

Paper E2

URC Pension schemes – a conversation in progress

Pensions Committee and Finance Committee

Basic information

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Action required	None at this stage.
Draft resolution(s)	None.

Summary of content

Subject and aim(s)	The paper provides an update on the complex process of consultation across the URC family that is currently underway.
Main points	This paper is just an update on the ongoing process, so there is nothing significant to report at this stage. It is hoped that it will be possible to provide a more substantial progress report to the March 2021 meeting of Mission Council.
Previous relevant documents	Paper G3 for November 2019 Mission Council. Paper titled “URC Pension Schemes – facing up to some serious challenges” written for General Assembly 2020 and considered by Mission Council in July 2020.
Consultation has taken place with...	The Integrated Risk Management project group and the directors of the URC Ministers’ Pension Trust.

Summary of impact

Financial	None at this stage, but will be substantial.
External (e.g. ecumenical)	None.

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1. Introduction

- 1.1 The United Reformed Church has two defined benefit pension schemes where the basis of calculating pensions is predetermined. The URC Ministers' Pension Fund covers most ministers and church related community workers. The URC Final Salary Scheme is mostly for the Church's lay staff. The pension at retirement for the ministers' scheme is based on final stipend and years of service. For the final salary scheme, it is based on the highest 12 months' salary in the three years up to retirement and years of service. The Church and the members make regular contributions to these schemes, but the final cost can only be estimated. The Church as employer is legally obliged to provide any further funding that is required.
- 1.2 The assets of the ministers' scheme are held in the Ministers' Pension Fund (MPF). The corporate trustee of this Fund is the URC Ministers Pension Trust Limited (MPT). Its directors are all members of the Church.
- 1.3 The URC Final Salary Scheme is managed by an external body, TPT Retirement Solutions, which acts as trustee. The central URC, including Westminster College, is the principal employer. Most of the synods and Northern College are also participating employers in this scheme.
- 1.4 The significant pension issues and associated costs facing the Church, which primarily relate to the MPF, were described in the pensions paper written for General Assembly 2020 and considered by the meeting of Mission Council in July 2020. Those issues are not all spelt out in detail again here. It remains the case that the Church family is having to deal with these issues at a particularly uncertain time for Church finances at every level, as a result of the Covid-19 pandemic.
- 1.5 The purpose of this paper is to report on developments since that General Assembly paper was written and to describe the consultation process that is underway. It is hoped that by the time of the next meeting of Mission Council substantial progress will have been made which can be reported to that meeting.

2. URC Ministers' Pension Scheme

2.1 Current valuation

The last actuarial valuation of the MPF took place as at 1 January 2018. On the 'technical provisions' basis, this showed a deficit of £4.0 million on assets of £140 million. Using the same basis of calculation, as at 30 June 2020 the MPF was more or less breaking even with assets and liabilities of around £170 million. The choice of investment managers and the choice of equity investments, in line with the Church's policy on ethical investment, meant that the MPF did not suffer as much

as might have been expected from the market turmoil earlier this year. The Pensions Regulator (tPR) has made clear that the next valuation will have to be on a much more prudent basis. tPR only agreed to sign off the 2018 valuation after the URC Trust paid an extra £1.5 million into the MPF.

2.2 Actuarial valuation as at 1 January 2021 and long-term funding objective.

In July 2020, the directors of MPT met with the actuary of the MPF to consider their approach to the valuation due at the beginning of next year. Final decisions about the basis of this valuation will be taken by the MPT board during the first half of next year. However, the direction of travel is now clearer.

tPR is wanting the trustees of all defined benefit schemes to focus primarily on the Long-term Objective (LTO) which is the estimated date at which the scheme will become 'significantly mature'. A scheme becomes mature when it is paying out more than is coming in, because of the number of pensioners in relation to the number of active members. This is a natural phenomenon. The actuary has estimated that the MPF will be 'significantly mature' by around 2030.

By the time of the LTO, tPR expects the risk of future deficits requiring further employer contributions to be substantially reduced. This will require a significant change to the investments being held. Less risky assets are likely to deliver lower returns, meaning that this will increase the cost to the Church still further.

The latest estimate from the actuary is that the **total cost of getting from here to the LTO in ten years will be around £45 million of additional funding.**

A significant proportion of this figure will be reflected in the deficit as at 1 January 2021. Because of the relatively short time to the LTO, it is the overall total rather than the 2021 deficit which will need to be our main focus.

2.3 Consultation with synod trusts and the URC Trust.

At the end of August, a briefing was issued to the directors of the synod trusts and the URC trust. Any member of Mission Council who has not already received a copy of this briefing paper, and would like to receive one, only has to ask.

This briefing paper was based on the outcome of the July meeting of MPT directors. Clearly, finding around £45 million over the next ten years will be very challenging. As a means of starting a conversation, the briefing paper made some suggestions of ways in which 'fair shares' of the total burden might be calculated and agreed.

The final section of this paper was a series of questions for the synod trusts, with responses requested by the end of September.

A collation of all these responses will be circulated to all participants in October.

The best next step would be a big meeting of representatives of all the URC trusts at which they could all participate in a discussion and, hopefully, in the development of an agreed way forward. The continuing Covid-19 restrictions make a physical meeting of this size impossible and it is questionable whether an on-line discussion

between so many people would be effective. So, we have to adopt a different albeit second best approach.

The current plan is that the next stage will be for the authors of this paper to have separate meetings with representatives of the six financially strongest synods and also of the URC Trust. This would not be to make any final decisions, but in the hope that it would help us move towards an overall proposal that might gain general approval.

An update will be provided to all the URC trusts early in January. It may be that this will include a proposed way forward, but it is more likely that a further round of conversations will be necessary in the first quarter of 2021.

The URC family will have to come to at least a preliminary view about how the 2021 MPF deficit is to be funded by the summer of 2021.

3. Final Salary (lay staff) Scheme

3.1 Actuarial valuation as at 30 September 2019.

The previous valuation of the Final Salary Scheme in 2016 on the 'technical provisions' basis showed a deficit of £5.7 million on assets of £23 million. In response to this serious situation, the participating employers agreed to inject around £3.5 million of capital in 2017/18.

The most recent valuation of the Final Salary Scheme as at 30 September 2019 has just been concluded. On the 'technical provisions' basis, it showed a surplus of £2.7 million on assets of £36 million. As a result of this, the deficit contributions which are currently 3% of salaries will stop at the end of 2020. However, the cost of future service contributions is going up by, coincidentally, about 3%, because of the persistence of low interest rates. From 2021, expenses will be charged separately rather than being included in the future service rates so the effect will be slightly different for each employer but overall the cost will remain roughly the same. The actuary of this scheme has taken account of its estimated LTO when calculating the new future service contribution rates.

4. Future pensions

Since the financial crisis of 2008, interest rates have remained at historically low levels far longer than anyone expected. This has meant much lower than expected returns on the assets of defined benefit pension funds which has led to significantly increased costs for employers. This trend continues.

On top of this, tPR's expectation is that the assets of a pension fund will be substantially de-risked as it approaches maturity. This is likely to further increase costs to the point of raising serious questions about value for money.

A resolution of Mission Council in July 2020 made clear that the Church remains committed to providing good pensions for its ministers and its staff. The Pensions Committee is overseeing work, with external advisors, to establish what good well-designed defined contribution schemes might look like. The aim is to enable the

Church to take an informed decision about whether to stay with the current schemes, or change to different arrangements. The hope is that at least an in principle decision by the Church will be possible by the summer of 2021.