Pensions Committee and Finance Committee

URC Pension Schemes – Facing up to some serious challenges

Basic Information

Contact name and email address	John Piper, Deputy Treasurer: john.piper30@ntlworld.com Ian Hardie, Treasurer: ianzhardie@googlemail.com
Action required	Resolutions
Draft resolution(s)	**Resolution 20** **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 21** **General Assembly thanks Dr Chris Evans, on his retirement as Convener of the Pensions Committee, for his conscientious and careful service in this role and thanks all those across the Church who are involved in the current Integrated Risk Management Project for their hard work and their willingness to work towards a resolution of the significant pensions challenges that face the Church.** **Resolution 22** **General Assembly authorises the directors of the URC Trust to amend its guarantee of the Ministers' Pension Fund provided to the URC Ministers' Pension Trust in response to the changing regulatory environment, but limited to the available resources of the URC Trust.**

Summary of Content

Subject and aim(s)	The URC faces some serious challenges in relation to its two pension schemes. The cost of responding to these challenges could have a significant impact on the activities of the Church. This means that the issues, and how they are resolved, affect us all. The aim of this paper is to summarise the challenges, to describe the Integrated Risk Management (IRM) project and what has been achieved so far, and to suggest a framework for the work that remains to be done and the decisions that will have to be taken, albeit in unprecedently difficult circumstances.
Main points	The URC has two pension schemes. Both are Defined Benefit (DB) schemes, which means that the benefits for each member are based on their length of service and their final salary / stipend. All costs, except for member contributions, and all risks are carried by the employer (see 5.4, 6.3 and 7.4). More than a decade of historically low interest rates has adversely affected all pension schemes and continues to do so. For Defined Benefit schemes, the cost of promised benefits increases. For Defined Contribution schemes, the expected benefits from any given cost are reduced (see 8.2). The Church also faces significant additional costs or cash flows in relation to the pensions already earned. This is not because anyone has made mistakes. It is because the guidance from the Pensions Regulator (TPR) is becoming increasingly onerous. This is partly, but not only, in response to recent failures of commercial enterprises, leaving their pension schemes with insufficient funds to meet their obligations. In particular, TPR is introducing two important changes for all DB schemes. First, where a pension scheme relies on the financial support of not only the sponsoring employer [URC Trust] but also other related bodies [Synod trusts], TPR now requires stronger, legally enforceable, backing from those bodies. Second, TPR wants to significantly reduce the risks to scheme members when a scheme is approaching maturity by a combination of higher levels of funding, and less risky investment strategies. These factors could greatly increase the costs of the pensions already promised. (See 7.1 to 7.5.) The IRM project is a way of assessing all the risks and other issues involved in the provision of pensions in a holistic way (since many of them are inter-related), and trying to agree a way forward which is acceptable to all parties. This project requires the trustees of the pension schemes to tell the URC what is required; then all parts of the URC family need to be involved in a broadly based consultation; and, finally, decisions can be taken about the way forward.

	The work done so far is described in section 13. There is still a considerable amount of work to be done before the way forward can be agreed (see Section 9). For this reason, this paper is primarily for information at this stage. There have been important changes since this subject was discussed at the November 2019 Mission Council, including the current health crisis. All these changes make the pensions issues even more challenging. (See Section 4).
Previous relevant documents	Paper G3 at Mission Council, November 2019 and Paper G1 at Mission Council, March 2020.
Consultation has taken place with...	There has been much engagement with the trustees of the two URC pension schemes in arriving at this point, and those discussions will continue.

Summary of Impact

Financial	None at the moment, but there will be significant extra costs.
External (e.g. ecumenical)	None.

This paper is set out as follows:

PART I: Some Serious Pensions Challenges

1 Draft Resolutions
2 Some abbreviations and definitions
3 Introduction and Objectives
4 Important Changes since Paper G3, Mission Council, November 2019
5 The URC Final Salary Scheme – a good situation
6 The URC Ministers' Pension Fund – the current situation
7 The URC Ministers' Pension Fund – a very challenging future
8 Future Service Pensions
9 The Integrated Risk Management project
– a framework for the work still to be done and the decisions to be taken

PART II: Some Background Information

10 Defined benefit pension schemes
11 Legal responsibilities and regulations
12 Coping with uncertainty and managing risk
13 The Integrated Risk Management project – the story so far

PART I: Some Serious Pensions Challenges

1. Draft Resolutions

Three draft resolutions are offered to General Assembly.

The first resolution expresses the commitment of the Church to meet its obligations to pay the pensions already earned, whatever the cost (see section 6), and provides some guidance for the process of considering future pension arrangements (see section 8).

The second resolution offers Assembly's sincere thanks to Dr Chris Evans and the many people across the Church who are working hard to find solutions to the various challenges we face which are acceptable to all parties (see 4.3 and section 13).

The third resolution concerns the guarantee of the Ministers' Pension Fund provided by the URC Trust to the Ministers' Pension Trust, which is trustee of that Fund. General Assembly in 2010 gave the URC Trust authority to 'take the necessary legal steps to give effect to the covenant' (i.e. the covenant of the URC as employer) and the result was the 2010 guarantee. Depending on the outcome of the ongoing consultation within the URC, it may be necessary to amend the wording of this guarantee. This resolution would give the URC Trust the power to do this without first coming back to Assembly.

2. Some abbreviations and definitions

DB **Defined benefit:** A defined benefit pension scheme is one where the calculation of the pension is pre-determined, and is based on the final stipend / salary and the years of service. This means that the costs can only be estimated, and all the risks, including investment performance, are carried by the employer.

DC **Defined contribution:** A defined contribution scheme is one where the contributions are fixed, these are invested, and the pension payable depends on the investment performance. The value of the pension is uncertain, and the risks are carried by the individual.

Employer Covenant: The extent of the employer's legal obligation and financial ability to support a DB pension scheme now and in the future.

IRM **Integrated Risk Management:** For a definition, see Section 13.

Journey plan: The plan of the trustee of a pension scheme to reach the LTO by gradually reducing investment risk and building up the level of technical provisions to that required at the LTO.

LTO **Long-term Objective:** The LTO is the funding and investment strategy chosen by the trustee of a pension scheme. It must specify the intended funding level, and the nature of the investments that the scheme will hold at the point when it is significantly mature. At that point, a scheme is expected to have a low level of dependency on the employer, and be invested with high resilience to risk.

MPF **Ministers' Pension Fund:** the assets and liabilities of the Ministers' Pension Scheme.

MPT **URC Ministers' Pension Trust:** trustee of the URC Ministers' Pension Scheme.

Recovery Plan: The way that the trustee and the employer agree that any TP deficit should be recovered through additional contributions. TP deficits should be recovered as soon as affordability allows, while minimising any adverse effect on the sustainability of the employer.

TP **Technical Provisions:** basis of valuing a pension fund.

TPR **(sometimes tPR) The Pensions Regulator**.

TPT **TPT Retirement Solutions:** the trustee of the URC Final Salary Pension Scheme.

3. Introduction and Objectives

The URC faces some significant challenges, particularly in relation to the funding of the Ministers' Pension Fund (MPF). The objective of the Integrated Risk Management (IRM) project is to find a way of dealing with these challenges which is acceptable to the Pensions Regulator (TPR), the trustee (MPT), and the Church which is seen to be manageable and fair, and which has as little impact as possible on the life of the Church.

While this paper is being written for General Assembly 2020, it will also be part of a briefing sent to the directors of the various URC trust companies, who are the ones who have been most involved so far in the consultation process that is underway.

The issues dealt with are inherently complex, but they also have serious financial implications that could have a significant impact on the life and work of the Church, especially if they are not properly managed. This means that these issues affect us all, even if the consultation is at the moment mainly with the various trust bodies, as the legal owners of the financial assets of General Assembly and the synods.

Whether or not General Assembly 2020 actually meets, all of us have a responsibility to engage with the issues, and to support and encourage those working to develop a way forward which meets these pensions challenges in an acceptable and affordable way.

This paper comes to General Assembly from the Pensions Committee and the Finance Committee. The IRM project group has also been involved. The IRM project is a joint venture with the Ministers' Pension Trust (MPT), as trustee of the Ministers' Pension Fund (MPF). It is vital that the consultation process continues to be informed by the trustee's latest understanding of the issues, and these are reflected in this paper. A co-opted member of the Pensions Committee who is also a non-executive director of TPR has taken no part in the writing of this paper or in the IRM project.

The issues are essentially the same as those identified in Paper G3, Mission Council, November 2019, but this paper describes our current and updated understanding of them. It is intended that this paper should make sense on its own, without reference back to earlier papers. We have been encouraged to keep re-telling the story, in the hope that each time the story is shared there is a little more understanding.

The story also needs re-telling because it changes and develops. There have been some significant developments over the last six months, all of which have made the challenges and the timetable to meet them more difficult. These changes are summarised in section 4. Sections 5 and 6 describe the current situation on both URC pension schemes. Section 7 explains the key issues that we face. Section 8 deals briefly with the issue of future pension provision. Section 9 summarises the work that still has to be done, and the timetable that has to be met. Part II of the paper provides background information. Sections 10 to 12 cover some general pensions matters, for those not familiar with the subject. Section 13 describes the IRM project and the work that has been done so far.

This paper is long, partly because the issues dealt with are inherently complex, and partly because it is written to be accessible to everyone.

Life feels a lot more precarious than it did six months ago, and the world of pensions is even more uncertain than it was. Nevertheless, in the body of this paper and then summarised in section 9, we attempt to demonstrate how the URC family might, together, work towards a satisfactory conclusion to the IRM project which meets the needs of the URC pension schemes within the required timetable, and in a way that is seen to be fair and which minimises the impact on the effectiveness of our Church.

4. Important Changes since Paper G3 for Mission Council, November 2019

4.1 The following are in chronological order, not necessarily order of importance.

4.2 *2018 valuation of the Ministers' Pension Scheme challenged by the Regulator*

Paper G3 was written in September 2019. It was necessary to update that paper orally at Mission Council, November 2019 and in the subsequent consultations. In October 2019, representatives of MPT and their advisers, along with the URC Treasurer, attended a meeting with our TPR supervisory team at their offices. It was made clear that they were unhappy with the level of prudence in the 2018 actuarial valuation of the MPF. In particular:

i) they thought a more prudent estimate of investment returns should have been used, leading to an increase of around £20 million in the calculated deficit, with a corresponding increase in the deficit contributions required;

ii) because of the inadequate legal backing for the MPF, they considered the 'employer covenant' to be tending to strong rather than strong, which would have increased the deficit by around a further £10 million; and

iii) therefore, they were very concerned about the reduction of around £500k per year in deficit contributions (see 6.3).

In October, the URC Trust paid £1.5 million into the MPF. This had the effect of reversing the reduction in deficit contributions up to the time of the next valuation.

TPR decided not to insist on a formal 2018 revaluation. However, it was made clear that the 2021 valuation will have to be on a much more prudent basis.

4.3 *Resignation of the Convenor of the Pensions Committee*

Dr Chris Evans has served as Convenor of the Pensions Committee (formerly the Pensions Executive) and as a director of MPT since 2013. Both bodies, and the wider Church, have come to rely heavily on Chris's expertise, experience and hard work – and his patient skilfulness at explaining complex matters in relatively simple terms.

This dependence on Chris has been particularly true within the IRM project.

Chris has been suffering periods of ill health – not helped by the pressure of these pension responsibilities. Chris led the consultations that took place in November / December 2019. That took its toll. At the end of January 2020, Chris announced that he would be stepping down as Convener of the Pensions Committee at GA 2020 – a year earlier than scheduled – and would be massively reducing his pensions work and the related travelling with immediate effect. Chris is also resigning as a director of MPT.

Chris continues to offer considerable support to his colleagues, as his health allows, but this is a massive blow – both personally and in terms of lost expertise / experience.

4.4 *TPR consultation document*

A much-delayed new Pension Scheme Bill was introduced to Parliament at the beginning of 2020, and will soon become law. Among other things, it updates and strengthens the powers of TPR in connection with scheme funding and investment strategy.

TPR is responsible for issuing detailed guidance (rules) that spells out the implications of the legislation, and for ensuring that trustees and employers comply.

At the beginning of March 2020, TPR issued a consultation document of almost 200 pages. This will be followed by a second consultation document around the end of 2020. Following this consultation, a new Code of Practice will be issued. While this will consolidate and codify many of the recent piecemeal elements of TPR guidance, it will also extend these and introduce new forms of supervision. The new Code of Practice is unlikely to formally apply to the 2021 valuation of the MPF but, in practice trustees and actuaries will immediately start taking the contents of the consultation document into account when determining their approach.

The consultation document needs much further consideration by both the pension scheme trustees and by the URC pensions committee. However, it is clear that it represents a further move towards greater prudence and tighter regulation. In particular:

> There will be a requirement for the trustee of a scheme to specify the LTO of the scheme – i.e. when it expects the scheme to reach 'significant maturity'; what the funding level and investment strategy should be at that point; and how it proposes to transition to achieve that. TPR expects that, at the LTO, there will be a low level of dependency on the employer and the investments will have a high resilience to risk. The consultation document suggests that the maximum period allowed for moving towards the LTO may be shorter than we previously expected, which will have a material impact on the cost of getting from here to there.
>
> TPR will expect trustees to apply a higher quality test on the forms of legal backing that can be taken into account when assessing the additional support that the employer can rely on from its 'wider group' – in the URC case, this is the URC Trust and the Synod trusts, respectively.

Both of these developments could be problematic and costly for the URC family, in the view of the authors of this paper. However, the board of MPT will be taking professional advice about the TPR consultation document and then responding to the document and letting the URC as employer know what difference they think it makes.

TPR is expected to issue its annual funding statement in the spring of 2020. This could also have an impact on our understanding of the challenges we face.

4.5 *The Coronavirus pandemic*

The pandemic is a health crisis but, clearly, it has financial implications, and the longer it goes on, the more serious those implications may become.

Short-term priorities
Whether as individuals, or in our local churches, synods or at Church House, the current financial concerns are the actual or potential loss of income, the control of expenditure, and our continued financial viability. This is all very real and totally understandable.

This makes consideration of these pension issues really difficult at this time. It would be easier if we could come back to them once the present crisis has passed and the new situation can be properly evaluated.

Asset values
There has been a lot of turbulence in the financial markets, and some equities have suffered very substantial reductions in value. This affects the MPF directly (though less than the headline rate), but it also affects the trust companies holding URC assets.

It is very hard for the different parts of the URC family to discuss how best and most fairly to share the burden of these pension challenges when we are not sure of the current or future financial positions of any of trusts.

Inability to meet
The URC consultation about these challenges has reached the stage where, ideally, all the URC trusts need to meet together to develop possible solutions. Virtual meetings of people from 14 trusts do not sound very attractive or likely to be successful.

Timetable
The problem is that the deadline for reaching decisions about these pension matters remains the same. Time that we are losing now will have to be made up later on.

5. The URC Final Salary (Lay staff) Scheme – a good situation

5.1 *Scope*

Almost all the members of the Final Salary Scheme are lay, though a few ministers are members. Two-thirds of the members are, or have been, employees at Church House or Westminster College. The other third of members are, or were, employees of 11 of the synods and Northern College. These other bodies are participating employers in this scheme, which means that they share direct legal responsibility for its liabilities.

5.2 *Trustee*

The trustee of the URC Final Salary Scheme is TPT Retirement Solutions (formerly the Pensions Trust). Representatives of TPT consult regularly with representatives of the Pensions Committee. However, responsibility for things like investment strategy, funding level, and the basis of actuarial valuations rests with the trustee.

TPT is a specialist pensions provider dealing with many different schemes. It has generally taken a highly prudent approach as trustee. This means that the contributions made by the URC and TPT's investment strategy have, in effect, already addressed many of the issues in this scheme which are now such a challenge for the MPF.

5.3 *Actuarial valuation as at 30 September 2016*

This valuation happened on a bad day in the financial markets. For this and other reasons, the valuation on the TP basis showed a deficit of £5.7 million on assets of £23 million. This was a much worse position than three years earlier.

The participating employers agreed to make capital contributions of £3.4 million in 2017 / 2018. This enabled the overall level of regular contributions from 1 January 2018 to stay the same, with employer future service contributions going up from 17.6% to 25.1% of salary and deficit contributions going down from 10.5% to 3.0%. The contribution of active members remained unchanged at 7.5%.

5.4 *Actuarial valuation as at 30 September 2019*

The latest valuation is under way, and is not yet concluded.

Early indications are that there was a small surplus on this scheme at the valuation date, which is an amazing turnaround, not least due to the capital contributions described above. Therefore, there will be no deficit contributions payable from 1 January 2021.

Future service contributions continue to rise. The historically low levels of interest rates have now persisted for more than a decade, and that seems unlikely to change any time soon.

Although the figures are not yet finalised, it seems likely that there will be an increase of 5% to 6% of salary in the future service contribution rate, but no 3% deficit recovery payment – so a net increase in costs of 2% to 3%.

5.5 *Long-term funding objective*

TPT has modified its approach to anticipate the likely requirements of TPR regarding a journey towards the long-term funding target. TPT does not anticipate any serious future financial challenge in meeting the LTO. However, that was before the recent turbulence in the financial markets. Conversations with TPT continue.

6. The URC Ministers' Pension Fund – the current situation

6.1 *Scope*

Almost all the members of the URC Ministers' Pension Fund are ministers or church related community workers who serve or have served the URC. A small number of ecumenical bodies have become participating employers in this scheme because they have employed URC ministers.

6.2 *Trustee*

The trustee of the URC Ministers' Pension Fund (MPF) is the URC Ministers' Pension Trust (MPT). This is an 'in house' corporate trustee, though it is legally obliged to act independently of the Church. It must act prudently, impartially, and solely in the best interests of the beneficiaries. Its primary role is to ensure that the benefits already earned by the members of the scheme for their past service are paid when due. All the directors of the trust company are members of the URC, but the trustee's professional advisers are different from those of the Church.

6.3 *Actuarial valuation as at 1 January 2018*

This valuation happened on a good day for the financial markets.

The actuarial valuation produces several valuations of the scheme's assets and liabilities on different bases.

The 'Technical Provisions' (TP) basis is the one used to determine the schedule of contributions payable by the employer and the members. On the TP basis, this valuation showed a deficit of £3.95 million on assets of £140 million. This compared with a deficit of £16.6 million on assets of £112 million in 2015 and a deficit of £22.8 million on assets of £72 million back in 2009, just after the financial crash, when a 20-year recovery plan was agreed which would have lasted until 2030.

Following the 2018 valuation, it was agreed that recovery payments could be reduced by about £500k per year from 2019, with the aim of eliminating the deficit by mid-2025 (still earlier than the previous target date).

Mainly because of the persistent exceptionally low interest rates, the employer future service contributions went up from 1 January 2019 to 21.95% of stipend. This compared with 14.90% following the 2015 and 12.35% following the valuation back in 2009. Employee contributions have been 7.5% of stipend since 2010.

The solvency valuation is, in essence, the amount that it would cost to sell all the liabilities of the scheme (and the associated risks) to an insurance company. On the solvency basis, the 2018 valuation showed a deficit of £73.2 million.

Immediately after the finalising of this valuation, because the trustee and the Church were aware of some significant issues that would need to be addressed before the next valuation, the IRM project was set up as a joint venture between the trustee and the Church. That was before the intervention of TPR described in 4.2 above.

7. The URC Ministers' Pension Fund – a very challenging future

7.1 *Summary of the issues that we face*

There are two significant issues which the Church has to deal with over the next 12 months or so, before the 2021 valuation is finalised:

Legal backing (7.3)
Currently, the URC Trust as the legal owner of the assets of General Assembly provides a limited legally enforceable guarantee of the MPF to the MPT. If there is not similar legal backing from the synod trusts, then their assets will not be considered to be available to the MPF, and the employer covenant will be deemed to be much weaker.

The Church family has to decide what level and quality of legal backing it is able and willing to provide. This will impact directly on the size of the 2021 deficit and, therefore, on the size of the recovery payments required.

The strength of this legal backing will also affect the Church's ability to negotiate a 'bespoke' approach to achieving the LTO (7.2) for the MPF, and the size and timing of the required further cash contributions to the Fund.

Dealing with the 2021 deficit (7.4)
Depending on the quality of the legal backing and on the state of the financial markets at the time, the 2021 deficit is likely to be in the range £20 million to £40 million. We understand that TPR will expect this deficit to be resolved within six years.

The URC family needs to plan for how this deficit will be dealt with, in a way that minimises the impact on the life and mission of the Church in all its parts.

There are two other issues which may feel slightly longer term, but are really all part of the same situation:

Long-term funding objective (7.2)
The long-term objective (LTO) of a maturing pension scheme is the point at which its funds are held in low-risk assets, and it has little risk that it will need to rely on the employer for further funding. The TPR consultation document makes it clear that this is the key issue for TPR, and that all the others should be seen in this context.

It is not yet clear what the implications are for the MPF.

As at the 2018 valuation, the actuary estimated the cost of immediately moving to a low residual level of growth assets and an assumed overall level of return on the MPF assets of 'gilts + 0.5%'. The estimated cost was around £48 million. This figure is equivalent to the £4 million deficit in the 2018 valuation, plus the £20 million of extra prudence expected by TPR and referred to in 4.2(i), plus £24 million for the projected loss of income on the growth assets.

Providing against future shocks in the financial markets (7.5)
If the employer wants the MPF to include growth assets, then there is an unavoidable risk that a shock in the financial markets could give rise to a deficit. Because of the relatively short period now being allowed for dealing with a deficit, it is unrealistic to expect the URC to be able to do this out of normal income streams. It is, therefore, necessary to plan for how such an event would be dealt with. TPR or the trustee might insist that any such plan is backed up by some form of legal undertaking.

7.2 *Long-term funding objective*

The TPR consultation document seems to make clear that, for DB pension schemes that are 'approaching maturity', the long-term objective (LTO) and the 'journey plan' to reach it will become TPR's overriding issue, with other shorter term issues (like deficit recovery plans) seen as part of the 'journey' rather than as separate issues.

The TPR consultation document states as a principle: 'By the time they are "significantly mature", we expect schemes to have a low level of dependence on their employer, and be invested with a high resilience to risk'.

The trouble is that none of the terms in quotes has yet been precisely defined and, indeed, the precise definitions are the subject of a large part of the consultation. Having said that, it seems clear that the MPF is approaching maturity, and that the period to its LTO may be shorter than we had previously thought. The trustee will be consulting with its advisers before (a) responding to the TPR consultation document and (b) letting the URC as employer know the trustee's views about the implications of this document.

Virtually all DB schemes mature over time. The number of retired members receiving pensions increases whereas, typically, the number of active members remains stable. This means that there comes a point where the cash flow becomes negative. If the number of active members reduces (as is the case with the MPF) or if the scheme is closed to the accrual of future benefits, then this trend happens more quickly.

In the case of the MPF, the total value of both assets and liabilities virtually doubled from the 2009 valuation to the 2018 valuation. But now, the amount paid out in pensions is greater than the amount being received in contributions and investment income. This gap between receipts and payments will increase over time, and so the total values of the assets and liabilities will slowly reduce. This is a natural phenomenon and is not, of itself, a problem. It is what TPR describes as approaching maturity. The other related concern of TPR is the proportion of the total liabilities that are being paid out in benefits in any one year.

TPR already requires scheme trustees and employers to agree a long-term objective and a journey plan to reach it, though the new Code of Practice is likely to be much more prescriptive about this.

TPR is proposing that there will be ‘fast track’ and ‘bespoke’ options for pension schemes when defining their journey plans. Under either fast track or bespoke approaches, TPR will expect the MPT and the URC to agree on a LTO, and on a journey plan for achieving this low dependency by the date that the MPF is significantly mature.

The MPF actuary estimated that, as at the time of the 2018 valuation, it would have cost the scheme about £48 million to transfer almost all of its equity and property assets into gilts. This would have achieved the LTO at that time, if calculated on a ‘gilts + 0.5%’ basis. As explained above, this figure can be understood as the £4 million deficit in the 2018 valuation plus the £20 million of extra prudence now expected by TPR (see 4.2(i)), plus a further £24 million for the cost in lost future income from the growth assets. The cost today might be slightly higher because of the changes in the financial markets and because members continue to accrue benefits. Clearly, the slower the move out of growth assets the smaller the likely cost of doing so becomes – that is, of course, if the growth assets do produce better growth than gilts.

The bespoke approach will be available to employers with ‘particular characteristics’ which make the standard approach unsuitable. The URC may well want to argue, because of its structure and the long-term strength of the employer covenant, for a bespoke approach that allows for a slower move out of growth assets and / or a longer time before the LTO is reached. This will be dependent, among other things, on the existence of appropriate legally enforceable backing.

At the moment, there is little clarity about what characteristics might qualify for a bespoke approach, and what flexibility there might be. The tone of the consultation document suggests that this is not something we should get over-optimistic about. The URC as employer needs to wait to hear from the trustee about this and then, together, the trustee and the URC need to decide how to proceed.

Following the TPR consultation, a new Code of Practice will come into force. This may well not officially apply to the 2021 valuation of the MPF, but it is likely that the direction of travel will be taken into account by the actuary and the trustee.

7.3 *Providing stronger legal backing for the MPF*

The actual contributions payable into the MPF by the URC and by the members are agreed every three years following each actuarial valuation. They are set out in a Schedule of Contributions. Before that document is signed, the URC family needs to understand where the employer contributions will come from. The URC, whether that means General Assembly or the whole URC, is committed to meeting its obligations. The URC will not default on these schedules of contributions unless it runs out of the funds to pay them. It is hard to envisage a circumstance in which that could happen.

So, if it was up to the URC family, there would be no need for any legally enforceable commitments, guarantees or equivalent and, if they did exist, they would make no practical difference.

Unfortunately, it is not up to the URC. TPR expects that the trustee of a pension scheme will have a body or bodies with sufficient financial assets that it is certain can be accessed if the employer does not comply with the agreed schedule of contributions.

The parallel legal and conciliar structures of the URC are a real problem for the trustee and for TPR. The URC represented by General Assembly is identified as the employer, but it has no assets. Assets are held on its behalf by the URC Trust. This problem was partly dealt with through the agreement of a funding guarantee provided by the URC Trust to the MPT in 2010. This guarantee is for up to £16 million and its wording is ambiguous – hence, the third resolution at the beginning of this report which authorises the URC Trust to amend this guarantee if it decides that is the right thing to do.

But this guarantee from the URC Trust is only a partial solution. All the funding for the MPF actually comes from local churches and synods, which are legally unrelated bodies. The URC Trust has limited resources of its own, and is limited in what it can guarantee.

In the past, the actuarial valuations of the MPF have been able to take account of the commitment of the synods, evidenced by the contributions they have previously made to the MPF and the value of the assets held by the synod trusts (in total roughly twice what is held by the URC Trust). TPR has made it clear that, in future, assets will only be taken into account where there is associated legal backing. Furthermore, the TPR consultation document seems to say that the strongly preferred forms of legal backing are either what it calls ‘contingent assets’ or some form of enforceable guarantees.

Our understanding of ‘contingent assets’ is that it means assets that remain with the employer, and can earn money for the employer, but which are available to the MPF if needed in defined circumstances, and which cannot be used for other purposes without the prior consent of the MPT.

While TPR appears open to some other forms of legally binding ways of supporting a pension scheme, it seems unlikely that any of these will be of use to the URC.

As indicated earlier, having an employer covenant rated as strong has an immediate effect on the size of the scheme deficit and, therefore, on the size of deficit contributions that have to be funded. It may also have, potentially, an even more significant impact on the cost of the journey plan to the long-term objective.

We do not know the total value of such legal backing that is necessary to ensure that the URC employer covenant is rated as strong. It certainly needs to be much closer to the solvency deficit figure of £73 million than to the current guarantee of £16 million.

The total level of legal backing required will reduce over time as cash contributions are paid into the Fund, and as the value of the assets and liabilities of the scheme reduces.

We are very much aware that, for some synod trusts, the issue of providing legally enforceable backing is extremely problematic, and we do not underestimate the difficulty. However, the cost of not providing such backing is likely to be enormous, and we sincerely hope that the difficulties can be overcome.

7.4 *Dealing with the deficit as at 1 January 2021*

On a basis consistent with the 2018 valuation, at the end of 2019 the MPF showed an estimated slight surplus. As a result of the turbulence in the financial markets, by mid-March 2020 this had deteriorated to an estimated deficit of £5 to £10 million.

TPR has made it clear that the 2021 valuation will have to be on a more prudent basis. The estimated impact of this will be to increase the deficit by £20 million.

This estimate is on the assumption that the employer covenant is deemed to be strong, bearing in mind that we were told by TPR that, in its view, the covenant is currently tending to strong. It is for the URC to decide whether to take the steps to ensure that the covenant is considered to be strong. If it does not or cannot, then the calculated deficit will increase by around a further £10 million.

So, depending on the action that the Church takes and what happens to the financial markets between now and the end of this year, it looks as though the 2021 deficit will be in the range £20 million to £40 million.

TPR is now expecting deficits on schemes such as the URC MPF to be dealt with in up to six years. The Church is potentially going to have to find deficit recovery payments averaging roughly £4 to £8 million per year for six years from 2022.

It seems clear to us that this level of cash flow over several years is beyond the scope of the Ministry and Mission (M&M) Fund and / or the normal income of the various trusts. Thus, the URC family has little option but to draw most, if not all, of this money from capital. Of course, the difficult question is how the URC family shares out this burden.

This valuation will, as with all DB schemes currently, also see a rise in future service contributions caused by the continuing low interest rates. The current estimate of this increase, even before the anticipated strengthening of the 2020 valuation basis, is that it will be around 5% of stipends. This will be an additional burden for the M&M budget.

7.5 *Providing against future shocks in the financial markets*

It may seem absurd to be thinking about future shocks in the financial markets when we have not started dealing with the effects of what is happening in 2020.

It may be that TPR will be slightly more relaxed or lenient about timetables, given the economic circumstances that are likely to prevail in 2021. However, the reality is that shocks in the financial markets are likely to happen again in the future, and that they could, again, give rise to a deficit that would be beyond the means of the Church's normal income streams. The URC needs to consider how to plan for such an event.

The scheme actuary has suggested that setting aside another £20 million would be a reasonable provision for this purpose. This would be capital retained within the URC, earning income for the URC, but available for this purpose if or when needed. So, this would really be about smoothing out the pain of a financial market shock of this kind. Again, the amount needed for this purpose would reduce over time. It is possible that either TPR or the MPT might insist on the URC taking action of this kind.

7.6 *Cost, cash flow, and contingency*

With all these large sums of money being discussed, it is important to understand that they are different in nature.

Cost
With a DB pension scheme, the amount that will be paid out in pensions in the future is unknown, and can only be estimated. In this sense, the actual cost is unknown. The basis of calculation of those liabilities is pre-determined and cannot be altered.

But the actual cost to the URC is also affected by the investment strategy – how much interest is earned on the money that has been paid into the MPF up until the time that it is needed to pay pensions. So, for example, the length of the journey towards a long-term funding objective, involving the replacement of growth assets with secure but low interest securities, could have a very significant impact on the actual cost to the Church.

Cash flow
Cash flow is, in many ways, the most important issue. It is the amount of money which the Church has to pay into the MPF according to the agreed schedule of contributions.

As explained in 7.4, the 2021 deficit is likely to be in the range £20 million to £40 million. This will have to be repaid in up to six years. Ultimately, this may not all turn out to be an increase in the actual cost. It is a payment required to reduce the risk that the MPF will end up short of funds. But, clearly, it will also increase the risk that the MPF will end up with more money than it needs. The trustee is aware of this, and will ensure that any such excess funds, if they ever arise, can be paid back to the employer – but only once the LTO has been reached and the situation is clear, which is a long way into the future.

Contingency
A contingency is a provision for the possibility of something bad happening in the future.

The legal backing required by TPR and by the trustee is a contingency against the possibility that the URC will default on the payments due to the MPF. This is a contingency that is extremely unlikely ever to be needed.

The possibility of setting up a fund or funds to deal with the effects of a shock in the financial markets is a different sort of contingency. This is an objective identified by TPR. If the Church is able to set up that sort of reserve, then it will smooth out the impact of such a shock on the Church's cash flow at the time when the shock occurs. One argument for doing this is that such a shock in the financial markets would affect the assets of the Church at the same time as it affected the assets of the MPF.

8. Future service pensions

8.1 *Past service obligations and future service responsibilities*

All the concerns discussed above relate to the pension entitlements that have already been built up by the past service of members – both those who have already retired and members who are still working. These are legal entitlements and cannot be changed.

The URC is able, if it wants, to change the terms of either or both pension schemes in relation to future service – or, indeed, to close one or both of the current pension schemes and replace them with new ones.

8.2 *Rising pension costs*

Interest rates have been at historically low levels for more than 10 years since the 2008 financial crisis. Many economists think that the effects of the current pandemic are likely to extend this situation for some years. There are others who suggest the opposite.

Providing pensions has become more and more expensive over this period, whatever the form of pension scheme. As one example, the employer future service contributions to the MPF have gone up from 12.35% in 2009 to an estimated 27% from 2022.

Most employers with DB pension schemes, outside the public sector, have closed them and replaced them with DC schemes. This fixes the cost for the employer, but it means that each member of the scheme who has not yet retired suffers the effects of the low interest rates in lower-than-anticipated pensions unless s/he makes up the difference.

For employers of DB schemes, there are two additional factors:
the risk that what has been paid in regular contributions may turn out to be inadequate giving rise to the requirement for deficit contributions; and
the constraints on future investment strategy being required by TPR.

8.3 *Questions for the URC as employer*

It is our view that it is time for the URC family to have a serious conversation about future pension provision, even if the conversation ends up deciding to leave things as they are.

There are a number of questions that need to be considered, including:

Affordability	Can the Church afford the rising costs of the current DB schemes and carry the risks of further costs in the future?
Value for money	Given TPR's developing approach to the de-risking of investments, does a DB scheme still deliver value for money?
Good alternatives:	What alternatives are realistically available that would still be likely to deliver good pensions for the members of both schemes?

8.4 *Possible changes to the existing DB schemes*

There are changes that could be made to the existing schemes to reduce the benefits earned by members and, thereby, reduce the cost to the employer. But these changes would have relatively small effects, and the risks inherent in DB schemes would remain.

8.5 *Changing to some forms of DC scheme*

Changing from DB schemes to DC schemes is not at all straightforward. There are many factors to consider, including the effects on different scheme members depending on their personal circumstances.

The Pensions Committee has set up a working group to explore what a good DC scheme might look like. Its first task is to arrange for an external adviser to produce a specification of a good DC pension scheme and its likely costs.

This piece of work is likely to cost a six-figure sum of money. However, without this information, it is impossible for the Church to make a properly informed decision about what it should do.

8.6 *Timetable*

General Assembly is the body that normally decides on any changes to the terms of the URC pension schemes. That means that the earliest any change could be agreed is GA 2021. There is no certainty that the information will be available by then.

Before GA takes such a decision, it not only needs to have all relevant information and time to consider it, but it also needs to know the views of all the URC trusts which will be carrying most of the burden of the unforeseen costs discussed in this paper.

It is important for the members of both URC pension schemes to know that there will be no change to either pension scheme without formal consultation with the members, which legally has to take place before General Assembly can make any such decision.

And, to repeat, any change can only affect pensions that are earned in the future. The pensions of retired members and the pensions already earned by active and deferred members are protected.

9. Integrated Risk Management Project – a framework for the work still to be done

9.1 *Ongoing need for clarification and updating of the issues*

The IRM group and the Pensions Committee will continue to work closely with the trustees of both pension schemes. In particular, the board of the MPT will need to come to a view about the implications of TPR's consultation document, and communicate this to the Church. The soonest this will happen is following its June 2020 board meeting.

9.2 *Short-term actions*

A briefing will be issued to all URC trust directors, officers of General Assembly and synods by early May that will comprise:

- this paper;
- a collation of all the synod responses to the first round of consultations (see 13.3);
- a brief covering note that will include answers to questions asked by the synods.

This paperwork will, no doubt, cause some concern and plenty of thought. Any questions, comments or suggestions will be very welcome – preferably by email.

9.3 *Conflicting timetables*

It would be ideal if all the different strands of this process could be tied together in one coherent timetable. In particular, some people would like a decision about the future service pensions to be taken before agreement is reached about dealing with the past service pension challenges. Unfortunately, this is just not possible – even without the extra logistical problems caused by the Covid-19 lockdown.

9.4 *Timetable for the 2021 valuation of the Ministers' Pension Fund*

The deadline for agreeing this valuation and the new schedule of contributions is regulated, and is 31 March 2022.

The board of the trustee meets quarterly and, working backwards, the timetable it is working to in order to achieve is:

December 2021	Sign off the 2021 valuation and the new schedule of contributions (to come into effect from January 2022).
September 2021	Agreement of the basis of the valuation, including the strength of the employer covenant.
June 2021	The trustee needs to receive proposals from the URC about how it plans to respond to the challenges that have been presented.

As this paper is being finalised, TPR has announced that there might be some slight relaxation of the deadlines for 2021 valuations, in response to the Covid-19 crisis. Even so, the above dates represent targets that we should aim at.

9.5 *Timetable for producing a URC family response to the challenges we face*

Again, working backwards: to meet the MPT June deadline we really need to be aiming for an agreement in principle between all the URC trusts that can be approved by their board meetings in March 2021. Some synod trusts may want to seek approval from their synod meetings. It now seems unlikely that this will be possible by March 2021.

The IRM group strongly believes that the best, and most likely, way to achieve an agreement that is acceptable to all parties would be to hold a series of face-to-face meetings of representatives of all the trusts. It was intended to hold the first such meeting in May 2020. The pandemic makes such meetings impossible, but a virtual meeting of so many people would be very difficult, and less likely to be successful.

The IRM group is still hopeful that the above timetable may be possible if face-to-face meetings can begin in autumn 2020. If such meetings are not possible, then it may be necessary to adopt a different approach, even though this would be less satisfactory.

9.6 *Possible elements of a URC family agreement*

Legal backing for the MPF

If the URC had a typical hierarchical corporate structure, then providing a larger legal guarantee would be relatively straightforward – and it would be desirable because of the ways in which this would reduce the cash flow, if not the actual cost of the MPF. It would not create any further risk to the URC, and it would not imply any costs except those that the URC will have to meet anyway. Trying to achieve agreement of a similar arrangement, but potentially involving 14 legally separate trusts, is a very different matter. The logic of the argument is exactly the same, but that doesn't make it easy for directors of a synod trust company to sign a guarantee or set aside contingent assets (or something similar) for the purposes of meeting URC pension costs.

The problem is that, without such legal backing, the assets and commitment of the synods will not be taken account of, the employer covenant will be considered weaker, and the actuarial valuation will be more prudent and, therefore, more expensive. It remains to be seen whether the URC family can find a way of dealing with this.

Dealing with the deficit that will arise from the 2021 valuation
Whether or not the employer covenant is deemed to be strong, the URC will be facing a large deficit, and a relatively short time in which to deal with it. This will be beyond the resources of the normal Ministry and Mission Fund budget, and also beyond the scope of the normal income streams of the various URC trusts.

It seems clear, therefore, that this deficit will have to be dealt with by drawing on existing capital. That capital does exist, but this is not a free option. The interest on the capital helps to support the mission of the Church centrally, in the synods and in local churches.

Possible buffer against future financial shocks and long-term funding requirement
These matters cannot really be discussed in more detail at this time, until the Church receives greater clarity from MPT. However, they are important, and could add significantly to the cash flows required from the URC to the MPF.

It may be that the income stream from future property sales can go some way to meeting the extra cash flow that will be required to deal with this.

9.7 *Coping with different cash flow timetables*

It is possible that the URC family will be able to reach agreement about how this burden will be shared, but that the funds cannot all be made available within the timetable required by the MPF schedule of contributions.

It has been suggested that the URC might consider taking out one or more loans secured against buildings that are owned (not those held in trust) to cover such timing differences. Whichever trust was taking on such a loan would need to be absolutely sure that the income stream to repay the loan was secure.

9.8 *Ministry and Mission Fund and local church contributions*

There has been no mention so far of individual local churches and their possible contributions to resolving this situation. Local churches are contributing almost £20 million per year to support the work of the United Reformed Church. That is a staggering total.

As already described, the ‘normal’ Ministry and Mission Fund budget supported by local churches will be facing increased costs because of the increase in future service contributions.

It is the view of the IRM group that this is enough of a burden to expect our local churches to bear. Nevertheless, it will be important to keep local churches informed about these pension challenges and how they are being dealt with – and extra donations from any individuals or local churches that feel able to do so will not be refused!

9.9 *This is still a challenge rather than a crisis*

Given all that has gone before in this paper, to use the same heading as in the MC November 2019 paper may seem foolhardy.

The financial reality is, however, that even after the falls in asset values that have occurred in 2020 (up to mid-April!) the URC family does have the resources to meet these challenges. The combined total financial assets of all the URC trusts had grown by about £70 million over the previous five years or so. So, even on a worst-case basis, these challenges will take us back collectively to where we were five or six years ago. That will not be pleasant or pain-free, but nor will it be life-threatening.

PART II: Background Information

10. Defined benefit pension schemes – some general information

10.1 *The URC schemes*

The URC operates two pension schemes – one for ministers and church related community workers, and the other primarily for lay staff. Both these schemes are Defined Benefit (DB) schemes. This means that, in each case, the benefits are fixed by the rules of the scheme.

For each month of service, a member accrues a small percentage of their salary or stipend as a pension. When the member retires, their pension is calculated based on their final salary or stipend and their years of service.

For each month of service, the employer and the employee make contributions into the pension fund at rates agreed after each actuarial valuation. The size of these contributions is estimated by the actuary to deliver the pension required when it is due.

If there is a gap between the value of the money that has been invested and the pension that is payable, then the employer is legally obliged to make up the difference. All the risks to do with investment performance, inflation and mortality, among other things, are carried by the employer.

10.2 *Actuarial valuations*

Every three years, a DB scheme must be subject to a valuation by an independent actuary. The assets and liabilities of the scheme are estimated, taking account of all the risks and uncertainties. Expected investment returns, inflation rates and life expectancy over perhaps 70 years are just three of the important factors.

The effective date of this valuation is fixed for each scheme. This means that a valuation can be affected by a short-term fluctuation on the financial markets. Nevertheless, the results of the valuation determine the levels of contribution required to be paid into the scheme for the three years up to the next actuarial valuation.

The actuarial valuation in fact produces several different valuations, based on different assumptions.

The 'technical provisions' (TP) basis is the one used to determine the level of contributions. It is based on what are considered to be a prudent set of assumptions. Currently, these assumptions are agreed between the actuary and the trustee, after discussion with the employer. This is one area where the new TPR Code of Practice will be more prescriptive, and where its requirements are expected to vary according to the maturity of the scheme and the assessed strength of the employer covenant, with greater prudence required where the sponsoring employer is perceived to be weaker.

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

10.3 *Dealing with deficits*

If the valuation of the liabilities is higher than the valuation of the assets, then there is a deficit on the pension scheme. Based on the actuary's assumptions, the assets of the scheme will be insufficient to pay for the benefits that have already been earned.

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

10.4 *Schedule of contributions*

A key outcome of each actuarial valuation is a 'schedule of contributions' agreed between the actuary, the trustee and the employer. This sets out the contributions that will be paid into the scheme by the employer and by the active members. This schedule remains operational until a new one is agreed, usually after the next valuation, or if not then until the end of the recovery plan.

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

10.5 *Maturing pension schemes*

Members of DB pension schemes may be; active, which means they are currently working and building up their entitlement to pension; deferred, which means they have left the service of the URC, but are not yet retired; or retired, which means they are already in receipt of their pension.

In the early years of a DB pension scheme, the employer and employee contributions are paid into the scheme and there are very few outgoings. Hence, the assets and the future liabilities of the scheme grow – hopefully in line with one another.

For any DB pension scheme, the number of retired members increases, and there comes a point where the total outgoings exceed the total income from contributions and investment income. The total value of the assets and liabilities begins to reduce.

This happens slowly if the number of active members remains around the same, but it happens more quickly if the number of active members is reducing. The former applies to the Final Salary Scheme. The latter applies to the Ministers' Pension Fund (MPF). The fact that the cash flow of the MPF has gone negative is not in itself a problem. However, there are extra risks associated with that situation – for example, if investments have to be sold at the time of a market downturn.

TPR is increasingly concerned about maturing schemes, and is expecting them to move towards a low risk investment strategy that is less dependent on the employer by the time that outgoings represent around 5% of total liabilities.

11. Legal responsibilities and regulations

11.1 *The Pensions Regulator*

Parliament enacts legislation which provides a framework for the operation of pension schemes. The Pensions Regulator (TPR) is then responsible for providing detailed guidance (rules), and for monitoring the compliance of both trustees and employers.

TPR has been gradually strengthening the regulatory environment over several years. The latest Pension Schemes bill, which is currently going through parliament, enables TPR to take this further. In March 2020, TPR issued a large and complex consultation document, which will be followed by a second one later in the year. Based on this consultation process, TPR will issue a new Code of Practice – probably not until 2021. Although this new Code of Practice will not, legally, apply either to the current valuation of the Final Salary Scheme or to the 2021 valuation of the MPF, it is inevitable that actuaries and scheme trustees will start to take it into account in their approach. In any event, the requirement already exists for agreement between the actuary, the trustee and the employer of a LTO, and a journey plan to achieve it.

The TPR annual funding statement, due in spring 2020, will be another document that may influence our approach to these pension issues.

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

TPR may well be ready to be flexible with 'bespoke' pension schemes on some of the issues and timings, but only if there is sufficient legally enforceable support in place.

11.2 *Responsibilities of the trustee*

The primary responsibility of the trustee of a DB pension scheme (and of TPR) is to ensure that the benefits that have already been earned will be paid when they are due. Before each actuarial valuation, this responsibility includes deciding on an appropriate investment strategy, agreeing with the actuary and the employer on an appropriate funding level, and monitoring the financial strength of the employer and its ability to meet its present and future obligations (referred to as the 'employer covenant' by TPR and those involved in managing pension schemes).

After each valuation, the trustee is responsible for monitoring the employer's compliance with the schedule of contributions and its continued financial strength, and for taking appropriate legal action if the employer defaults on paying what is due.

11.3 *Responsibilities of the employer*

As already described, the employer is legally responsible for paying the benefits already earned by members of a Defined Benefit scheme – whatever the cost. If the money already invested in the pension fund proves to be insufficient, then the employer is legally obliged to provide the difference. The failure of some employers to meet their responsibilities to their pension funds, whether by accident or design, is part of the background to the increasing regulation.

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

The URC is the principal employer in relation to both URC pension schemes. But an important question to ask is: who is the URC in this context? General Assembly takes the important decisions regarding future pensions benefits. But all the money to pay for those pensions comes from local churches and synods. Whatever the legal answer might be to the question, it is clear that all in the URC share this responsibility.

11.4 *URC Pensions Committee*

The Pensions Committee (formerly the Pensions Executive) is the group that liaises with the trustees of the two URC pension schemes on behalf of the Church. This group is responsible for understanding what the responsibilities of the Church are as an employer, and that these responsibilities are taken seriously by the Church. New terms of reference for this group were approved as at Mission Council, March 2020.

12. Coping with uncertainty and managing risk

12.1 *Risk is inherent and unavoidable*

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

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

12.2 *Risks associated with the assets*

Money paid now for pensions that might be payable long into the future has to be invested. Investments carry risks often in proportion to their likely returns. Low risks usually mean low returns, which mean the cost of pensions rises. Higher returns usually involve taking higher risks.

To enjoy long-term higher returns, the employer has to be able to cope with the risk of short-term falls in value caused by fluctuations in the financial markets.

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

12.3 *Risks associated with the liabilities*

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

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

12.4 *Risks associated with the employer*

For TPR and the trustee, a key issue is the strength of what is called the employer covenant. The questions which they must address are: What is the strength of the legally binding obligations to the scheme of the employer and other bodies and what is their financial capacity to support the scheme – now and in the future – particularly in the event of a significant fall in the financial markets? It is important to remember that the trustee and TPR are primarily concerned about the benefits already earned by members of a DB scheme for past service, not about what benefits might be earned in the future.

The risk is that the money already provided may prove to be insufficient, and the issue is that the employer may then be unable to pay what is needed. TPR is increasingly concerned about this, not least because of the number of employers that, for whatever reason, have failed to meet their obligations and left their staff pension schemes significantly underfunded.

13. Integrated Risk Management Project – the story so far

13.1 *Integrated risk management*

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

Following the 2018 valuation of the MPF, an IRM project group was set up consisting of Chris Evans (Convenor – until July 2020), Bridget Micklem, Ian Hardie, John Piper and Lyndon Thomas. Four of these are directors of MPT, and the group includes the Convenor of the URC Pensions Committee, and the URC Treasurer and Deputy Treasurer. Others, such as the URC Investment Committee, are involved in the work when needed.

The role of the IRM group is to carry out or co-ordinate the work that is necessary to enable the URC as employer and the respective trustees of the two URC pension schemes to plan appropriately for the future. This work involves: first, getting as much clarity and precision as possible about the issues that the Church faces; second, facilitating a URC family conversation about how these challenges will be dealt with; and third, hopefully securing an agreement that is satisfactory to all parties.

13.2 *Initial clarification of the issues*

Briefing documents were issued in the Spring of 2019, to Mission Council in November 2019, and then to the consultations that took place in November / December 2019.

As demonstrated in this paper, the issues are not static and so it is necessary to work closely with the trustee and its advisers to ensure that we understand the current position, and then communicate that to the right people in the Church.

13.3 *Initial consultations and feedback*

There were some preliminary discussions with the URC Finance Committee and with synod treasurers.

The IRM project group decided that the initial and detailed work on these issues needs to be done with the various URC trust companies, as the legal owners of the financial assets of the Church, and that the results of this work could then be shared, as appropriate, with the councils of the Church.

In November / December 2019, consultations took place with representatives of the synod trusts and the URC Trust. Five meetings took place around the UK with synod trust representatives, and a meeting was also held with the directors of the URC Trust. All synod trusts were represented, but not evenly – for a couple of synods, only one person attended, whereas for one synod, the whole trust board was present.

Following these consultations, towards the end of December a summary was issued with answers to the frequently asked questions, and the IRM group asked a series of questions of the synod trusts. Quick responses to these questions were requested for the end of January 2020. It was emphasised that these initial responses would not represent any firm commitments by anyone. The intention was that they would help frame the subsequent conversations / negotiations / decisions.

Responses were received from all the synods by the middle of February. Some of these were responses from the individuals who attended the autumn consultations. Some followed discussions at a meeting of the relevant trust board. We were very grateful for the speedy work of these synod representatives. The responses are very interesting, but extremely varied in just about every respect.

The intention was to issue a further briefing to the synods, and then hold a second conversation with representatives of all the trusts together in the spring of 2020. That was before Covid-19! Suggestions for the way forward are outlined in Section 8 above.