Pensions Update 2020

The United Reformed Church

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Pensions Update

United Reformed Church Ministers' Pension Fund

The United Reformed Church

Welcome

As Chair of the URC Ministers' Pension Fund, it is my pleasure to welcome you to the latest edition of the fund's annual newsletter.

It is an extraordinary time to be writing; we are preparing this Pensions Update for you just as the government's isolation requirements for the coronavirus take effect. So, I'm writing to you from my new 'home office' in the kitchen. Like most Whitehall civil servants, I now have to work from home.

I'm also very aware that the coronavirus creates new challenges for the daily life and witness of the Church; for example, I spent the first part of this weekend helping my husband, Romilly, create his first ever home-recorded service, as well as ringing round the elderly in our congregations who are housebound and don't use tech to keep in touch. It is very heart warming, however, to see all the determination and initiative with which the Church is responding. I am sure there will be many positive things that happen as a result.

The virus, of course, creates lots of new challenges for the pension fund; but we have strong support from our advisers and our investment team. The Pensions Regulator is also putting out extensive guidance to make sure we know what we should be doing to address any new risks.

In this context, we are hoping the newsletter will give you an update on the usual menu of issues but also some specific commentary on the impacts of the coronavirus for our pension fund, as far as we can tell for now. We've also included a new section to introduce you to the trustees. In this time of remote contact, it is perhaps even more important for you to be able to put faces to names!

For the record, in terms of the past year, I should note some important milestones.

At the end of 2019, we finally received sign off for our 2018 actuarial valuation. This followed conversations earlier in the autumn with our supervisory team at the Pensions Regulator, who were keen to explore the financial support behind the fund as well as the choices we had made in the run up to the 2018 valuation concerning our deficit funding (ie our plans for how we would cover the excess of our forecast pension liabilities over our forecast level of investments). We are pleased that the assurances we were able to give, and the injection of an additional £1.5m into the fund from the Church (the employer), was sufficient to achieve sign off. It is clear, however, that the Regulator will be increasing its demands as it looks to tighten the rules around defined benefit schemes, especially more mature schemes, like ours. Responding to these challenges will be a critical focus for the United Reformed Church ministers' pension fund as the trustee, in discussion with the Church, over the next few years.

The end of 2019 also marked the first time when we had a broad balance between the value of the assets in the fund and the actuary's estimated value of our

liabilities. This outcome is the result of the strong performance of our equity holdings which has helped maintain a positive overall outturn from our portfolio, even as the cost of the fund's benefits continue to increase because of low (and falling) interest rates (see the summary funding statement for more detail.) We are very grateful to our advisers for helping us devise the strategy that led us to this point.

Unfortunately, the low interest rate environment – which is likely to continue as the government responds to the coronavirus crisis – combined with the prospect of further tightening of regulatory rules, means we will not be able to rest on our laurels. In particular, ongoing low interest rates will affect the discount rates we are required to use in our next actuarial valuations. So, despite the results we have achieved, we can expect to need more funding next year to keep our solvency funding in the right place. Low interest rates also make the cost of new accruals for future pension payments much higher, and this is a factor which we will have to consider further as we plan our next steps.

As well as working hard on needing to stay compliant with pensions legislation and the Regulator's guidance, we continue to maintain an active interest in the ethical basis for our investing. As a Church investor, we have always tried to be in the forefront of responsible investing and it is therefore very satisfying that the board was able to agree an updated Statement of Investment Principles (SIP) which covers our approach to environmental, social and governance (ESG) risks, well before the deadline required by the Regulator. The trustee aims to keep the fund's investment manager (Newton Investment Management) on their toes through monitoring and regular discussions to assess their thinking on the latest ethical investment issues (see the ethical issues section later in this newsletter.)

I complete my review of the year by noting changes on the board. In December, Richard Nunn and I swapped roles: I have taken up the baton of chair while Richard stays as deputy, to ensure a smooth handover. I am extremely grateful to Richard for all he has done as chair, and for overseeing the considerable improvement to the fund's position during his years in post. We also say goodbye this year to Dr Chris Evans, who is stepping back from the trustee board to help the Church (as employer) think about its future pensions strategy; and to Margaret Atkinson, who is retiring from the board after her two terms of office. We are extremely lucky to have benefitted from Chris and Margaret's expertise and wise counsels, and we will miss them. We are actively recruiting new members, so the board will stay at full strength as we face 2020 and beyond.

I hope you enjoy reading the newsletter and find it informative. If you have any feedback to give us on this year's update, or want more detail on any of the issues we cover here, we would be pleased to hear from you via the pension secretariat at Church House (for contact details, see the end of this leaflet.)

Finally, I would like to take this opportunity to express my thanks to all board members for the time and service they have given over this very busy year; thanks also to our company secretary, Sandi Hallam-Jones, and the Church House secretariat for their excellent work in support of the fund.

With best wishes,
Bridget Micklem, Chair,
The United Reformed Church Ministers' Pension Trust Limited,
86 Tavistock Place, London WC1H 9RT

Trusteeship

Currently, the Directors of the United Reformed Church Ministers' Pension Trust Limited are:

Ms Bridget Micklem (Convenor and Chair)

Mr Lyndon Thomas

The Revd Dr Janet Tollington □ +

The Revd Daniel Cheyne □ +

The Revd Dick Gray ◊ (Convenor of the URCIC)

The Revd John Piper □ ◊ (URC Deputy Treasurer)

Mr Richard Nunn (Deputy Chair)

Miss Margaret Atkinson (standing down)

The Revd Caroline Vodden □ +

The Revd Paul Bedford □ +

The Revd David Coote □ ◊ (Convenor of the MoM Committee)

Dr Chris Evans ◊ (standing down)

The Trustee Directors marked □ are also members of the Pension Fund. Those marked ◊ are ex officio members. Those marked + were nominated by members of the Pension Fund.

Statement by the Actuary

As we reported in last year's Pension Update, the actuarial valuation of the Fund at 1 January 2018 has been completed. This was the pension fund's fifth valuation under the Scheme Specific Funding legislation and has built on the principles established in the preceding four valuations. The trustee and Church agreed a revised recovery plan, targeting the recovery of the deficit by 30 June 2025; shortening the plan by six years from the 11-year recovery plan that was in place following the 2015 valuation.

The Annual Summary Funding Statement included in this Pensions Update summarises the results of the 2018 valuation and the latest annual update of the funding position, from which you will see that the funding level continued to improve. Gilt yields continued to fall over 2018 and 2019, causing the value of the fund's liabilities to increase. However, the trustee's investment strategy positioned the fund well to weather these changes, and, at the end of 2019, the fund was in surplus compared to its funding target.

As described in the chair's welcome note, and in the section below, the trustee has been working with the Pensions Regulator to ensure that the calculation of the fund's liabilities remains appropriate when compared with the level of risk that the Church can support. As a result of these conversations, we are expecting the 2021 actuarial valuation to measure the fund's liabilities more prudently, and so the value of the liabilities will be higher, which the Church will be asked to support via contributions to the fund. I continue to work with the trustee to ensure that the benefits that you have built up in the pension fund are exposed to manageable levels of risk and remain secure.

Simon Corbett FIA, Scheme Actuary

Financial progress of the Pension Fund

A summary of the Pension Fund's income and outgoings in the year to 31 December 2019 is detailed below. A full set of the audited accounts, which is expected to receive an unqualified audit opinion, is contained in the Trustee's Report and Accounts for 2019, a copy of which is available on request.

Over the course of the year the Pension Fund's investments increased by £16.7 million to £156.4 million.

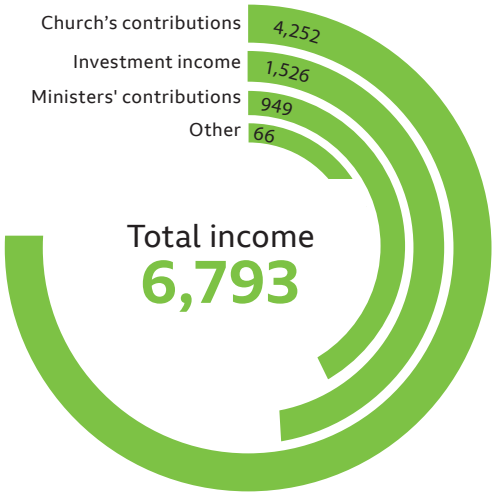
Increase in market value of investments: £17,577

Fund at 1 January 2019: £139,728

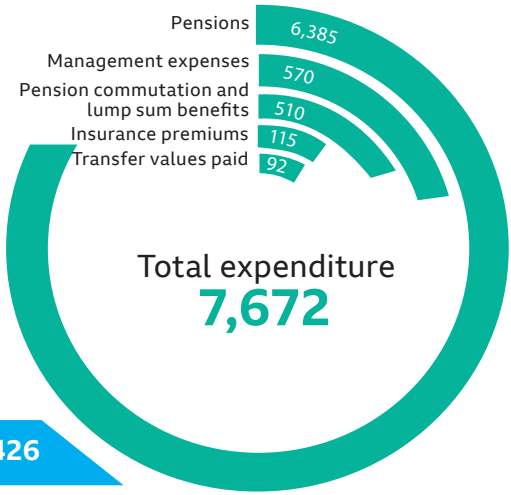
For reference:

- Current number of ministerial pensioners/ beneficiaries: 948
- Current number of active/deferred pensioners: 481
- Transfer values represent monies which leave the Pension Fund when a member joins another scheme or monies brought into the Pension Fund when a new member joins from another scheme
- Management expenses comprise mainly fees to advisors (e.g. the Investment Fund Managers); and
- Pension commutation is lump sums paid on retirement to members who decided at retirement to exchange part of their pension for a lump sum payment.

All figures are in £000s



Income



Expenditure

Fund at 31 December 2019: £156,426

Update on Church support for the Pension Fund

As members know, the way a defined benefit (DB) scheme works is that the employer – in our case, the United Reformed Church – stands behind the pension promise that is made to the members. This commitment has been made explicit in resolutions of General Assembly and in a legal guarantee of up to £16m provided by the URC Trust in respect of the URC's obligation to pay any outstanding contributions under the current Schedule of Contributions.

More practically, this commitment is expressed in the regular and sacrificial giving of local churches to the ministry and mission (M&M) fund, from which employer contributions are made. In 2019, the total giving of local churches to the M&M fund was £18.8m, which was only 1.0% below the total for the previous year, representing a substantial increase in average giving per member and against a reduction of 1.5% in ministry costs. In addition, almost all synods have now agreed to contribute a proportion of net proceeds of property sales to meet pensions costs, and the total of these contributions in 2019 was £0.5m.

The challenges for the Church and for the ministers' pension fund (MPF) trustee are, first, that the costs of providing defined pensions benefits can only be estimated and, second, that the Pensions Regulator is requiring an increasingly prudent approach to be taken.

In a new consultation, released in March this year, the regulator has made clear that it wants schemes to tighten up the basis of funding and to plan now to secure their long-term solvency position. The regulator's concerns reflect the general maturity of the DB market but will impact our fund directly because the MPF is now relatively mature. This will affect our deficit calculations and the backing we need for the fund, both to run our investment strategy and to move to an appropriate level of long-term funding.

We saw the first signs of the regulator's new approach in our conversations on the 2018 valuation. Although the deficit on the 2018 valuation had reduced from £16m to £4m, the regulator benchmarked us against a more stringent valuation basis (the PPF basis) and therefore assessed our fund deficit as much bigger. We were able to reassure the regulator by moving swiftly to make a payment from the URC Trust into the fund of £1.5m. Nonetheless, it is clear that the basis of the 2021 valuation will have to be considerably more prudent, which will inevitably result in a significant deficit that will have to be paid off.

While we do not expect the new rules to come in until after our next valuation, the trustee needs to plan actively for how we will meet them to stay compliant. Immediately after the 2018 valuation, the trustee and the Church had already jointly set up an integrated risk management project to look at all the issues surrounding the funding of ministers' pensions and to plan for the 2021 valuation and beyond. This work is being taken forward on a number of fronts. In particular, consultations are taking place between the trustee, the URC Trust and the synod trusts, and the corresponding councils of the Church, to discern together the best way forward. The aim is to ensure we meet the pensions promise in a way that also does not impact unduly the life of the Church. It is hoped that this process can be successfully concluded before the 2021 valuation is finalised.

One outcome of the integrated risk management project is that the employer is giving consideration to whether the existing pension scheme should be changed

or replaced for the future. This is partly because of the increased costs caused by the continuing extremely low level of interest rates and partly because the actions of the regulator raise the question of whether a DB pension scheme continues to deliver value for money for the Church or for the members.

It is important to make clear that no decision to change has been taken, and also that any change can only affect future accruals of pensions benefits. The benefits already earned by members, whether they are retired or still active, are protected.

The Revd John Piper, URC Deputy Treasurer

Annual summary funding statement

It is a requirement under the Pensions Act 2004 that every year the directors issue members with a summary funding statement.

The 2020 summary funding statement is detailed below:

Summary funding statement made in accordance with the Scheme Funding Regulations 2005/3377

This statement relates to the actuarial valuation carried out as at 1 January 2018 and the subsequent report prepared by the actuary on the development of the funding position over the following two years.

In accordance with legislation an ongoing valuation was carried out as at 1 January 2018. This assumes that the pension fund continues with the Church's contributions being made at the recommended levels. The valuation showed assets of £140.0m and liabilities of £144.0m, resulting in a funding level of 97% (and a deficit of £4.0m).

The deficit recovery plan agreed by the trustee and the Church as part of the 2018 actuarial valuation is that the Church contributes £565,000 p.a. of deficit contributions over a deficit recovery period of six years six months from 1 January 2019. These payments will increase on 1 January each year, in line with the percentage increase in a minister's stipend. The deficit contributions payable by the Church equate currently to approximately 5.6% of total stipends. The Church made an additional contribution during 2019 of £1.5m which is intended to further improve the financial strength of the fund.

	1 January 2018	1 January 2019	1 January 2020
Assets	£140.0m	£141.1m	£156.4m
Liabilities	£144.0m	£146.0m	£153.3m
Surplus/ (Deficit)	(£4.0m)	(£4.9m)	£3.1m
	97%	97%	102%

In addition to the deficit contributions, the Church contributes to the pension fund at a rate of 21.95% of stipends to fund the benefits which continue to accrue to contributing ministers. Ministers contribute at a rate of 7.5% of stipends.

As a sign of its support to the pension fund, the United Reformed Church Trust has given the pension fund a guarantee of up to £16m, backed by the assets of the Trust, in respect of URC's obligation to pay any outstanding contributions under the current Schedule of Contributions. Such a guarantee would only be called upon if the Church were unable to make its contributions to the pension fund.

The trustee has received a report from the actuary on the developments that have affected the pension fund over the two years since the 1 January 2018 valuation date. Without having undertaken a full valuation as at 1 January 2020, the actuary estimates that the pension fund's assets exceeded the technical provisions by £3.1m, representing a funding level of 102%.

The improvement in the funding position during 2019 was primarily due to the investment return on the Pension Fund's assets having been higher than expected over the period, along with deficit contributions made by the Church. The Fund's liabilities increased over the year, due to a fall in gilt yields, but this was broadly matched by the Fund's investment in index-linked gilts.

The Pension Fund continues to invest approximately 60% of its assets in a pooled fund of index-linked bonds. The remainder of the assets are primarily invested in an actively managed portfolio of equities and an allocation of around 10% of the assets to a property pooled fund.

As they are required to do, In the 1 January 2018 valuation, the Actuary also considered the hypothetical situation of the Pension Fund winding up on 1 January 2018. This is based on the assumption that the assets are invested in appropriate insurance policies at that date. On this basis the Actuary estimated that the assets would have been sufficient to meet approximately 66% of the liabilities. It is a statutory requirement that all pension schemes include this information in the Summary Funding Statement and the Trustee would like to stress that there is no intention to wind up the Pension Fund nor to purchase annuities on terms currently available from insurers. We also have a statutory obligation to inform you that if the Pension Fund were ever to wind up at a time when the Church did not have sufficient funds to cover the cost of buying out members' benefits with an insurance company, the Trustee would apply for admission to the "Pension Protection Fund" set up by the Government which should meet a significant part of the benefits due to members.

No payments have ever been made to the Church or any other employer associated with the Pension Fund under the terms of Section 37 of the Pensions Act 1995, which permits such payments in certain circumstances. The Pension Fund has not been modified by The Pensions Regulator under Section 231(2)(a) of the Pensions Act 2004, nor is it subject to any directions by The Pensions Regulator under Section 231(2)(b) of that Act or bound by a Schedule of Contributions imposed by The Pensions Regulator under Section 231(2)(c) of that Act.

Should you have any questions on this statement or more generally then please contact Rob Seaman at Church House, 86 Tavistock Place, London, WC1H 9RT from whom further information is available.

Investment report

2019 investment report – a year of holding fast to our principles

We continue our policy of dividing our investments into three categories:

- Index-linked bonds to match our pension liabilities in relation to interest and inflation risks
- Equities to deliver the growth of funds needed to meet liabilities
- Property to give steady returns

The target we set ourselves was to have 60% of our assets in index-linked guilts edged securities which match the likely liabilities of the fund, 10% in property and 30% in equities. The reality at the end of 2019 was that because our equity funds had produced significant growth, the percentages were 54% in gilts, 8% in property and 37% in equities, with the remaining 1% in cash. Two charts showing the breakdown of assets, and returns on the actively managed equity portfolio, can be seen at the end of this section.

We resolved in our early 2020 meeting of the investment committee to commit ourselves to looking at the way our investments are shared whenever we differed from our target by more than 10% of the intended share.

All our investments have performed close to our expectations, despite fluctuations and uncertainties in the equity markets. The decisions we took in 2017 continue to have a small positive impact on the costs of managing our investments. The types of equities that we hold are those that are not likely to be significantly affected by the outcome of Brexit but could potentially be impacted by global slow down in trade, driven by the protectionist measures originating in the United States.

Our ethical Investments no longer operate with exclusions but are based upon assets that will hold their values and offer growth in the 21st century. By their nature, these are likely to exclude those investments we would not wish to hold. We continue to use our membership of the Church Investors Group and the URC General Assembly's ethical principles to guide our governance of Newton Investment Management. We continue to encourage our investment managers to take a stronger line on holding companies to account for their actions in relation to ethical, social and governance issues as well as sustainability.

One of the major issues for 2020 and beyond is likely to concern the impact of climate change on the sorts of companies that we invest in. There is considerable pressure to look very carefully at those industries that contribute to climate change to see whether they are taking the sort of steps that as responsible and ethical investors we should expect. We need to encourage further development of alternative strategies for energy production and distribution. We are also encouraging our investment managers to seek to find companies that are willing to seek new methods for energy and travel.

From the performance view, equity markets continued to rise driven by an excess of cheap money. UK government index-linked bond yields, which drive the calculations of the fund's liabilities (lower yields equate to higher liabilities and vice versa), have continued to be poor value and with low income. Bonds ended 2019 roughly where they started, still at historically low levels.

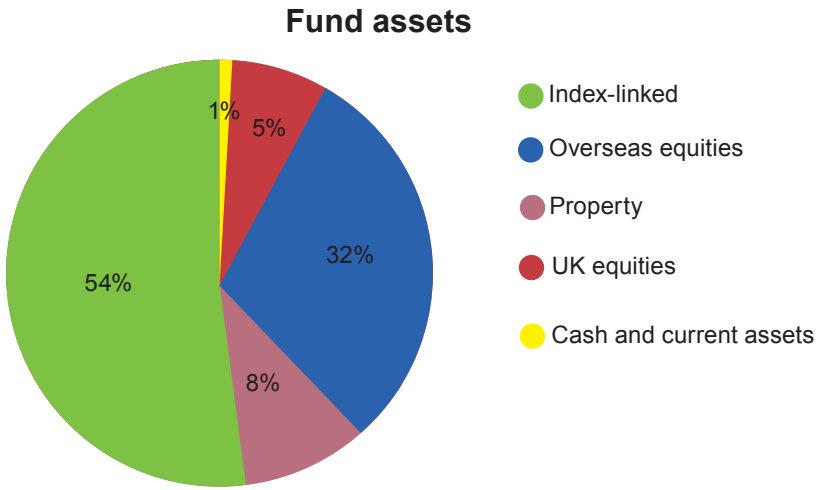
Thanks to the strong equity returns up to the end of 2019, the net effect of everything was a steady reduction in the pension scheme deficit calculated on the ongoing basis that was adopted in the 2015 actuarial valuation. Assets grew faster than the value of our accrued liabilities.

What happens next? The biggest uncertainty lies around the guidance from the Pensions Regulator, who wants all pension funds to be isolated from needing contributions from their sponsoring organisations, and to be well insulated from potential disruptions to the financial markets. The probable policy which the regulator wishes us to adopt for defined benefit schemes like ours is to be risk averse. Limiting exposure to risk means reducing growth and income expectations. As I write, we do not know the details of the regulator's proposals. What is clear is that there will be a need for strengthening our asset position while limiting our exposure to risks.

As I write this report, we are amid the coronavirus pandemic, which has seriously dented global trade and has a significant impact on the value of investments. Our investments have held up rather better than the overall market, losing some value but less than the market, and our property has similarly held up because we have limited exposure to the retail sector.

It is impossible to predict what will happen, but the steps we have taken to date should reduce the impact upon us.

As described earlier, the fund's target allocation remains 60% in index-linked government bonds, 30% in equities and 10% in property. At 31 December 2019 the fund's actual allocation was:



The equity portfolio held with Newton Investment Management continues to perform well versus its comparative index:

	Three months returns			Annualised returns	
	31/3/2019	30/6/2019	30/9/2019	1 year	Inception
Fund	10.0	9.4	5.5	27.9	14.7
C. Index	0.7 9.6	6.1	3.3	21.7	7.0
Relative	0.4 -0.6	3.3	2.3	6.2	7.8

Source: BNY Mellon Sustainable Global Equity Fund and Newton PACE. As at 31 December 2019.

Meet the Trustees

Bridget Micklem, Chair of Trustees

I'm delighted to be serving you as Chair of trustees.

I am a career civil servant and have a professional background in pensions (I was formerly Director of Private Pensions at DWP, working with Steve Webb under the Coalition Government). I joined the MPT Board just over four years ago, and I also sit on the Board of the PCPF, which looks after Ministers (the government kind!) and MPs.

Being married to a URC minister, and with other close family as members and beneficiaries of the fund, careful stewardship of the MPT is naturally important to me! My time as a local church Elder and Treasurer also means I understand the perspective from the front line.

It is therefore a great pleasure to be able to put my experience to practical use in looking after your pension benefits.

Richard Nunn, Deputy Chair of Trustees

I am pleased to have served the Board in various ways for more than 20 years – as Chair of the MPT (until December 2019) and also, previously, as Convenor of the URC Investment Committee.

Although I had worked as an actuary for two major companies who provided product solutions to Pension Funds, The Ministers' Pension Trust has given me the opportunity to express my own personal faith through the many people and businesses which support both us and one another as committed long term investors.

I have also represented the MPT as a Board member and Chair of the Church Investors Group, which encourages the development of strong ethical investment principles within the faith communities in the UK and wider world.

This is real ecumenism – applied freely, collaboratively and effectively as we help change the global investment agenda. In contrast to what one reads in the media there are so many people who are doing tremendous work and it's been great meeting so many of them through the years and calling them Friend.

The Revd Paul Bedford, Member Nominated Trustee

I am an MNT of the Pensions Board, now in my second term. I retired from active stipendiary ministry in June 2019, after 29 years of service. Prior to ministry, I spent 13 years as a chartered accountant serving in two major audit firms, spent a year in Courtaulds' group head office and finally three years in a fast-expanding architect's practice.

There have been some significant moments in my ministry when my financial background and my pastoral experience have valuably combined. My service on the Board is the latest of these.

So, here I am, and at a very important point in the life of the Pension Fund. I believe one of my contributions is to help the Board to communicate clearly with serving and retired Ministers (and their families) about how their fund is progressing and about any changes to the Scheme, if and when they are called for.

The Revd Caroline Vodden, Member Nominated Trustee

I accepted a call to stipendiary ministry after 23 years working in the charity sector. After training as a bi-lingual secretary I worked for ten years in European lobbying before becoming head of supporter services, membership and enquiries at the UK Headquarters. One of my final tasks was to undertake an organisational review of ethical considerations for product supply and investments.

I was ordained in 2007 and spent eight years in my first pastorate in Dorset where I served for five years as a member of the Wessex Synod Trust. I moved to Essex in 2015 where I am part of a team ministry.

The Revd David Coote, MoM Convenor and Trustee

I was appointed to the Pensions Board as an MNT in 2018. I see my role as representing the interests of members by ensuring the experts are held to account and by not being afraid to ask questions! I retired from stipendiary ministry in 2018, and before entering ministry I spent 20 years or so in industry with various companies with roles from shop floor to training and selling.

My ministry has been within the Yorkshire Synod, and I have spent time as both district and synod treasurer. I currently serve on the Synod Investment committee and as Chairman of the Synod Trust which holds the properties in trust for the churches of the Synod. I also convene the Maintenance of the Ministry sub-committee for the whole URC; and am a part of the board of a charity that gives grants to churches for the overall care, upkeep and extension of churches. I look forward to using this wide experience as part the Board.

The Revd Dr Janet Tollington, Member Nominated Trustee

I have just begun my second term as a MNT on the Board and am delighted to serve the members, active and retired, in this way. I retired from stipendiary ministry in July 2016, after more than 20 years at Westminster College. For much of that time I served on the Management Committee of the College and as Director of the Cheshunt Foundation; and both roles involved me in finance and investments.

I have always been interested in figures and prior to ministry one of my careers was as a personnel and training manager with a retailing company. I am also a Trustee of two other charities, taking a lead on the finance committee of one, and as vice-chair and chair of the audit committee for the other.

I understand the importance of the Ministers' Pension Fund to all those who are, or have been, stipendiary ministers; and I am committed to serving your interests. I believe I have skills and experience that are relevant to the challenges being faced by the scheme in the current economic climate; and an ability to communicate effectively with members and the rest of the Board and our advisors. It is a privilege to serve you in this capacity.

Lyndon Thomas, Trustee

I was appointed to the MPF board two years ago. I have been an Elder of the URC since 1987 and have served as a representative to the Southern Synod and the old Croydon District and was the District's Finance representative for a short while. I was Church Secretary at my current Church for some 7 1/2 years.

I served as an Executive Director of Direct Line Insurance from its formation in 1984 until I retired in 2003. In the early days of the company I set up pension schemes for the staff and executives, serving as a trustee from inception until 2009, and was Chair of Trustees for the latter half of that period.

I currently hold two other directorships; at Christian Family Concern, an 127 year old charity based in Croydon, and of Glamorgan County Cricket Club.

The Revd Daniel Cheyne, Member Nominated Trustee

I retired from ministry in 2017.

During my time in ministry my pastorate covered churches in Drumchapel, Thurso, Dumbarton and the North Fylde. Throughout this period of 40 years, amongst many other duties - including Treasurer of the retired Ministers fund – I also undertook a number of specialised chaplaincies such as University Chaplain (where I was part of an ecumenical team with responsibility of the pastoral/financial care of students), School Chaplain, and Hospital Chaplain.

Many of the skills obtained during this period I bring to the Board and look forwards to enhancing these whilst serving you on the Board.

The Revd John Piper, Deputy URC Treasurer and Trustee

For the last three years, I have served as a Director of the MPT by virtue of my role as Deputy Treasurer of the URC.

I was previously on the Board for a couple of years because of a different URC role. I am a recently retired stipendiary minister, but my first 20 years in ministry were non-stipendiary when I earned my living as an accountant. I previously served as treasurer of my Synod for seven years and of my local church for a lot longer.

These are challenging times for trustees and employers of defined benefit pension schemes, but the URC is committed to being a good employer and to properly looking after its retired ministers and Church Related Community Workers.

The Revd Dick Grey, URCIC Convenor and Board member

I am a retired non-Stipendiary minister living in Devon. My professional career was in the computer industry and as a part of that I learned about finance and budgeting. When I was made redundant, I invested some of my termination funds.

I have been involved with URC Finances for several years now and I currently chair the URC Investments Committee (URCIC) which advises on all central URC Investments including Pension Fund assets. I am also Treasurer of the Southwestern Synod where generosity is a core feature of our understanding of finance.

I have served as Church Secretary, Treasurer and minister in various churches.

Ethical issues

The URCMPF, despite being small relative to the wider market of investors, uses its membership of the Church Investors Group (CIG) and our close relationship with Newton Investment Management (NIM) to apply as much pressure on companies in relation to a number of issues to ensure our voice has a real impact. The big issue is climate change, seeking better and better disclosure from businesses so that they understand the roles they should be playing to protect the environment. Everything is now focussed on COP 26 in Glasgow this Autumn where we are looking to Governments to back up our efforts.

NIM produced one of the first public in-house reports on their own actions last year. This is now becoming an industry norm for climate change disclosure. Their second report on the issue is due soon but the current view on the issue is available at **www.newtonim.com/uk-lgps/insights/articles/taking-action-on-the-implications-of-climate-change.**

Other issues initiated by CIG in the last year include work on gaming and gambling, and supply chain management. The latter includes modern day slavery – something about which virtually every business in the world remains in denial. Many fear being shamed if they find a problem within their business which they expose and address. As a consequence, we remain ignorant of the source of many of the cheap services and goods which are part of our lives. AI also poses challenges in creating upheaval for those working in traditional companies. A just transition is needed.

At the end of 2019 I relinquished my position on the Board of CIG and was delighted that Bridget took over my seat. We will both, together, apply vigilance in maintaining the ethical profile of the URCMPF.

Richard Nunn, Deputy Chair

Benefit matters

Flexible benefits

A number of new flexibilities were introduced following the Governments budget in 2014, we reported these in previous editions of Pensions Update, but here is a brief reminder.

Small pension 'pots'

If you have only built up a small level of benefit in the Pension Fund (or across several schemes), you may be able to draw it all as a cash sum after you have reached your 55th birthday, instead of pension.

- Single schemes: you may take cash from a pension scheme if your benefits in that scheme are worth less than £10,000.
- Your overall benefits: you may take cash from a pension scheme even if your benefits exceed £10,000 in value, but only if the value of your benefits from all your pension schemes in the UK totals less than £30,000.

You can find out whether your pension falls within the commutation limits by contacting Rob Seaman at Church House, but to give you a very rough indication a pension of £500 p.a. on retirement at age 65, or a pension of £400 p.a. payable from age 55 are likely to fall within the single scheme threshold of £10,000. For the £30,000 limit the pensions you will receive from all schemes must total less than £1,500 p.a. and in some circumstances the total may need to be lower.

Defined contribution (DC) flexibilities

These flexibilities apply to members of the Pension Fund who have paid Additional Voluntary Contributions (AVCs) into the cash balance scheme attaching to the Fund, and also apply to any DC pension savings outside the Pension Fund.

Briefly, there is now the scope to take the whole of your AVC fund as a lump sum, although depending upon your circumstances only part of it will be payable tax free. However, if you wish to take full advantage of the new flexibilities and operate your AVC fund in a similar way to a bank account, by drawing from it as and when you require funds, then you will need to transfer your AVC fund to a suitable provider. This is because, unfortunately, we do not have the administrative resources to provide this level of flexibility from the Pension Fund. If you wish to pursue a more flexible approach you are permitted to transfer your AVC fund out of the Pension Fund without transferring your final salary benefits.

The option of taking a tax free lump sum from your AVC fund and purchasing an annuity in the Fund or with an insurance company with the balance of your AVC fund continues to be available.In the light of the new pension flexibilities, the Government has launched a service called 'Pension Wise' (**www.pensionwise.gov.uk**) to help guide people through their pension retirement choices.

Pension scams

There is a statutory requirement that you take financial advice before transferring your final salary benefits out of the Pension Fund if the transfer value is for more than £30,000. Even if your transfer value is under this threshold the Trustee strongly recommends you take independent financial advice from someone qualified to give that advice before taking any action.The Pensions Regulator has also issued guidance which requires pension scheme trustees and administrators to carry out certain checks before making transfer payments. As part of this campaign, trustees and pension providers are being encouraged to raise members' awareness and to be alert to potentially fraudulent pension scams.

There are significant tax consequences where pension scheme members access their pension savings before age 55 (except in very limited circumstances) and these tax charges and penalties can amount to more than half the value of a member's pension savings. Therefore, in order to make an informed decision about a transfer and to seek any appropriate additional advice, it is important to have all relevant documentation and information about the transfer, the terms and conditions and how your pension will be paid on retirement.

The Pensions Regulator states that it is crucial that members understand any transfer they agree to and should always receive adequate documentation from the receiving scheme.

A leaflet providing advice on how to spot the warning signs of pension scams can be found on the Pension Advisory Service's website or by following this web address: **(www.pensionsadvisoryservice.org.uk/content/publications-files/uploads/pension-scam-leaflet_2_page.pdf**)

Flexibility over when you take your retirement benefits

The Pension Fund's Normal Retirement Age (NRA) is 68 for both males and females, with the exception of those members who opted out of the 2013 benefit changes and retained a Normal Retirement Age of 65.

You have flexibility in when you choose to take retirement benefits and in when you stop working. These do not need to be on the same date and the Finance Office can provide guidance on the financial implications of these options.

The level of benefits you receive is determined by when you choose to start receiving your pension;

- Take retirement benefits at NRA.
- Take benefits early – benefits can be taken between age 55 and 68 with a reduction applied to your pension for each year of retirement prior to NRA. The amount of tax-free cash will also be less than if you retired at NRA.
- Take benefits late – You may defer receipt of your benefits up to age 75. This will benefit from a late retirement enhancement or additional service will build up if you remain in stipendiary service.

For members with service before 1 January 2013, this element of service is treated as having a NRA of 65, which means that on retirement at age 65 this part of the pension is not reduced.

Reduction in the money purchase annual allowance

The taxation authorities limit the amount of pension that you may build up each year without there being any additional taxation implications. This is called the Annual Allowance and amounts to £40,000. You may carry forward unused Annual Allowance from the previous three tax years. If the value of your pension benefits earned over a tax year (including any contributions you make to the Pension Fund's AVC arrangement or to any other pension plan) is greater than £40,000 (and you have no carry forward remaining), then a tax charge is payable on the excess over the Annual Allowance. The Annual Allowance tax charge is levied at your marginal income tax rate.

In certain circumstances a second lower Annual Allowance applies of just £4,000. This is called the Money Purchase Annual Allowance and this lower allowance applies to any money purchase pension savings you continue to make after you have started 'drawdown' access of any money purchase pension benefits that you may have already built up. 'Money purchase' pension benefits, in this context, include the Pension Fund's cash balance (AVC) scheme. Certain high earning individuals may also have their Annual Allowance reduced.

The low level of the Money Purchase Annual Allowance means you should be careful to factor it in to your planning should you plan to access any money purchase pension benefits (such as AVCs you have paid to the Pension Fund) using 'drawdown' provisions while continuing to make contributions to any money purchase pension arrangement. Please note that, if you are able to take the whole of your AVC benefits as a tax free lump sum, then that does not count as 'drawdown' and would therefore not trigger the Money Purchase Annual Allowance.

If you have any concerns you may request further information from Rob Seaman at Church House. Should you require any advice then Rob will not be able to provide this and you should arrange to speak to a financial advisor.

New state pension

In April 2016 the old Basic State Pension and State Second Pension were replaced with a single-tier State Pension. The new State Pension arrangement only applied to members reaching their State Pension Age from April 2016 onwards – existing State Pensions were unaffected.

The maximum entitlement under the new State Pension for the 2019/20 tax year was £168.60 per week for a single person. To receive the full amount of new State Pension from your State Pension Age you will need 35 qualifying years, earned by either making National Insurance contributions or receiving National Insurance credits. If you have 10 or more qualifying years, you will receive some level of the new State Pension.

Moving to non-URC posts

Members may not be aware but there can be pension implications if part of their role is for an organisation other than the URC. Therefore, if you are considering taking up a non-URC post please contact Rob Seaman to discuss the potential pension implications.

Personal data

In order to administer your pension benefits it is necessary for the Pension Fund to hold certain pieces of personal data. For further information see our Data Privacy notice which can be accessed online at: www.urc.org.uk/images/Finance/Data_Privacy_Notice_template.pdf. Alternatively, hard copies can be provided on request – see Further Information below for contact details.

Some reminders

The Pensions Regulator is the Regulator of work-based pension schemes in the UK. The Pensions Regulator's website has useful links via the Scheme Members section on the home page to a number of useful addresses (www.thepensionsregulator.gov.uk).

The Trustee and its advisers must hold certain information about you to ensure that the Pension Fund is managed efficiently. In order for the Trustee's records to be kept up-to-date, please notify the Pension Fund's administrators of any changes to your personal circumstances, for example a change of address or marital status. This will ensure the timely payment of pensions and enable the Trustee to keep you informed about any news affecting your benefits.

Members of the Pension Fund who are in stipendiary service should also remember to keep their Expression of Wishes Nomination Form up to date. The Expression of Wishes Nomination Form is used by the Trustee to help decide who should receive the lump sum death benefit and in what proportions. Not having completed a form or failure to keep the form up to date could lead to a delay in settling death benefits. The appropriate form is available on request.

Further information

You can obtain further information on any items covered in this edition of Pensions Update and matters affecting your own pension by contacting Rob Seaman at Church House, 86 Tavistock Place, London, WC1H 9RT.

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