

**TO: The Methodist Council**

**FROM: Nigel Wrighton, Pensions Manager**

**DATE: 19 March 2009**

**SUBJECT: Methodist Ministers' Pension Scheme (MMPS) and the Pension and Assurance Scheme for Lay Employees' of the Methodist Church (PASLEMC)**

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Provisional results of the latest three-yearly Actuarial Valuations of the above Schemes as at 1 September 2008 were received by Council at its February meeting. The Valuation results have now been considered by the Trustee Boards of the Schemes and this report is to update Council on the Trustees' recommendations and to ask Council to agree the resolutions set out below.

### **MMPS**

The Trustee Board of MMPS is satisfied with the strength of the "Employer's Covenant", as stated in the Connexional Treasurer's paper MC/09/11, provided that the 2009 Conference agrees the proposed Pension Reserve Fund. The Trustee Board requests details of how the Pension Reserve Fund will work before they are presented to Conference.

The Trustee Board agreed to recommend to Council the adoption of the economic and demographic assumptions proposed by the Scheme Actuary as the basis for determining the past service deficit and contribution rate required to eliminate the deficit, as stated in MC/09/11 and restated in the attached Statement of Funding Principles.

The Trustee will ask Conference to agree an increase in the contribution rate of 12.5% of stipends from 1 September 2009 and will inform Conference that a two-stage increase in contributions of 7% in 2009 and a further 7% in 2010 would be acceptable but that the Trustee would not agree to spread the increase over more than two years. Conference will be advised that the increase in the contribution rate would need to be higher if the Pension Reserve Fund is not agreed. If Conference is not minded to approve the increase in contributions, the Trustee would need to consider reducing the level of the Scheme's benefits.

**Resolution: The Statement of Funding Principles, including the economic and demographic assumptions proposed by the Trustee of MMPS as the basis of the Actuarial Valuation, are agreed by Council on behalf of Conference.**

## MMPS – Ill Health Pension Benefit

The Trustee Board of MMPS has become increasingly concerned in recent years about the cost of providing pensions to ministers who retire on health grounds. At present the pension payable if a member of the Scheme retires on the grounds of ill health is based on the member's accrued service (in respect of which contributions have been paid to MMPS) plus prospective service to normal retirement date, age 65, (in respect of which no contributions have been paid to MMPS). The member therefore receives an enhanced benefit which, especially in the case of a young member, is very generous (and hence costly).

There are between about six and twelve ill health retirements each year and currently there are eighty ill health pensions being paid to members who have become supernumerary but have not yet reached their normal retirement date. Approximately 50% of all ill health retirements are stress related which is not a life threatening condition and if the cause of stress is removed (ie ministry) then the member may revert to a normal life expectancy rather than an impaired life expectancy. This, of course, adds to the cost of the ill health retirement.

The Board has carried out a review of the ill health pension benefit taking advice from its Actuary, Legal Adviser and Medical Adviser. It considered various options for restructuring the benefits and hence saving cost but these would involve the Trustee in exercising discretion in relation to the nature of a minister's incapacity and it was felt that this would place an undue burden on the Medical Adviser and the Trustee in taking appropriate decisions on individual applications for ill health pensions. The Trustee is aware that Conference has decided that ministers with impairments should be provided with financial support in order for them to continue in active ministry thus avoiding having to become supernumerary and apply to MMPS for an ill health pension. However, despite the latter, there has been no marked reduction in the number of applications received by the Trustee for the grant of ill health pensions.

Having carried out the review, the Trustee concluded that a simple and equitable way of reducing the cost of the ill health benefit would be to base the benefit on accrued service plus 50% of prospective service rather than full prospective service to normal retirement date. The change is proposed to apply to both new and existing members of MMPS. The Actuary has advised that this would reduce the required contribution rate by 0.8% of stipends.

**The Trustee seeks the view of Council on the proposed reduction in the ill health benefit.** If Council has no objection, the change in the benefit will be introduced from 1 September 2009 (this change will be reported to Conference but does not require the consent of Conference).

## MMPS – Trustee Directors

The Trustee Board of MMPS comprises nine directors, five of whom are lay persons nominated, with the approval of Conference, by the Methodist Council. There are four member-nominated directors. One-third of the lay directors retire by rotation each year and are eligible for re-appointment to the Board. The following lay

directors retire by rotation from the Board on 31 August 2009 and are willing to continue to serve on the Board: Mr Michael Willett, Sir Michael Partridge and Mr Keith Woodley

**Resolution: The Methodist Council nominates, for the approval of Conference, Mr Michael Willett, Sir Michael Partridge and Mr Keith Woodley for reappointment as directors of the Trustee Board of MMPS as from 1 September 2009.**

## **PASLEMC**

The Trustee Board of PASLEMC is satisfied with the strength of the “Employer’s Covenant” as stated in the Connexional Treasurer’s paper MC/09/11, provided that the Council confirms that it applies equally to PASLEMC as well as MMPS and that the 2009 Conference agrees the proposed Pension Reserve Fund. The Trustee Board request details of how the Pension Reserve Fund will work before they are presented to Conference.

The Trustee Board agreed to recommend to Council the adoption of the economic and demographic assumptions proposed by the Scheme Actuary as the basis for determining the past service deficit and contribution rate required to eliminate the deficit as stated in MC/09/11 and restated in the attached Statement of Funding Principles.

The Trustee requests the Council to agree an increase in the joint contribution rate by 7% from 25.1% to 32.1% of pensionable earnings from 1 September 2009 (Council is proposing an increase in the member’s contribution rate of 1% from 7% to 8% of pensionable earnings with the employer’s contribution rate increasing from 18.1% to 24.1% of pensionable earnings). The Trustee advises Council that the proposed increase in the contribution rate would need to be higher if Council is unable to give the Trustee the assurances it has requested about the Employer’s Covenant. The views of the other employers that participate in PASLEMC are being sought about the proposed increase in contributions.

- Resolution:**
- (i) Council agrees to recommend to Conference that the proposed Pension Reserve Fund should apply equally to PASLEMC as well as MMPS.**
  - (ii) Council agrees an increase in the contribution rate to PASLEMC of 7% of pensionable earnings from 1 September 2009.**
  - (iii) Council agrees the Statement of Funding Principles, including the economic and demographic assumptions proposed by the Trustee of PASLEMC as the basis of the Actuarial Valuation**