Paper G3

URC Pension Schemes – current challenges – a family problem requiring a family solution

Pensions Committee and Finance Committee

Basic information

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

Summary of content

Subject and aim(s)	The paper provides an update on the complex process of consultation across the URC family, which is ongoing.
Main points	Because of the requirement for extra prudence, the United Reformed Church will have to find around £45 million of additional funding for the Ministers' Pension Fund (MPF) over the next ten years in relation to the benefits already earned by members of the MPF for their past service. Immediately after the 2018 actuarial valuation of the MPF, the Pensions Committee and the trustee of the MPF set up a joint group to oversee an Integrated Risk Management project with the objective of clarifying and then dealing with the challenges faced by the Church in relation to its pension schemes. This project has included detailed consultations with various parts of the URC family, primarily the trust companies that hold the funds of the Synods and General Assembly. All these trusts have accepted that this is a 'family problem that needs a family solution' and have offered help in proportion to their available resources. The consultation is going well, but will probably not be formally concluded until around the end of 2021. The extra prudence required of defined benefit pension schemes also has a significant effect on the cost of providing such pensions in the future. The future of both the URC pension schemes is considered in a separate paper.

Previous relevant documents	Paper titled 'URC Pension Schemes – facing up to some serious challenges' written for General Assembly 2020 and considered by Mission Council in July 2020. March 2021 Mission Council Paper titled 'URC pension schemes – dealing with current challenges – a conversation in progress'.
Consultation has taken place with...	The URC Integrated Risk Management project group, the directors of the URC Ministers' Pension Trust, the directors of the synod trusts and the URC Trust, and synod moderators.

Summary of impact

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

Contents

1. Introduction

1.1 A substantial paper on this subject was written for General Assembly 2020. That meeting did not take place as originally planned, and the paper was considered by Mission Council. This paper does not repeat all the background information provided in that paper, which should be referenced if that level of detail is required. **https://urc.org.uk/images/General-Assemblies/Assembly2020/URC_Pension_Schemes_BofR_2020.pdf**

1.2 The objectives of this paper are to summarise the challenges as they are currently understood; to describe the consultation that has taken place and is still in progress; and to indicate when and how the challenges might be dealt with.

1.3 The future of the two existing URC pension schemes also needs to be seriously considered by General Assembly, and that is dealt with in a separate paper.

2. Some definitions and explanations

2.1 The other pensions paper for General Assembly 2021 includes explanations of the following terms, and these are not repeated here:

Defined Benefit pension schemes
The Pensions Regulator
Sponsor / Employer
Trustees
Maturity

2.2 Current URC pension schemes

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

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

2.3 Actuarial valuations

The liabilities of a defined benefit pension scheme stretch long into the future. They are uncertain, as they depend on many factors including life expectancy, inflation and interest rates. Their actual cost will only be known when the last member of the scheme has died.

Every three years, a defined benefit pension scheme has to be valued by the scheme actuary. This means that the liabilities are estimated, based on the most up to date information, and this estimate is then compared with the assets. If the estimated value of the liabilities is higher than the value of the assets, then there is a deficit on the scheme. The trustee of the scheme then has to agree a recovery plan with the sponsor or employer, which will define when the deficit will be made good. After each valuation, a schedule of contributions is signed by the sponsor, setting out the payments that will be made to cover the cost of future accruals of benefits and also, if appropriate, the deficit contributions in relation to the benefits already earned for past service.

2.4 Discount rate

An actuarial valuation is based on many assumptions. One of the most critical is the discount rate. This is the assumed rate of return on the assets in the scheme from the date of the valuation to the dates when the liabilities will have to be paid. The discount rate is normally expressed as 'gilts + X%', where gilts are government securities. So, the discount rate is a measure of the extent to which the return on the investments will exceed the return on government securities.

3. Summary of the challenges we face

3.1 The URC Final Salary (lay staff) Scheme

Most of this paper concerns the MPF. For the sake of completeness, this section concerns the other URC pension scheme.

The members of the Final Salary Scheme are almost all lay staff. The scheme covers the staff employed on behalf of General Assembly, including Westminster College, some or all of the staff at most of the synods and at Northern College. All these bodies are participating employers in the Final Salary Scheme and, therefore, share in the legal obligation to ensure it is properly funded.

This pension scheme is much smaller than the MPF. The Church contributions to the Final Salary Scheme, included in the Ministry and Mission Fund budget, are roughly a quarter of the Church contributions to the MPF.

Some of the issues now being faced in relation to the MPF have already been addressed for the Final Salary Scheme. In particular, following the 2016 valuation of the Final Salary Scheme, roughly £3.5 million of capital was paid in by the participating employers to deal with what was then a sizeable deficit. Also, because TPT takes a very prudent approach in relation to the pension schemes that it manages, the financial and investment strategy in relation to the Final Salary Scheme already allows for the fact that it is a maturing scheme requiring increasing prudence.

The 2019 valuation of the Final Salary Scheme showed a slight surplus.

The rates of the Church's future service contributions to the Final Salary Scheme have increased substantially since 2010, as they have for the MPF. More details of these increases are provided in the other pensions paper.

3.2 The URC Ministers' Pension Fund (MPF) - Valuation as at 1 January 2018

The 2018 valuation, on the technical provisions basis, showed a deficit of £3.9 million. This deficit had reduced much faster than anticipated from the £16.6 million deficit three years previously. This valuation used a discount rate of gilts + 2.2%.

The compliance team at the Pensions Regulator subsequently told the trustee of the MPF that this valuation was far too imprudent and that the discount rate used should have been no higher than gilts + 1.5%.

The URC Trust agreed to pay £1.5 million into the MPF in late 2019 to avoid the possibility of an immediate revaluation of the MPF on a more prudent basis, which would have led to higher contribution rates.

3.3 The challenge faced by the Church is around £45 million

The Pensions Regulator is requiring increasing levels of prudence in the valuation of all defined benefit pension schemes, and particularly for those schemes approaching maturity.

The term 'maturity' relates to the way that the number of members who have retired increases whereas, typically, the number of active members does not. This means that a point is reached where investments have to be sold to pay for the benefits that are due and the size of the scheme starts to reduce. This is a natural phenomenon. The MPF is maturing relatively quickly.

The actuarial valuation of the MPF as at 1 January 2021 is under way. If the same discount rate was used as in 2018 then the fund would show a slight surplus. As it is, the discount rate used is likely to be around gilts + 1.0% and, as a result, the deficit is likely to be around £30 million. This deficit will have to be dealt with by 2026 – a much shorter period than was previously allowed.

One measure of the maturity of a defined benefit pension scheme is the point at which the annual amount being paid out in pensions is equivalent to 5% of the total value of the liabilities. The estimated date of this for the MPF is 2030. By this date, the Regulator will expect valuations to be based on a discount rate of no more than gilts + 0.5%. This would add another approximately £15 million to the deficit.

The total amount we will have to find is currently estimated at £45 million, with £30 million of this required by 2026.

4. Consultation process – the story so far

4.1 Integrated Risk Management project (IRM)

Immediately after the 2018 valuation, the Pensions Committee and the trustee of the MPF set up a joint IRM project group to look at all the risks associated with the MPF and its funding, and to help develop a Long-Term Objective (LTO) for the MPF, which is a financial and investment strategy that takes account of the maturity of the MPF and the changing requirements of the Pensions Regulator. The process has required a broad consultation with many in the Church. Because the issues are primarily financial and legal, this consultation has mostly been with the directors of the trust companies that hold the assets of the synods and of the General Assembly, as well as with the officers of the synods and of Assembly.

This consultation has, like so much else, been seriously affected by the pandemic. It has taken the form of frequent written briefings from the IRM group, written responses from the trust bodies, and meetings with individual trust representatives and with collective groups such as the synod treasurers and synod moderators.

4.2 Consultation – the story so far

Facing such a huge challenge, it has been encouraging that all those involved in the consultation have recognised that this is a family problem that will require a family solution. The United Reformed Church family has considerable financial resources at its disposal, but it also has many and varied demands on those resources, some of which conflict with each other. The URC family may have the resources to deal with this challenge, but that does not mean that doing so will be painless. Money spent on pensions cannot be spent on other things.

Those who want more details of the consultation, who are not already in receipt of the regular briefings, are welcome to have copies. The first target of this consultation is to reach agreement in principle by June 2021 about how the £45 million can be raised. At the time of writing this paper, it is pleasing to report that this target date currently looks to be achievable. That is enormously to the credit of all those involved in the ongoing discussions.

5. From consultation to action plan – future process and timetable

5.1 Commitments in principle from the Synod Trusts

Even if agreement in principle is reached by June 2021, for most of the Synod Trusts this agreement will be subject to approval by their synod meetings in the autumn.

5.2 Commitments in principle from the URC Trust
Obligations and commitments will also be required of the URC Trust. It is also hoped to have these agreed in principle by June 2021.

5.3 Mechanics
Part of the agreement required with the URC Trust is about how this process will be managed over the next ten years. Two important elements of this, given the size of the numbers and the level of uncertainty in them, are:

- ensuring that money is not paid into the MPF which it doesn't actually need; and
- the need to provide some form of legal guarantee to the trustee of the MPF.

5.4 Agreement of the trustee of the MPF
It will be necessary for the directors of the URC Ministers' Pension Trust to agree any plan proposed by the Church.

5.5 Timetable
The legal deadline for all these agreements is the end of March 2022, but we are hoping to achieve this by the end of 2021.