31. Methodist Ministers' Pension Scheme (MMPS)

Contact Name and Details	Amanda Amor – Pensions Manager amora@methodistchurch.org.uk
Status of Paper	Final
Action Required	Decision
Resolutions	As contained in the paper.

Summary of Content and Impact

Subject and Aims	To report the results of the actuarial valuation for MMPS. To make recommendations for the Recovery Plan from 1 September 2015 and future benefit changes from 1 September 2016. To reappoint and appoint the Trustee Directors of MMPS. To note the 2015 Pension Increase.
Main Points	The triennial valuation has been concluded and the Trustees have discussed and agreed the basis for the assumptions with the FSC. MMPS is showing a lower shortfall in the Scheme at this valuation although there has been an increase in the cost of providing future service benefits. The total contributions from the Circuits remain at 26.9% from 1 September 2015. The shortfall could reduce by a further £25m if pension increases awarded in relation to both past and future service were linked to CPI rather than RPI. A consultation with members would be required before the Conference could decide in 2016. Appointment and Reappointment of the Trustee Directors of MMPS.
Background Context and Relevant Documents (with function)	One-third of the lay directors of Methodist Ministers Pension Scheme retire by rotation each year and are eligible for re-appointment to the Board.
Consultations	The Methodist Council
Impact	The shortfall and contribution rates could reduce if it was agreed to link the pension increases to CPI rather than RPI from 1 September 2016.

31. Methodist Ministers' Pension Scheme (MMPS)

MMPS Actuarial Valuation

Introduction

1. The valuation results for MMPS have been based on the actuarial basis which has been agreed between the Trustee and the Finance Sub-committee (FSC) of the Strategy and Resources Committee (SRC).

2. It has been agreed that the Methodist Council, on behalf of the Conference, makes the decisions required on scheme funding issues. In addition, the Methodist Council agreed to recommend changes to the benefit structure for agreement by the Conference in respect of MMPS.

3. The actuarial valuation is essentially a planning exercise. The output is a level of contributions that is considered likely to be sufficient to meet the future liabilities of the Scheme and, where a shortfall exists, the contributions that are required to meet the funding target.

4. The technical provisions of the Scheme (the past service liabilities) are derived by projecting forward benefit cash flows, for up to 80 years or so, and discounting these to the valuation date with an allowance for anticipated investment returns that are believed to be prudent. This is different to an economic valuation or the price that would need to be paid to secure the liabilities with a third party, both of which would result in higher values.

5. The results of the valuation have revealed a reduction in the shortfall from £58.4m in 2011 to £40.0m in 2014, however there was an increase in the total future service contribution rate from 22.2% of standard stipend in 2011 to 26.4% of standard stipend on the proposed basis for 2014. The increase in the future service contribution rate is mainly due to the fall in bond yields.

6. The Church future service contribution rate would increase to 17.1% of the standard stipend if the member contribution rate was maintained at the current rate of 9.3% of the standard stipend. The current Church future service contribution rate is 12.9% although the actual Church total contribution is 26.9% of the standard stipend as it includes 14% in respect of shortfall contributions.

7. The Methodist Council recommends to the Conference that the total Church contribution rate continues at the rate of 26.9% of standard stipend. This being 17.1% in respect of the future service contribution rate and 9.8% in respect of shortfall contributions. In addition, £1 million per annum continues to be paid from the Pension Reserve Fund until the end of the recovery period.

8. The Methodist Council also agreed to recommend to the Conference that a consultation with members is held over a change to the benefit structure to link future pension increases awarded in relation to both past and future service to CPI rather than RPI. This is outlined in more detail from paragraph 27.

The employer covenant

9. As part of the consideration of the preliminary valuation results, the Trustee must have regard to the strength of the covenant of the Methodist Church. Whilst there is not a conventional employment relationship for Methodist Ministers, for Scheme funding

purposes there must ultimately be an "employer" who stands behind the Scheme and makes the required contributions. For the purpose of scheme funding, the Conference is the employer of the Scheme.

10. The Trustee had extensive discussions with the FSC and a comprehensive review of the covenant of the Methodist Church has been provided to enable the Trustee to assess the strength of that covenant.

11. The strength of the covenant of the Methodist Church will help determine how prudent the actuarial assumptions need be.

12. The covenant of the Methodist Church has been assessed by the Trustee as strong.

Prudent assumptions

13. Funding assumptions need to be made about the likely course of events.

14. The regulations require that the assumptions overall are chosen prudently. By prudent, the regulations require assumptions which, if the Scheme continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.

15. In particular, the Pensions Regulator expects prudent assumptions to be used for the discount rate assumptions and mortality assumptions to be based on prudent principles.

Assumptions

16. The valuation results have been produced using a set of actuarial assumptions which the Trustee Board agreed with the FSC.

Assumption	Proposed basis for 2014 valuation	Any change from 2011 valuation basis
Pre Retirement Discount Rate	Gilts + 2.0% = 4.7%	Updated to reflect current market conditions
Post Retirement Discount Rate	Gilts + 1.0% = 3.7%	Updated to reflect current market conditions and current investment strategy
Pensionable Earnings Increases	CPI + 0.75% = 3.25% pa	Updated to reflect current market conditions
Pension Increases	As guaranteed in the Rules, based on RPI increases	Updated to reflect current market conditions
Commutation	An allowance for members to commute 15% of their pensions for a lump sum	No change
Mortality	Most up to date tables and improvement factors	A change to using the most up to date tables
Expenses	2.3%	An increase from 2.0% to reflect increased regulatory fees

17. A copy of the Statement of Funding Principles agreed by the Trustees and the Methodist Council is attached to this paper.

Assets

18. The assets of the Scheme had a market value of £384.0m as at 31 August 2014. On the valuation basis the Scheme was 90.6% funded as at 1 September 2014.

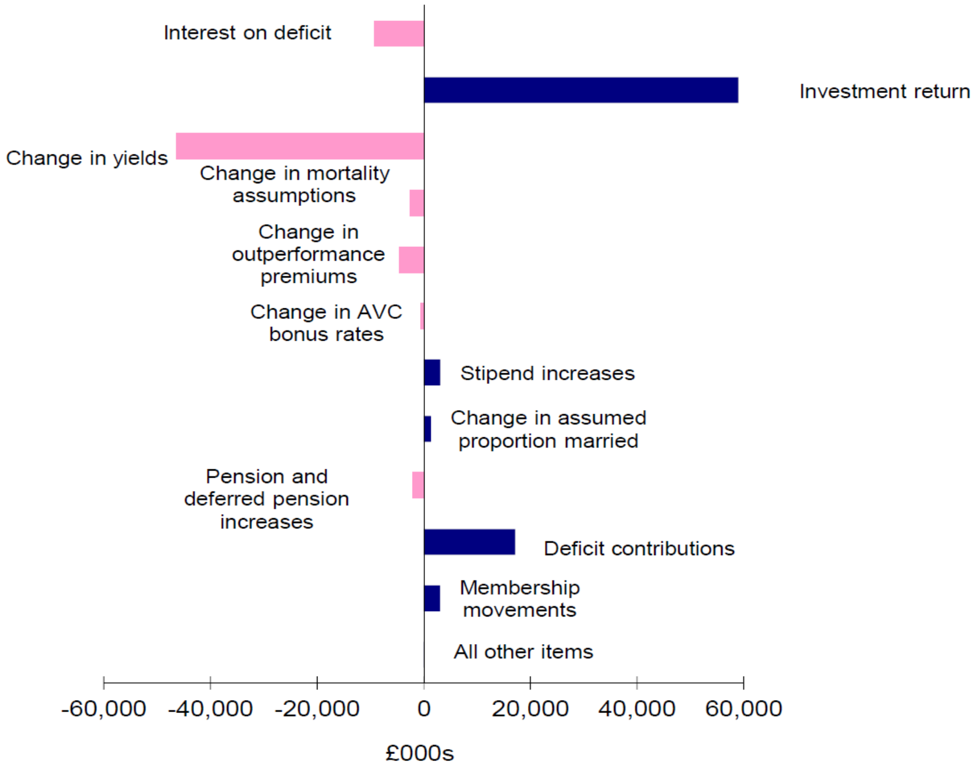
Results

19. The results of the actuarial valuation compared to the previous valuation in 2011:

	2014	2011
Technical provisions (liabilities)	£424.0m	£355.9m
Market value of assets	£384.0m	£297.5m
Past service shortfall (£m)	£40m	£58.4m
Funding ratio	90.6%	83.6%
Total future service contribution rate (% standard stipend)	26.4%	22.2%

Change in funding position

20. The valuation carried out as at 1 September 2011 revealed a shortfall of £58.4m. The position has improved as the shortfall has fallen to £40.0m, and the graph below shows the main factors to the change in funding level position over the three years to 1 September 2014:



21. Although the change in yields had significantly increased the value placed on the liabilities under the Scheme, this was offset by the better than expected investment return. In addition the deficit contributions paid in the three years to 1 September 2014 helped reduce the shortfall to £40m.

Membership

22. The Membership profile as at 31 August 2014 is shown in the table below. For comparison, figures as at 31 August 2011 are shown in brackets.

Active	1,518	(1,610)
Deferred	306	(220)
Pensioners	2,646	(2,583)
Total	4,470	(4,413)

Recovery plan

23. The valuation results have revealed a shortfall of £40m and the recovery plan to eliminate this shortfall will need to be agreed by the Conference based on the recommendation of the Methodist Council.

24. At the previous valuation, a shortfall of £58.4m was revealed. The current contributions being paid to eliminate this shortfall are contributions of 14.0% of standard stipends to 31 December 2020 together with £1m per annum from the Pension Reserve Fund.

25. The investment return assumption used for calculating the liabilities must be prudent. The investment return assumption for the asset return made when calculating a recovery plan might be higher than this prudent assumption. The extent to which this is appropriate will depend upon the level of risk associated with the assumptions used in the liability calculations and the investment strategy and the employer covenant risks applying. The Trustee agreed that due to the strong employer covenant, a higher asset return assumption could be adopted for the recovery plan calculations. The current recovery plan is also based on a higher investment return assumption.

26. The Methodist Council agreed that there should be no change to the expected end of the recovery plan of 31 December 2020. In order that there is no change to the expected end of the recovery plan, shortfall contributions of 9.8% of standard stipends will be required in addition to the future service contributions.

27. In addition to the shortfall contributions the payment of £1 million per annum from the Pension Reserve Fund will continue until the end of the recovery plan.

Contributions

28. The Methodist Council recommends that:
    - The total Church contribution will remain unchanged at 26.9% of standard stipends (ie 17.1% future service contribution rate and 9.8% shortfall contributions).
    - The member contribution rate would also remain unchanged at 9.3% of standard stipend.
    - Fixed contributions of £1m per annum continue to be paid from the Pension Reserve Fund for the length of the recovery plan ie a further six years.

29. The Methodist Council recommends that the Conference agrees the Schedule of Contributions and the Recovery Plan which are attached and has authorised these to be signed on its behalf.

Future Contributions – alternative option from 1 September 2016

30. The issue of affordability of Church contributions for some Circuits was discussed by the Trustee with the Finance Sub-Committee and a recommendation to consider future contributions was made to the Methodist Council.

31. One option considered by the Methodist Council was to link future pension increases awarded in relation to both past and future service to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Due to the differences in how the indices work CPI is, on

average, around 0.75% to 1% per annum lower than RPI which would result in lower expected increases to pensions in payment.

32. The effect on the shortfall if pension increases were linked to CPI rather than RPI would be to reduce the shortfall from £40m to £15.8m, reducing the shortfall contributions to 4.3% of standard stipends (from 9.8%) and reducing the recovery period to three years. The effect on the total future service rate would be to reduce it from 26.4% of standard stipends to 25.8% of standard stipends.

33. If pension increases awarded in relation to both past and future service were linked to CPI rather than RPI the total Church rate could reduce from the current rate of 26.9% of standard stipends to 20.8% of standard stipends if the member contribution rate remained at 9.3% of standard stipends.

34. Alternatively, the member contribution rate could also reduce, for example, the total Church contribution rate could be 22.8% of standard stipends and the member contribution rate could be 7.3% of standard stipend.

35. The table below shows the previous contribution rates:

Period from	Total Church rate % standard stipend	Member rate % standard stipend	Total contributions % standard stipend
01.09.1988 – 31.08.2003	10.0	6.0	16.0
01.09.2003 – 31.08.2006	13.5	6.0	19.5
01.09.2006 – 31.08.2009	17.0	7.0	24.0
01.09.2009 – 31.08.2010	22.0	9.0	31.0
01.09.2010 – 31.08.2012	25.6	9.0	34.6
01.09.2012 – 31.08.2013	26.6	9.0	35.6
01.09.2013 – 31.08.2014	26.9	9.3	36.2

36. The current pension increase is based on the RPI for January each year. Pensions earned before 31 August 2006 are based on RPI, capped at 5% per annum, and pensions earned after 1 September 2006 are based on RPI, capped at 2.5% per annum.

37. A history of RPI and CPI rates for each January since 2008 is shown in the table below:

Year	RPI annual rate %	CPI annual rate %
2015	1.1	0.3
2014	2.8	1.9
2013	3.3	2.7
2012	3.9	3.6
2011	5.1	4.0
2010	3.7	3.5
2009	0.1	3.0
2008	4.1	2.2

38. The Methodist Council recommends to the Conference that it consults with members throughout 2015/2016 regarding a possible change to pension benefits to reduce the Church contribution rate (and possibly the member contribution rate) from 1 September 2016.

39. The Council recognised the importance of the Church continuing to provide a defined benefit pension scheme for ministers. It considered the balance between the long-term affordability of the scheme for the Church and the level of benefits that are provided. It agreed that this potential change should be consulted upon now, whilst the Church can control the timescales and have a full consultation without the outcome being driven by the needs of a valuation.

40. Any change to members' benefits would be subject to consultation with members and therefore any change would need to be agreed at the 2016 Conference once all responses had been received and considered.

Solvency position

41. The Actuaries also reviewed the position if the Scheme were discontinued on the valuation date with all members treated as having left service and the Scheme assets used to buy immediate and deferred annuities from an insurance company.

42. The solvency estimate provides an indication of the extent to which the Trustee is reliant on the Church to stand behind the Scheme.

43. The solvency position as at 1 September 2014 and compared to 1 September 2011 is as follows:

	2014	**2011**
Shortfall	£138.4m	£187.5m
Funding level	73.5%	61%

Increase in Pensions in Payment

44. The Rules of the Scheme provide for an annual increase in pensions in payment on 1 September each year in line with the annual rise in the Index of Retail Prices (RPI) as published in the preceding January. The increase is subject to a maximum of 5% on pensions earned in respect of pensionable service before 1 September 2006 and a maximum of 2.5% on pensions earned for pensionable service completed after 31 August 2006.

45. The increase in the RPI in the year to January 2015 is 1.1%. In view of the current funding position of the Scheme the Trustee is unable to recommend to the Conference an increase above the guaranteed increase.

46. The pre 1 September 2006 pensions will increase by 1.1% for both pre and post 1 September 2006 pensions. This will be applied from 1 September 2015 to pensions in payment which commenced on or before 31 August 2014 and to ill health pensions which commenced on or before 1 September 2015.

Directors of Methodist Ministers' Pension Trust Limited

47. On the recommendation of the Methodist Council, Mr Graham Danbury and Mr Colin Pearson retiring directors of Methodist Ministers' Pension Trust Limited are nominated for re-appointment.

48. The Revd Andrew D Walker has been re-elected as a director of Methodist Ministers' Pension Trust Limited by the active members of the Scheme and will be re-appointed to the Board from 1 September 2015.

49. The Revd Michael R Fielding has been elected as a director of the Methodist Ministers' Pension Trust Limited by the pensioner members of the Scheme in place of Mrs Ruth Edmundson. The Revd Michael R Fielding will be appointed to the Board from 1 September 2015. The Trustees would like to extend their thanks to Ruth for the way that she has served the Scheme over the last nine years.

50. The full list of directors of Methodist Ministers' Pension Trust will be:

The Revd Stuart A Bell, Mr Ronald Calver, Mr Graham Danbury, the Revd Michael R Fielding, the Revd Michael G Giles, Mr Colin Pearson, the Revd Andrew D Walker, Mr Keith Woodley (Chair) and Mr John Wyatt.

*****RESOLUTIONS**

31/1. The Conference received the Report.

31/2. The Conference approved the Recovery Plan and directed that this be signed on its behalf by Mr Andrew Gibbs and the Revd Gareth J Powell.

31/3. The Conference approved the Schedule of Contributions and directed that this be signed on its behalf by Mr Andrew Gibbs and the Revd Gareth J Powell.

31/4. The Conference directed that a consultation take place with members throughout 2015/16 with a view to linking the pension increase to the annual rate of increase in the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from 1 September 2016.

31/5. The Conference noted the increases to pensions in payment from 1 September 2015 as set out in paragraph 46 of the report.

31/6. The Conference re-appointed Mr Graham Danbury and Mr Colin Pearson as directors of Methodist Ministers' Pension Trust Limited.

31/7. The Conference noted the re-appointment of the Revd Andrew D Walker as a member-nominated director of Methodist Ministers' Pension Trust Limited.

31/8. The Conference noted the appointment of the Revd Michael R Fielding as a member-nominated director of the Methodist Ministers Pension Trust Limited.

METHODIST MINISTERS' PENSION SCHEME

Statement of Funding Principles

1. Status

This statement was agreed by the Trustee on 5 March 2015 for the purposes of the actuarial valuation as at 1 September 2014 after obtaining the advice of Stephen Ainsworth, the actuary to the Scheme and after consulting with the Finance Sub Group of the Strategy and Resources Committee (SRC) of the Methodist Church. This Statement of Funding Principles replaces the previous Statement dated 1 March 2012 to reflect changes agreed between the Trustee and the SRC.

2. The statutory funding objective

This statement sets out the Trustee's policy for ensuring that the statutory funding objective is met. The statutory funding objective is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

3. Funding objectives in addition to the statutory funding objective

None

4. Calculation of the technical provisions

4.1 <u>Technical provisions</u>

The technical provisions are the amount that will be needed to pay the Scheme benefits, as set out in the Scheme's Rules, that relate to service up to the valuation date, if the assumptions made are borne out in practice. The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Scheme, with a modest allowance for the future potential investment returns above the gilt yield from continued investment in more risky assets. There is an underlying assumption that the Scheme will continue as a going concern with benefits being met from the Scheme as they fall due.

4.2 <u>Method</u>

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

4.3 <u>Investment strategy</u>

The choice of the discount rates needs to have regard to the investment strategy of the Scheme. The current investment strategy for the Scheme is set out in the Scheme's Statement of Investment Principles and is reproduced in Appendix 1.

4.4 <u>Assumptions</u>

The discount rate assumptions are determined in the light of the current strategic asset target weighting for each asset class.

Details of the actual economic assumptions to be used to calculate the technical provisions at the valuation date are set out in Appendix 2. Details of the demographic assumptions at the valuation date are set out in Appendix 3.

The following principles are to be applied to determine the economic assumptions:

- **Discount rate:** The discount rate used to value the liabilities both in the period to retirement and after retirement is determined with reference to the yield on gilts at the valuation date with adjustment to allow for the expected outperformance over gilts allowing for the Scheme's current investment strategy. The outperformance premiums will be determined as a prudent allowance for the outperformance of the assets relative to the return available on gilts. The premiums will be determined having regard to the Scheme's investment strategy, the strength of the covenant of the Methodist Church and market conditions at the time of the valuation. The premiums at 1 September 2014 are 2% pa pre retirement and 1% pa post retirement. The premiums will be reviewed at each valuation.

- **Inflation:** The Retail Prices Index (RPI) inflation assumption is taken to be the investment market's expectations for inflation as derived from the difference between the yield on fixed interest gilts and (RPI) index linked gilts at the valuation date. The Consumer Prices Index (CPI) Inflation assumption is derived from the RPI assumption by making an appropriate adjustment to reflect the differences between RPI and CPI. The difference between the long term assumption for RPI and CPI inflation may vary over time to reflect changing views of long term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out. The CPI assumption at 1 September 2014 is derived by deducting 0.7% pa from the RPI assumption.
- **Pension increases:** Pensions in payment are assumed to increase annually by the rate of RPI inflation capped at 5% pa for benefits accrued prior to 31 August 2006 and capped at 2.5% pa for benefits accrued on or after 1 September 2006. Deferred pensions are assumed to increase at the rate of CPI inflation capped at 5% pa over the period of deferment for service prior to 6 April 2009 and with a 2.5% pa cap for service from 6 April 2009. The increases are derived from the price inflation assumptions, allowing for the maximum and minimum annual increases and for inflation to vary from year to year.
- **Stipend increases:** Stipends are assumed to increase at the rate of CPI inflation plus a stipend increase adjustment. This adjustment is 0.75% pa at 1 September 2014 and will be reviewed at each valuation.

The other assumptions will be as follows:

- **Mortality:** Standard published tables of mortality have been adopted that have been found appropriate for the Scheme as a whole. These tables allow for expected future improvements in longevity. Sample rates and the details of the tables are included in Appendix 3 to this statement. The mortality assumptions will be reviewed at each valuation.
- **New entrants:** The valuation method assumes that the membership of the Scheme remains stable. It assumes that people who leave the Scheme are replaced by new joiners, such that the age and sex profile of the membership remains broadly unchanged.
- **Leaving service:** No allowance has been made for withdrawals from service prior to Normal Pension Dates.
- **Retirement:** Allowance has been made for retirements before Normal Pension Dates and for members retiring in ill health by means of age related scales. Sample rates are included in Appendix 3. This assumption will be reviewed at each valuation.
- **Age difference of dependants:** Allowance will be made for an age differential between the member and their spouse.
- **Percentage with spouse benefits at death:** An allowance will be made for members with spouse benefits at death.
- **Commutation**: Allowance will be made for members to commute part of their pensions at retirement for a lump sum. This allowance is 15% of main Scheme pensions at 1 September 2014. This allowance will be reviewed at each valuation.
- **Management expenses**: Allowance will be made for the expected expenses of the Scheme. This allowance is summarised in Appendix 3 and will be reviewed at each valuation.

5. Covenant of the Methodist Church

The method and assumptions used to calculate the technical provisions at the 1 September 2014 valuation assume a continuation of the covenant of the Methodist Church as strong. If this changes significantly the Trustee would wish to review the method and assumptions.

6. Church contributions

The contributions payable by the Circuits are assessed by calculating the cost of future benefit accrual using the same assumptions as for the technical provisions, plus an estimate of the expenses (excluding investment-related expenses) including the Pension Protection Fund levy, reduced by the contributions made by members and adjusted by the amounts needed to eliminate any shortfall or surplus relative to the technical provisions.

7. Policy on discretionary increases and funding strategy

Pensions may be increased from time to time once in payment by an amount over and above the guaranteed rate of increases set out in the Rules, having regard to the financial position of the Scheme, at the discretion of the Trustee after consultation with the actuary and with consent of Conference.

Advance provision is not to be made for any discretionary increases for the purpose of calculating the technical provisions. If discretionary increases to benefits are to be made, the Trustee's current policy would be to request immediate additional contributions to meet the cost of such increases.

8. Period within which and manner in which a failure to meet the statutory funding objective is to be rectified

The Trustee and the Methodist Council have agreed that any funding shortfalls identified at an actuarial valuation should be eliminated by the payment of additional contributions over the recovery period. The level and period over which these additional contributions are to be paid will be agreed between the Trustee and the Conference. In determining the actual recovery period at any particular valuation the Trustee's principles are to take into account the following factors:

- the Rules of the Scheme;
- the size of the funding shortfall;
- the business plans of the Methodist Church;
- the Trustee's assessment of the financial covenant of the Methodist Church; and
- any contingent security offered by the Methodist Church.

The assumptions to be used in these calculations will be those set out above for calculating the technical provisions except that they may also take account of some of the expected investment out-performance of Scheme assets over the discount rates used to calculate the technical provisions, as agreed by the Trustee and the Methodist Council, depending upon the circumstances at the time.

For the 1 September 2014 valuation, it has been assumed that the assets will achieve a return of 4.7% pa over the recovery plan length.

9. Policy on reduction of cash equivalent transfer values (CETVs)

The Trustee will ask the actuary to advise them at each valuation of the extent to which assets are sufficient to provide CETVs for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100% of benefits in excess of the first priority slice (broadly those benefits which would be provided were the Scheme to be admitted to the Pension Protection Fund), the Trustee may consider

whether CETVs should be reduced as permitted under legislation, after obtaining actuarial advice as to the appropriate extent.
If at any other time, after obtaining advice from the actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the actuary and will use the above criterion to decide whether, and to what extent, CETVs should be reduced.

10. Payments to the Methodist Church

Payments to the Methodist Church are not permitted under the rules of the Scheme unless the Scheme is being wound up and all of the benefits have been provided for.

11. Frequency of valuations and circumstances for extra valuations

This actuarial valuation under Part 3 of the Pensions Act 2004 is being carried out as at the effective date of 1 September 2014 and subsequent valuations will, in normal circumstances, be carried out every three years thereafter. An actuarial report on developments affecting the Scheme's funding level will be obtained as at each intermediate anniversary of that date.

The Trustee may call for a full actuarial valuation instead of an actuarial report when, after considering the actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions. However, the Trustee will consult the Methodist Council before doing so.

12. Interaction with investment strategy

The assets that most closely match the Scheme's liabilities are index-linked and fixed-interest gilts of appropriate term compared to the liabilities. The Scheme is partly invested in assets such as equities that are expected, although not guaranteed, to produce a higher return than gilts over the long term. The Scheme has a significant mis-matched position of its assets and liabilities. The SRC has confirmed that it is comfortable with this position which is supported by the strong covenant of the Church. The Trustee understands that this mis-matched position could lead to a volatile funding position. The Trustee further understands that investing in equities is expected to reduce the expected contributions required from the Church in the long run.

An allowance for part of the extra return expected from equity investment has been taken into account in setting the Scheme's technical provisions and in calculating the contributions required under the recovery plan. If this extra return is not achieved, the shortfall will ultimately need to be met by increased contributions from the Church. Both the Church and the Trustee appreciates that the contributions required can be volatile.

The Trustee regularly reviews the Scheme's investment strategy taking into account the funding position and liability profile. The Trustee will consult fully with the Methodist Council before any changes are made to the investment strategy.

13. Risks

The Trustee and the Church recognise that there are a number of risks inherent in the funding plan and that additional funding may be required at future valuations if the experience of the Scheme is not in line with the assumptions made. In addition to the investment risk detailed above, there is also longevity risk. Future improvements in life expectancy may be greater than anticipated. In setting the Scheme's funding target, mortality assumptions are made based on wider population statistics and adjusted to make some allowance for future improvements in longevity. The mortality assumptions are reviewed at each formal triennial actuarial valuation.

This statement has been agreed by the Methodist Council on behalf of the Conference:

Signed on behalf of the Methodist Council

Name:
Position:
Date:

This statement was agreed by the Trustee at their meeting on 5 March 2015:

Signed on behalf of the Trustee of the Methodist Ministers' Pension Scheme

Name:
Position: Trustee
Date:

This statement has been agreed by the Trustee after obtaining actuarial advice from me:

Signed:
Name: Stephen Ainsworth, FIA
Position: Actuary to the Methodist Ministers' Pension Scheme
Date:

APPENDIX 1

Current investment strategy of the Methodist Ministers' Pension Scheme

The long term target asset allocation is currently as follows:

Benchmark asset allocation	**Long term benchmark asset allocation** **%**
Equity investment	58
Bond investment	34
Property investment	8
Cash	0

APPENDIX 2

Economic assumptions as at the valuation date

Valuation date	**1 September 2014**

Discount rate

The discount rate used to value the liabilities (before adjustments) is determined as the annual nominal spot rate provided by the Bank of England as at the valuation date, calculated at the mean duration of the Scheme's liabilities.

Inflation

The RPI inflation assumption is derived as the annual inflation spot rate provided by the Bank of England as at the valuation date, calculated at the mean duration of the Scheme's liabilities. The CPI inflation assumption is derived as the RPI assumption less 0.7%.

Market conditions at the valuation date

Annualised yields on 31 August 2014	
Duration of Scheme's liabilities	13 years
Annual nominal gilt yield spot rate provided by the Bank of England at 13 years duration	2.7%
Annual inflation spot rate provided by the Bank of England at 13 years duration	3.2%

Economic assumptions

Type of assumption	**% pa**
Pre-retirement outperformance assumption	2.0
Post retirement outperformance assumption	1.0
Pre-retirement discount rate	4.7
Post retirement discount rate	3.7
Inflation – RPI	3.2
Inflation – CPI	2.5
Stipend increase adjustment	0.75
Stipend increases	3.25
Pension increases	
Service to September 2006	3.1
Service from September 2006	2.1
Deferred pension increases	
Service to April 2009	2.5
Service from April 2009	2.5
Management expenses (as a percentage of stipends)	2.3

APPENDIX 3

Demographic assumptions as at the valuation date

Illustrative death rates

Mortality prior to retirement: probability of death within one year

Age x	Male death rate q_x AMC00	Female death rate q_x AFC00
20	0.000464	0.000194
25	0.000485	0.000230
30	0.000531	0.000295
35	0.000626	0.000408
40	0.000820	0.000604
45	0.001208	0.000949
50	0.001963	0.001550
55	0.003400	0.002600
60	0.006064	0.004433
65	0.010875	0.007628

Mortality in retirement (normal health): probability of death within one year

Age X	Male death rate q_x SAPS S2 series light tables with CMI_2013 projections, with a long term rate of improvement in mortality rates of 1.5% pa, with a scaling factor of 95%	Female death rate q_x SAPS S2 series light tables with CMI_2013 projections, with a long term rate of improvement in mortality rates of 1.5% pa, with a scaling factor of 95%	Widow death rate q_x SAPS S2 series light tables with CMI_2013 projections, with a long term rate of improvement in mortality rates of 1.5% pa, with a scaling factor of 87.5%
60	0.003630	0.004241	0.003906
65	0.005334	0.005455	0.005025
70	0.009500	0.008572	0.007895
75	0.017650	0.015299	0.014091
80	0.032998	0.028920	0.026636
85	0.066630	0.058964	0.054309
90	0.134705	0.113233	0.104294
95	0.235755	0.190479	0.175441
100	0.343775	0.292395	0.269311
105	0.435793	0.396689	0.365372

Life expectancy implied by the tables for a person currently aged 65 is 24.2 years for a male and 25.3 years for a female. Life expectancy implied by the tables for a person currently aged 45 at age 65 is 26.2 years for a male and 27.6 years for a female.

Illustrative retirement rates

Probability of retiring within one year		
Age **X**	**Normal health** R_x	**Ill health** I_x
NPD - 35	0	0.002
NPD - 25	0	0.002
NPD - 15	0	0.004
NPD - 5	0	0.01
NPD - 4	0	0.01
NPD - 3	0	0.01
NPD - 2	0	0.01
NPD - 1	0.19	0.01
NPD	1	0

Age difference of dependants

Actual age difference is used for pensioners where the data is available. Where the data is unknown, and for all active and deferred members, male members are assumed to be, on average, two years older than their spouses or civil partners and female members two years younger than their spouses or civil partners.

Percentage of members with spouse/dependant benefits

Actives and deferreds:	90% of male members and 75% of female members are assumed to have spouse/dependants benefits at retirement or earlier death
Pensioners:	Based on actual marital/dependency status, where known, otherwise the same proportions as above.

Commutation

Active and deferred members commute 15% of their main Scheme benefits on retirement for a lump sum.

Normal Pension Date (NPD)

For pensionable service prior to 1 September 2013 NPD has been taken as 31 August in the calendar year of attaining age 65. For pensionable service from 1 September 2013, NPD has been taken as 31 August in the calendar year of attaining the male State Pension Age (SPA). The male SPA has been taken as age 65 rising to age 66 by October 2020, rising to age 67 by 2028 and rising to age 68 by 2046. It is possible that the Government will bring forward the rise to age 68 but no allowance has been made for this in the calculations because the changes are just proposals at this stage.

DRAFT

METHODIST MINISTERS' PENSION SCHEME
Recovery Plan

Introduction

The recovery plan agreed by the Trustee on 1 March 2012 has been reviewed and revised by the Trustee to satisfy the requirements of Section 226 of the Pensions Act 2004, after obtaining the advice of Stephen Ainsworth, the Scheme Actuary, and after obtaining the agreement of the Conference of the Methodist Church.

This recovery plan follows the actuarial valuation of the Scheme as at 1 September 2014, which revealed a funding shortfall (technical provisions minus value of assets) of £40.0m.

Steps to be taken to ensure that the Statutory Funding Objective is met

To eliminate this funding shortfall, the Trustee and the Conference of the Methodist Church have agreed that additional contributions (ie contributions over and above those needed to cover benefits being earned in the future) will be paid to the Scheme by persons responsible for providing a Current Member's remuneration of:

9.8% of Stipends each month until the funding shortfall is eliminated.

In addition fixed contributions of £1m per annum will continue to be transferred to the Scheme from the Pension Reserve Fund during each September from September 2015 until the shortfall is eliminated.

Period in which the Statutory Funding Objective should be met

Under this recovery plan, if the assumptions made are borne out in practice the total funding shortfall will be eliminated in 6 years 4 months from the valuation date 1 September 2014, which is by 31 December 2020. The assumptions are:

- technical provisions will continue to be calculated according to the method and assumptions set out in the statement of funding principles agreed by the Trustee at their meeting on 5 March 2015, with financial conditions unchanged from those at the valuation effective date;
- Scheme experience will be in line with the assumptions underlying the technical provisions;
- the return on assets over the period of the recovery plan will be 4.7% pa;
- the Scheme will remain open to new members and the shortfall reduction contributions will also be paid in respect of these new members.

Progress towards meeting the Statutory Funding Objective

On the assumptions made, 50% of the above additional contributions will be paid in 3 years 3 months, which is by 30 November 2017.

This recovery plan was agreed by the Trustee at their meeting on 5 March 2015, to be effective from 1 September 2015.

Signed on behalf of the Trustee of the Methodist Ministers' Pension Scheme
Name..
Position ....
Date..

Signed on behalf of the Methodist Conference
Name..
Position ....
Date..

DRAFT

METHODIST MINISTERS' PENSION SCHEME
Schedule of Contributions for the period 1 September 2015 to 31 December 2020

The schedule of contributions agreed by the Trustee on 6 June 2013 has been reviewed and revised by the Trustee to satisfy the requirements of Section 227 of the Pensions Act 2004, after obtaining the advice of Stephen Ainsworth, the Scheme Actuary and after obtaining the agreement of the Conference of the Methodist Church.

It covers contributions to the Scheme from all persons responsible for providing a Current Member's remuneration.

1. **Employer contributions**
   In respect of future accrual of benefits and the provision of death in service lump sum benefits and the expenses of administering the Scheme persons responsible for providing a Current Member's remuneration will pay the following:

   - 26.4% of Stipends, less member contributions, from 1 September 2015

   These contributions are to be paid to the Scheme on or before the 19th day of the calendar month following that to which the contributions relate.

   In respect of the shortfall in funding in accordance with the recovery plan agreed by the Trustee on 5 March 2015, persons responsible for providing a Current Member's remuneration will pay additional contributions of 9.8% of Stipends until 31 December 2020. In addition, fixed contributions of £1m per annum will continue to be transferred to the Scheme from the Pension Reserve Fund during each September until the shortfall is eliminated.

2. **Expenses**
   These contributions include a contribution of 2.3% of Stipends to meet the expenses of the Scheme including an annual provision of £313,000 for payment of regulatory fees including the Pension Protection Fund levy.

3. **Augmentation payments**
   In respect of any augmentations granted, the relevant persons responsible for providing a Current Member's remuneration will pay additional amounts to cover the costs of benefit augmentations within one month of the later of the date of granting the augmentation and the date on which the Trustee receives the details of the costs from the Scheme Actuary.

4. **Contributions by active members**
   Current Members who are not temporarily absent from service in accordance with Rule B17 pay contributions at the rate of 9.3% of Stipends.
   These contributions are to be deducted from pay by the person responsible for providing a Current Member's remuneration and paid to the Scheme on or before the 19th day of the calendar month following deduction.
   Current Members who are temporarily absent from service pay contributions to the Scheme on the basis agreed by the Trustee. Such Current Members will ensure that the Trustee receives the contributions payable by him/her within 19 days of the end of the month to which the contributions relate.

   These amounts do not include members' Additional Voluntary Contributions.

5. **Definition of Stipend**

The definition of Stipend is the minimum stipend determined from time to time by the Conference.

Signed on behalf of the Trustee of the Methodist Ministers' Pension Scheme

Name...
Position ....
Date..

Signed on behalf of the Methodist Conference

Name...
Position ....
Date..