Ministries Committee
Maintenance of the Ministry Sub-Committee
Pensions Executive

Resolution

Mission Council supports the recommendations set out in the document *The United Reformed Church Ministers' Pension Fund, Proposals for Change* and asks the Pensions Executive and Maintenance of the Ministry Sub-Committee to arrange a consultation with the members of the Fund, and a discussion within the councils of the church, in order that the General Assembly can make a decision on the matter 2012.

The United Reformed Church Ministers' Pension Fund (URCMPF)

Proposals for change

In the light of the deficiency arising in recent valuations of the Fund the Pensions Executive has been considering whether any changes should be made to the benefit structure of the Fund, and if so what these should be. This paper summarises the conclusions of the Pensions Executive which are endorsed by (MoM/Ministries). It should be noted that these proposals are based on our current understanding of the funding position and if accepted would be incorporated into the next valuation of the Fund on 1 January 2012 with a view to amending the Rules at General Assembly in 2012. Should that valuation reveal an unfavourable result compared to our expectations then further changes may need to be brought to Assembly. It should further be noted that some of the proposals are subject to a further consultation with Fund members which could lead to additional revisions.

1 Introduction

The United Reformed Church Ministers' Pension Fund has fallen into deficit in recent years through a number of factors. The principal ones being an improvement in the life expectancy of our ministers, which whilst welcomed does represent a greater pension cost as pensions are paid longer, disappointing investment returns over recent years as the economic situation has deteriorated and the need for greater reserves to be held to satisfy a regulatory view of prudence.

We are not alone in facing these challenges and they are being addressed in different ways by all the major denominations in the UK, as they have been by many of the country's private sector employers and latterly by the government as an employer.

2 Over-riding context

In the light of General Assembly's recognition of the Church's responsibility towards its ministers and CRCWs and its continuing tangible expressions of support for ministers to be provided with stipends, pensions and housing at an adequate level we have assumed that this will continue to be the case.

3 Method of pension provision

In the private sector to meet the challenges of funding pension schemes many pension arrangements have now been established on a money-purchase basis. Whilst this limits the contributions to a known amount it transfers risk to individuals and so the deficiencies that we have faced as a Church by reference to improvements in longevity and stock-market fluctuations, are borne by the individual. This does not guarantee that an adequate pension can be provided. The Church's obligation is to care for its ministers unlike those private sector employers whose duty also includes improving the position of shareholders as well as their obligations to their employees. Whilst we have considered other models of pension provision we have concluded that the present approach of providing a final salary pension scheme remains the most equitable and cost effective way of providing adequate income to our ministers and their dependants at a time when they are unable to support themselves. ***We, therefore, at this time recommend the retention of the current scheme.***

This means that a minister retiring after a full career in ministry (say 40 years) will receive a pension from the URCMPF of 50% of stipend together with a state pension comprising the basic state pension and the additional state pension. Allowing for housing we believe that this will aim to provide a total net retirement income after also allowing for tax, national insurance, pension contributions etc. of between 85% and 90% of pre-retirement disposable income. Whilst the Government at the time of writing has not clarified its intentions going forward it seems probable that changes will result in a reduction of the state element in the longer term by say 5%.

4 Cost issues

Notwithstanding the comments above the Church does face cost pressures. Much of the URCMPF liability is in respect of current pensioners for whom benefits cannot be changed unilaterally. Similarly no change in benefits can be made in respect of service already completed by current members. The only changes that can be made are to the provision of pensions for new entrants to ministry and the Fund and for the future accrual of benefits by current members. We have looked at a range of options having regard not only to the cost issues but also to the needs of the Church and those likely to have meaningful financial impact are discussed in the following sections.

5 Accrual Rate

The pension entitlement currently accrues at the rate of 1.25% (one eightieth) of stipend for each year of membership, leading to a pension of 50% of stipend after 40 years of ministry.
We have considered whether this should be reduced but have concluded that the income replacement ratios described in 3 above represent a fair interpretation of the Church's obligations to its ministers. Whilst this may need to be reviewed in the future depending upon the level of State benefit and/or the Church's financial capability we have concluded and hence ***we recommend that no change should be made to the accrual rate at this time.***

6 Pension Age

The concept of a set age of retirement has now largely disappeared as the government no longer permits (*current pension regulations before parliament)* the compulsory retirement of employees at a specific age. Nevertheless the availability of pension income will remain the main driver behind the individual's choice of a retirement age.

Both the state and non-state pensions have seen the effects of rising longevity. We have seen an increase in the life expectancy of ministers retiring at age 65 of perhaps 8 years over the existence of the URC. Not surprisingly this has proved to be a significant additional cost. The state retirement age is now due to increase for both sexes to 66 by 2020 and currently to 68 by 2046. It is our view that increase to age 68 will occur much earlier. It will certainly be at least that for younger entrants to ministry going forward.

In the past the Church has not slavishly followed the State in its Pension Age and there is no necessity to do so now. We have considered various possible pension ages for the URCMPF and have concluded that the most appropriate is age 68. This would only apply to future service and it would continue to be possible to retire at an earlier age e.g. 65 with a reduction being made in the future service element to reflect the fact that the pension will be payable for longer. This would have a minimal impact on the pension of ministers retiring in the next few years at the current age of 65.

It should be understood that the Pension Age is only the pivotal age at which benefits are calculated. As stated above there is nothing in these proposals which compels a minister to retire at that age. Under the rules a minister can retire either at an earlier age or at a later age with an appropriate adjustment to the pension payable.

For example, if we take the case of a minister who has 30 years membership at age 65 of which 5 years is after the date of change, then should the minister decides to retire at age 65 the pension calculation (using the current stipend of £ 23,232) would be

5 years at 80'ths	5/80 times £23,232 =	£1,452

This would be reduced by some 18% as it would be payable for three years longer to give:

	£1,452 times 82% =	£1,190
plus		
25 Years at 80'ths	25/80 times £23,232 =	£7,260
	Total pension	**£8,450 per annum**

This may be compared with the current pension when no reduction is applied of £8,712 per annum.

Consequently ***we recommend that a Pension Age of 68 be adopted for the accrual of benefits in the future.***

7 Ill-health early retirement

Currently the URCMPF provides a pension on ill-health based on full prospective service to Pension Age, so that, for example, an individual awarded an ill-health pension at age 40 with 10 years membership will receive a pension based on not just the ten years completed but also the 25 years that will not be served until age 65. The pension will similarly be payable for life.

Our current rules ensure that a minister is eligible for an ill-health pension if they are permanently unable to carry out the duties of a stipendiary URC minister or CRCW. There are provisions for the pension to be reduced or to cease if the member recovers. These eligibility rules are unfortunately difficult to follow and can be interpreted to the effect that in some rare cases ministers not in pastoral charge may not be eligible. We therefore propose to rewrite these eligibility rules for current members to make them clearer, there will be no change in their intent.

We do believe, however, that the eligibility rules should be tightened up in one respect. We believe that the URCMPF should not be required to pay an ill-health pension at the full level if the minister is able to carry out a different occupation. In practice we do not see this as materially different in intent from the present rule but will remove a perceived ambiguity. We propose this change should apply to future members only.

Whilst many ill-health retirements occur close to Pension Age a number occur within a relatively short time in ministry. We believe that it is in the interests of the Church that this particular benefit should reflect to a greater degree the experience of a stipendiary minister or CRCW within the URC.

We therefore propose that in the future this benefit shall only be calculated by reference to full prospective service once twenty years of service has been completed. Where less than ten years of service has been completed the pension would only be based on accrued service. For ill-health retirement at intermediate points a uniform sliding scale would apply, so that in the example above the ill health pension would be based on only the ten years served. If ill-health retirement occurred at age 45, i.e. with a further five years service, then a credit of half of the prospective future service would be given. In this case the pension would therefore be based on a service of 25 years being the 15 years completed and ten years being half of the future service. We also propose that in calculating the prospective service this will be not be changed but will continue to be calculated by reference to service to age 65.

This new formula will apply to existing members but they will also be provided with an underpin which will protect the accrued pension. The underpin will continue to be linked to stipend increases in the future and will be calculated as a proportion of the current full prospective pension. The proportion will be the ratio of service at the date the changes commence to the total service completed at the date an ill-health pension commences.

In relation to existing members at the date of change we also propose a further underpin that the ill-health pension will be subject to a minimum of the pension based on the current rules but with the stipend fixed at the level applying at the date of change. In this way there will be no diminution in the ill-health pension that would be payable to a minister retiring on account of ill-health on the day after the change. There would be a gradual reduction depending on service completed and the absence of future stipend increases applying to this underpin as time progresses.

Whilst this paper is primarily concerned with the Pension aspects of the Church's obligations, we note that there is a continuing obligation on the councils of the Church both locally and centrally to provide ongoing support and care to ministers to minimise the likelihood of needing to provide a pension on ill-health whilst also ensuring that in appropriate circumstances application for a pension is made.

We, therefore, recommend a modification to the rules covering eligibility for an ill-health retirement pension in respect of new members.

We further recommend a reduction in the amount of ill-health pension subject to an underpin for existing members.

8 Death benefits

In conjunction with the change of Pension Age to 68 there will be an improvement in benefit levels payable on death before age 68.

The Fund provides a lump sum on death in service before retirement of either two or three times stipend depending upon personal circumstances (three times if there are dependants). At present, therefore, a minister who remains in contributory service after age 65 continues to enjoy this benefit. This will continue to be the case.

The level of a spouse's pension payable on death in service is based on the prospective service of the minister to Pension Age. If the Pension Age increases then this pension will also increase.

We consider the levels of benefit currently payable as doing no more than meeting our obligation to ministers to care for their dependants should they die prematurely, hence we do not advocate a change in these benefit levels.

We note that the financial implications of the small improvement in benefits for an unfortunate few are equally small and that the improvements are a logical consequence of the move to a pension age of 68.

We therefore recommend no change in the calculation of death benefits, accepting the cost of the slight additional benefit to be provided on death.

9 Pension Increase after retirement

Our current rules provide for pensions in payment to increase each year by reference to the previous year's increase in the Retail Prices Index subject to a 5% maximum. This is broadly in line with historic legislation.

The government has amended the provisions surrounding state pension increases to reflect not the Retail Prices Index (RPI) but the Consumer Prices Index (CPI). It is generally accepted that due to both the composition of this latter index and its method of calculation the result will be a lower level of increases applying to pensions going forward.

Legislation is being amended so that it will be lawful for any scheme to calculate increases by reference to CPI rather than RPI as at present.

Whilst the legislation is, therefore, permissive it is not over-riding. Each pension scheme must abide with its own constitution and rules. In our case the present rule came into force as part of a previous cost reduction exercise whereby each minister individually consented to the change and the provisions are hard-wired into our rules. Our legal advice is that we cannot change this for current members. In any event we consider it appropriate to seek to maintain an adequate pension throughout retirement and are therefore not of a view that we should seek to curtail this benefit.

10 Pensions increases between leaving the Fund and reaching retirement age (Deferred pensions)

Similar to increases to pensions in payment the government has introduced legislation changing the increase we must provide over this period to retirement to be calculated by reference to CPI rather than as at present RPI.

In practice we have relatively few deferred pensioners, representing less than 3% of our liabilities. Should any deferred member return to active membership of the Fund there are provisions in our rules permitting previous periods of membership to be re-instated, as they invariably are.

Unlike the case of pensioner members our rules are hard-wired in the opposite direction so that if we do nothing we will need to use CPI going forward.

Considering the points above we recommend that no action be taken in respect of Deferred pensions, in consequence the new legislative minimum will apply.

11 Contributions

Following each of the last two valuations the Church has asked active members to increase their contribution to the Fund. This has been to share the cost of the improving longevity which directly benefits members between the Church and serving ministers. A consequence of raising the Pension Age will be that such contributions are payable for a longer period. In view of the proposed increase in Pension Age we have considered whether a corresponding reduction should be made to the members' contribution rate.

We have concluded that since the financial effects of the proposed change in Pension Age will only gradually be reflected in members' benefits, and in view of the continuing financial pressures on the Church that it would be inappropriate to adjust members' contributions for this reason as part of this review.

Similarly we have considered whether it would be appropriate to recommend an increase in members' contributions to more adequately reflect the value of the pension and to share the cost to a greater extent with the Church. At present members contribute at the rate of 7.5% of stipend compared to almost 25% of stipend being contributed by the Church.

We have concluded that a further increase should not be recommended at this time but that this may need to be re-visited depending upon the results of the next actuarial valuation.

We therefore recommend no change be made to the members' contribution rate.

12 Membership

Following a previous review driven by financial pressures it was decided not to permit membership of the Fund to ministers over the age of 55 at the date of entry. This was done since it was perceived that pensions cost more the older one is. Instead of providing scheme membership a contribution of 10% of stipend has been made to personal pension arrangements in the few cases to which this applied. The government has now introduced legislation whereby we must provide a pension arrangement of a suitable standard for every minister over the age of 22. Our present arrangements for mature entrants will therefore need to change.

We believe it is appropriate to allow such late entrants into stipendiary ministry to enter the Fund in the normal way. In so doing we;

- Meet our obligation set out in 2 above, which the present approach does not
- Reduces discrimination on the grounds of age
- Recognise the changes in work practice whereby a default set retirement age no longer applies
- Reduce the administrative burden (and associated cost) on the Church of running another pension arrangement.

We, therefore, recommend that the Fund admission policy be revised so that membership is available to all stipendiary ministers/CRCWs, regardless of age.

Existing ministers who have not been admitted because of age would be permitted to enter should they wish for their future service. No credit would be given for historic service covered by their personal arrangements.

13 Financial Implications

As discussed above the proposals do not in any way affect benefits which have already accrued to serving ministers or pensioners. The Fund deficit is in respect of such accrued benefits and hence the proposals have a negligible effect on the deficit.

Financial savings arise from the reduction in benefits for future service primarily in respect of the proposed change in Pension Age.

We are advised by our actuary that the proposals above will lead to a reduction in the annual contribution made by the Church to the Pension Fund in the region of £300,000 - £ 350,000. This is a reduction of some 10% in the Church's annual contribution to the URCMPF.

14 Conclusion

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 dependants are not in a position to care for themselves.

We accept that it may be necessary to carry out further reviews in the future but commend the results of this review to Mission Council for their further consideration.

Pensions Executive, 10 March 2011

Summary of recommendations

1. **The retention of the current scheme.**
2. **No change should be made to the accrual rate.**
3. **A pension age of 68 be adopted for the accrual of benefits in the future.**
4. **A modification to the rules covering eligibility for an ill-health retirement pension in respect of new members.**
5. **A reduction in the amount of ill-health pension subject to an underpin for existing members.**
6. **No change in the calculation of death benefits.**
7. **No action to be taken in respect of deferred pensions, in consequence the new legislative minimum will apply.**
8. **No change be made to the members' contribution rate.**
9. **The Fund admission policy be revised so that membership is available to all stipendiary ministers/CRCWs of the URC, regardless of age.**