fund DB scheme with a DC scheme with 17.5% Church contributions and 7.5% member contributions

15.1 Sample member 1: 28 year old, just entering stipendiary ministry



This chart shows the estimated income in retirement on three different bases.
In all three cases, the bottom dark rectangle represents the state pension of £9,000.

Existing DB scheme
The left-hand block represents the continuation of the existing DB scheme. The annual pension from the DB scheme at retirement in 40 years' time would be 40/80 of stipend = £13,800, so total annual income would be £9,000 + £13,800 = £22,800. So, income before tax in retirement is estimated to be just over 80% of stipend.

Suggested DC scheme with an annuity purchased at retirement
As stated previously, the outcome of a DC scheme can only be estimated.

The central block represents a DC scheme, as described above, and assumes that at retirement the member's pension pot will be used to purchase an annuity (see paragraph 11.2 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annuity at retirement of at least £9,687, so total annual income including the state pension would be £9,000 + £9,687 = £18,687.

The light blue rectangle indicates that there is a 50% chance of receiving an annuity at retirement of at least £22,657 (£9,687 + £12,970), so total annual income including the state pension would be £9,000 + £22,657 + £31,657.

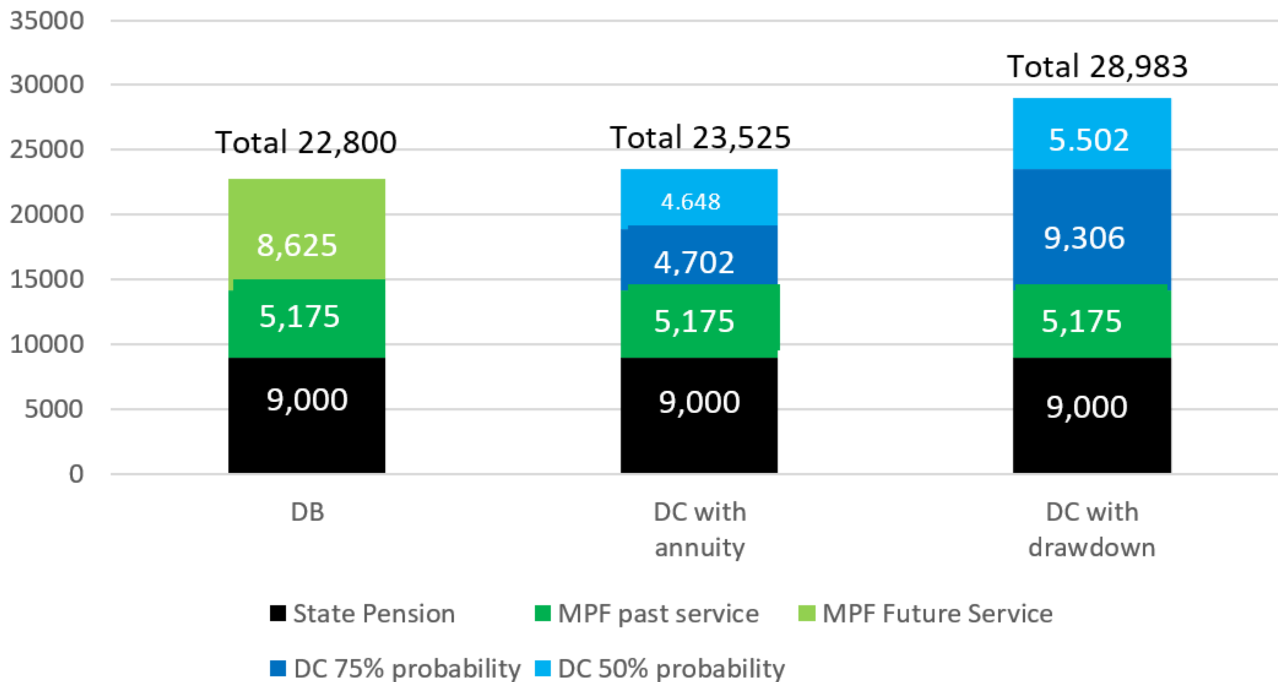
Suggested DC scheme with drawdown used after retirement
The right-hand block represents a DC scheme, as described above, and assumes that the member will use drawdown to provide income in retirement (see paragraph 11.3 above).

For the purpose of this modelling, it is assumed that the drawdown will be managed to deliver a pension for life fixed at retirement, increased annually by inflation, and followed by half a pension to a surviving spouse for the rest of their lifetime. These assumptions make the results more comparable with the current DB scheme.

The dark blue rectangle indicates that there is a 75% chance of delivering a pension at retirement of £19,567, so total annual income including the state pension would be £9,000 + £19,567 = £28,567.

The light blue rectangle indicates that there is a 50% chance of delivering a pension at retirement of £35,905 (£19,567 + £16,338), so total annual income including the state pension would be £9,000 + £35,905 = £44,905.

15.2 Sample member 2: 43 year old, with 15 years of past service



As before, the dark rectangle at the bottom of all three columns represents the state pension of £9,000. Now there is a dark green rectangle above this in all three columns which represents the pension payable from the DB scheme for the past 15 years. The value of this defined pension is fixed at 15/80 of stipend = £5,175.

Existing DB scheme

Again, the left-hand block represents the continuation of the current DB scheme and shows the total pension payable at retirement after 40 years' service of £13,800 (£5,175 + £8,625) and that the total annual income including state pension would be, as before, £9,000 + £13,800 = £22,800.

Suggested DC scheme with an annuity purchased at retirement

The central block represents a DC scheme, as described above, and assumes that the member's pension pot will be used to purchase an annuity at retirement (see paragraph 11.2 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annuity at retirement of at least £4,702, resulting in total annual income including the state pension and the DB pension of £9,000 + £5,175 + £4,702 = £18,877.

The light blue rectangle indicates that there is a 50% chance of receiving an annuity at retirement of at least £9,350 (£4,702 + £4,648) meaning total annual income including the state pension and the DB pension would be £9,000 + £5,175 + £9,350 = £23,525.

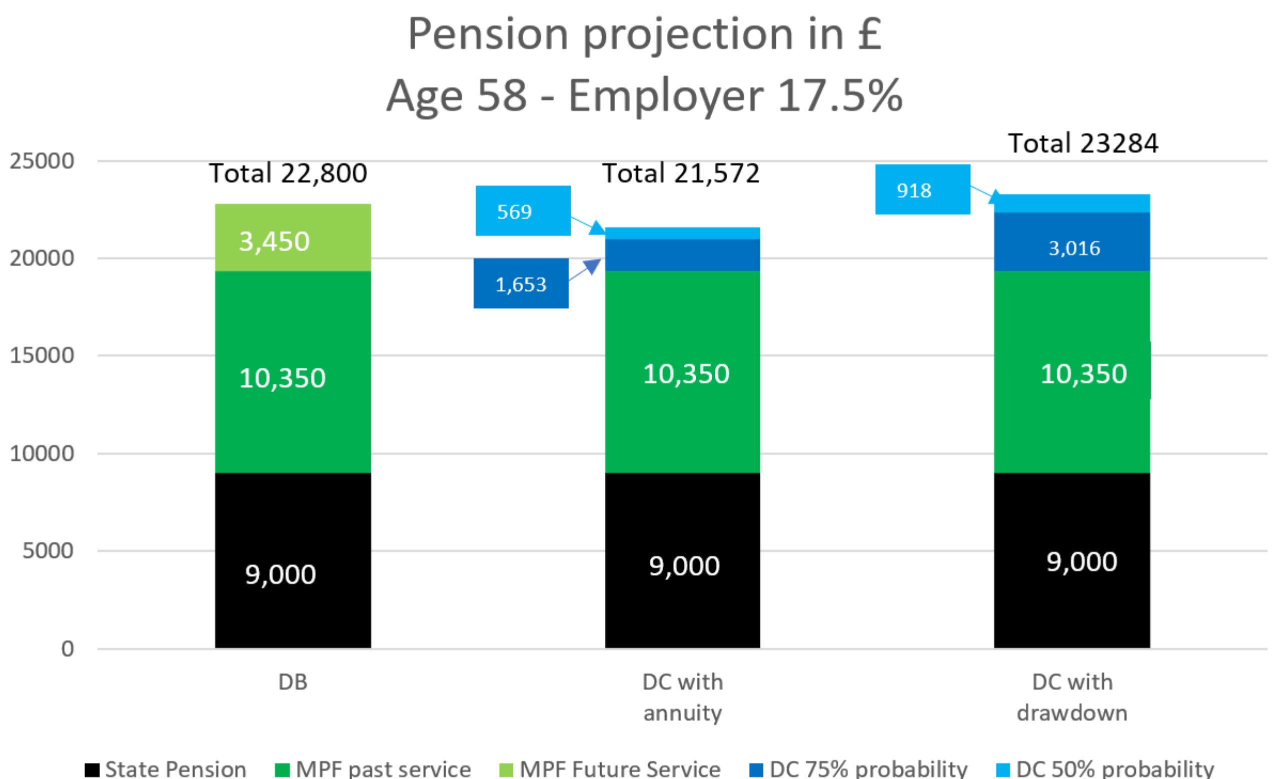
Suggested DC scheme with drawdown used after retirement
The right-hand block represents a DC scheme, as described above, and assumes that the member will use drawdown to provide income in retirement (see paragraph 11.3 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annual pension at retirement of at least £9,306 meaning that total annual income including the state pension and the DB pension would be £9,000 + £5,175 + £9,306 = £23,481.

The light blue rectangle indicates that there is a 50% chance of receiving an annual pension at retirement of at least £14,808 (£9,306 + £5,502) meaning that total annual income including the state pension and the DB pension would be £9,000 + £5,175 + £14,808 = £28,983.

15.3 Sample member 3: 58 year old, with 30 years of past service
The chart is on the next page.

Once again, the dark rectangle at the bottom of all three columns represents the state pension of £9,000. The dark green rectangle above this in all three columns represents the pension payable from the DB scheme for the past 30 years. The value of this defined pension is fixed at 30/80 of stipend = £10,350.



Existing DB scheme
Again, the left-hand block represents the continuation of the current DB scheme and shows the total pension payable at retirement after 40 years' service of £13,800

(£10,350 + £3,450) and that the total annual income including the state pension would be, as before, £9,000 + £13,800 = £22,800.

Suggested DC scheme with an annuity purchased at retirement
The central block represents a DC scheme, as described above, and assumes that the member's pension pot will be used to purchase an annuity at retirement (see paragraph 11.2 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annuity at retirement of at least £1,653, resulting in total annual income including the state pension and the DB pension of £9,000 + £10,350 + £1,653 = £21,003.

The light blue rectangle indicates that there is a 50% chance of receiving an annuity at retirement of at least £2,222 (£1,653 + £569) meaning total annual income including the state pension and the DB pension would be £9,000 + £10,350 + £2,222 = £21,572.

Suggested DC scheme with drawdown used after retirement
The right-hand block represents a DC scheme, as described above, and assumes that the member will use drawdown to provide income in retirement (see paragraph 11.3 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annual pension at retirement of at least £3,016, meaning that total annual income including the state pension and the DB pension would be £9,000 + £10,350 + £3,016 = £22,366.

The light blue rectangle indicates that there is a 50% chance of receiving an annual pension at retirement of at least £3,934 (£3,016 + £918) meaning that total annual income including the DB pension and the state pension would be £9,000 + £10,350 + £3,934 = £23,284.

16. Income in retirement: Comparison of the current Ministers' Pension Fund DB scheme with a DC scheme with age-related Church contributions and 7.5% member contributions

16.1 Why age-related?

In a Defined Benefit pension scheme, the pension earned for a year of service is the same for a member aged 28 as it is for a member aged 58. The cost of providing the pension for the member aged 58 is much higher because the contributions will be invested for a much shorter time. However, these costs are averaged out and expressed as a standard contribution rate for all members.

In a Defined Contribution pension scheme, the same effect works the other way round. As can be seen from the Defined Contribution parts of the example in section 15, if a standard contribution rate is used for all members, then the younger members will fare much better than the older members, because their contributions will be invested for longer.

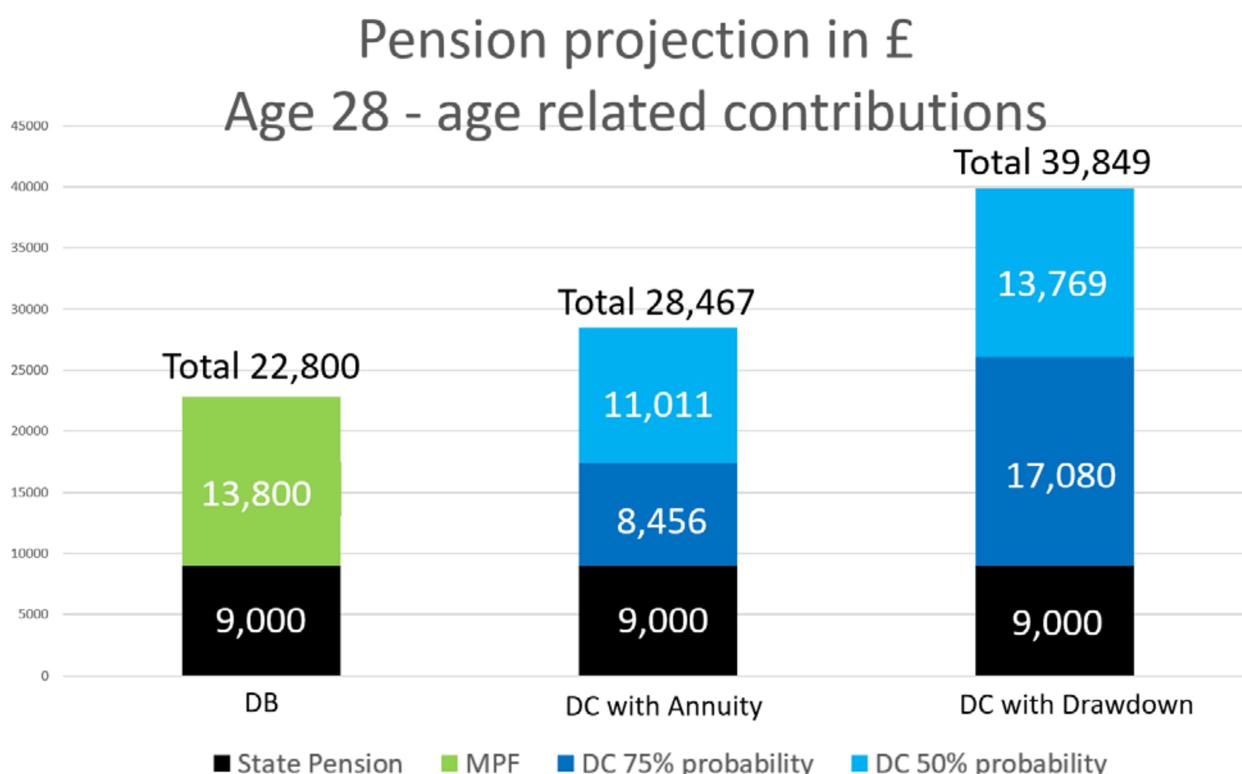
The objective of an age-related structure of contributions is to partly smooth out this effect so that all members earn nearer to the same benefit for the same length of service, whatever their age.

As stated above, the modelling has been based on the following structure of contributions:

Church contributions	Member aged up to 42	12.5%
	Member aged 43 to 57	15.0%
	Member aged 58 and over	17.5%
Member contributions	7.5% (as now)	

Please note:
This structure of contribution rates is for illustration only. If an age-related approach is eventually recommended, the age ranges may be different and the contribution rates may be higher or lower.

16.2 Sample member 1: 28 year old, just entering stipendiary ministry



This chart shows the estimated income in retirement on three different bases.
In all three cases, the bottom dark rectangle represents the state pension of £9,000.

Existing DB scheme
The left-hand block represents the continuation of the existing DB scheme. The annual pension from the DB scheme at retirement in 40 years' time would be 40/80 of stipend = £13,800 so total annual income would be £9,000 + £13,800 = £22,800. So, income before tax in retirement is estimated to be just over 80% of stipend.

Suggested DC scheme with an annuity purchased at retirement
As stated previously, the outcome of a DC scheme can only be estimated.

The central block represents a DC scheme, as described above, and assumes that at retirement the member's pension pot will be used to purchase an annuity (see paragraph 11.2 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annuity at retirement of at least £8,456 so total annual income including the state pension would be £9,000 + £8,456 = £17,456.

The light blue rectangle indicates that there is a 50% chance of receiving an annuity at retirement of at least £19,467 (£8,456 + £11,011), so total annual income including the state pension would be £9,000 + £19,467 + £28,467.

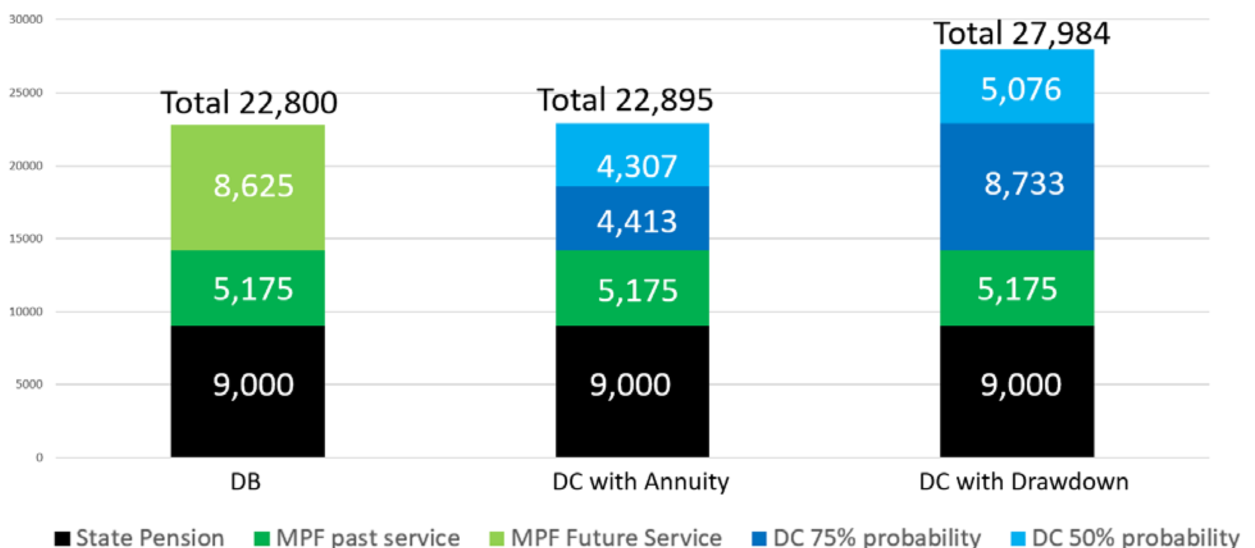
Suggested DC scheme with drawdown used after retirement
The right-hand block represents a DC scheme, as described above, and assumes that the member will use drawdown to provide income in retirement (see paragraph 11.3 above).

For the purpose of this modelling, it is assumed that the drawdown will be managed to deliver a pension for life fixed at retirement, increased annually by inflation, and followed by half a pension to a surviving spouse for the rest of their lifetime. These assumptions make the results more comparable with the current DB scheme.

The dark blue rectangle indicates that there is a 75% chance of delivering a pension at retirement of £17,080, so total annual income including the state pension would be £9,000 + £17,080 = £26,080.

The light blue rectangle indicates that there is a 50% chance of delivering a pension at retirement of £30,849 (£17,080 + £13,769), so total annual income including the state pension would be £9,000 + £30,849 = £39,849.

16.3 Sample member 2: 43 year old, with 15 years of past service



As before, the dark rectangle at the bottom of all three columns represents the state pension of £9,000. Now there is a dark green rectangle above this in all three columns which represents the pension payable from the DB scheme for the past 15 years.The value of this defined pension is fixed at 15/80 of stipend = £5,175.

Existing DB scheme
Again, the left-hand block represents the continuation of the current DB scheme and shows the total pension payable at retirement after 40 years' service of £13,800 (£5,175 + £8,625) and that the total annual income including state pension would be, as before, £9,000 + £13,800 = £22,800.

Suggested DC scheme with an annuity purchased at retirement
The central block represents a DC scheme, as described above, and assumes that the member's pension pot will be used to purchase an annuity at retirement (see paragraph 11.2 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annuity at retirement of at least £4,413 resulting in total annual income including the state pension and the DB pension of £9,000 + £5,175 + £4,413 = £18,588.

The light blue rectangle indicates that there is a 50% chance of receiving an annuity at retirement of at least £8,720 (£4,413 + £4,307) meaning total annual income including the state pension and the DB pension would be £9,000 + £5,175 + £8,720 = £22,895.

Suggested DC scheme with drawdown used after retirement
The right-hand block represents a DC scheme, as described above, and assumes that the member will use drawdown to provide income in retirement (see paragraph 11.3 above).

The dark blue rectangle indicates that there is a 75% chance of receiving an annual pension at retirement of at least £8,733 meaning that total annual income including the state pension and the DB pension would be £9,000 + £5,175 + £8,733 = £22,908.

The light blue rectangle indicates that there is a 50% chance of receiving an annual pension at retirement of at least £13,809 (£8,733 + £5,076) meaning that total annual income including the state pension and the DB pension would be £9,000 + £5,175 + £13,809 = £27,984.

16.4 Sample member 3: 58 year old, with 30 years of past service
The results for this member are exactly the same as in the example in 15.3 above. This is because the age-related Church contribution illustrated for those members aged 58 or over is 17.5%, the same as in paragraph 15.3 above.