

METHODIST MINISTERS' PENSION SCHEME (MMPS) – REVIEW OF BENEFITS

Basic Information

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<u>Status of Paper</u>	Final
<u>Action Required</u>	Information
<u>Draft Resolution</u>	The Council notes the decisions of the Trustee Board of MMPS on 4 March 2010 regarding the Review of Benefits
<u>Alternative Options to Consider, if Any</u>	

Summary of Content

<u>Subject and Aims</u>	This paper seeks to inform the Council of decisions recently taken by the Trustee of MMPS and about the process for nominating people for appointment to the Trustee Board as MMPS new Trustee directors.
<u>Main Points</u>	This paper outlines: <ul style="list-style-type: none"> - The review of benefits and implications of the changes - The process for nominating people for appointment to the Trustee Board as MMPS new Trustee directors.
<u>Background Context and Relevant Documents (with function)</u>	Appendix 1 – a copy of a letter sent to all members of MMPS about proposed changes to the Scheme from 1 September 2010 as part of the consultation process includes detailed illustrations of the changes to benefits.
<u>Consultations</u>	Trustees of MMPS

Summary of Impact

<u>Standing Orders</u>	Nb. Changes to benefits and the normal pension age will require amendments to the standing orders about being given permission to become a supernumerary. An indicative amendment to SO 790 can be found in the report <i>Early Retirement through Ill-Health</i> elsewhere in this agenda.
<u>Faith and Order</u>	
<u>Financial</u>	
<u>Personnel</u>	
<u>Legal</u>	
<u>Wider Connexional</u>	
<u>External (e.g. ecumenical)</u>	
<u>Risk</u>	

MEMORANDUM

TO: The Methodist Council

cc:

FROM: Nigel Wrighton, Pensions Manager

DATE: 1 April 2010

SUBJECT: Methodist Ministers' Pension Scheme (MMPS)

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- 1 The purpose of this paper is two-fold: Firstly, to inform the Council of decisions recently taken by the Trustee of MMPS (following the proposals that the Trustee and the Council have already agreed to make to this year's Conference on the review of the benefits of MMPS) and, secondly, to inform the Council about the process for nominating people for appointment to the Trustee Board as MMPS new Trustee directors.

Review of Benefits

- 2 At its meeting on 4 March the Trustee Board considered how pension benefits currently accrued for payment in full at age 65 should be treated if Normal Pension Date (NPD) is increased to age 68. This would only affect benefits coming into payment after the proposed effective date of 1 September 2010; benefits accrued prior to then would be available to the member at age 65 on an unreduced basis.
- 3 The Trustee considered two alternative ways of treating benefits accrued up to 1 September 2010 if the member remains in service after age 65. One method would be to calculate the accrued pension at age 65, based on the final stipend at that age and then uplift the pension by a late retirement factor according to the number of years between age 65 and the actual date of the member's retirement. The other method would be to calculate the pension based on the final stipend at the date of actual retirement.
- 4 The Trustee was advised by the Actuaries that on current economic conditions the first method will (in the absence of a major structural review of stipend levels) always produce the higher benefit. The Actuaries proposed late retirement factors to be applied to the accrued pension at age 65 for service before 1 September 2010, for example, for payment at age 68 the accrued pension will be uplifted by around 20%.
- 5 The Trustee of MMPS believes that it is important that members receive a reasonable level of compensation for receiving their accrued benefit late and has therefore decided to adopt the method which will be more advantageous to members and the late retirement factors proposed by the Actuaries. This means that the value of accrued benefits at 1 September 2010 payable from NPD age 65 is effectively ring-fenced for payment at any age beyond 65.
- 6 If members retire in future before age 68 that part of their benefits accrued after 1 September 2010 will be reduced for early payment. The Trustee has adopted early retirement factors proposed by the Actuaries to apply to these benefits if paid before NPD age 68. For example, the reduction is 6% per year between ages 65 and 68.

- 7 The early and late retirement factors are financially neutral and therefore will have no impact on the funding of MMPS. The factors will be subject to review by the Trustee in the future.
- 8 Currently a member of MMPS may receive their benefits prior to NPD age 65 without an early retirement reduction if the member has either completed 40 years or more in active ministry, or contributed to MMPS for 40 years or more, or is retiring on or after 31 August following their 64th birthday.
- 9 In view of the funding position, and to be consistent with the proposed extension of NPD for future service to age 68, the Trustee has decided that the period of service to qualify for an unreduced pension be increased from 40 to 43 years after 31 August 2010. Members who have already completed 40 years' service at that date will remain entitled to an unreduced pension for benefits accrued to that date (at 1 September 2010 there will be 22 active members of MMPS with 40 years' service. Of these 9 are already over age 65 and the remainder will attain age 65 by 2012).
- 10 The Trustee Board also decided that the availability of an unreduced pension at 31 August following a member's 64th birthday should no longer apply after 31 August 2010. This provision was introduced in September 2000 when MMPS was in a healthier funding position.
- 11 As a consequence of introducing a graduated enhancement to an ill health pension the amount of pension payable to a surviving spouse/civil partner of a member could be reduced. The Trustee has decided that if the member dies before attaining NPD age 68 the spouse/civil partner pension will not be less than the amount currently payable under the rules of MMPS.
- 12 The Trustee has the power under the rules of MMPS to make the above changes and, provided the Conference accepts the recommendations of the Council and the Trustee regarding the review of the benefits of MMPS, the rules will be amended to that effect from 1 September 2010.
- 13 The Trustee also approved a consultative letter to members about the proposed changes to the benefits of MMPS and a copy of this is attached at Appendix 1. The letter is being sent to all active members of MMPS by the end of March 2010.

Trustee Directors

- 14 The Trustee Board of MMPS consists of nine directors five of whom are lay persons with appropriate experience in pensions, investments etc and four of whom are member-nominated directors. The lay directors are nominated for appointment by the Methodist Council, subject to the approval of the Conference.
- 15 Michael Willett, the Chair of the Board, and Sir Michael Partridge intend to retire from the Board at the Annual Meeting of the Trustee Company in September 2010. They have been directors of the Board since the formation of the Trustee Company in 1992 and prior to that were members of the Committee of the Ministers' Retirement Fund. Michael Willett will have served a total of 19 years and Sir Michael Partridge a total of 34 years.
- 16 The Trustee Board will be recommending two people for the Council to nominate to the Conference for appointment to the Board to succeed Michael Willett and Sir Michael Partridge.

- 17 The Revd Stuart Ellis (Ripon Circuit) is retiring from the Trustee Board at the end of this Connexional Year and will be replaced by the Revd Michael Giles (Barnet and Queensbury Circuit).

Summary

- 18 The Council is being asked to:-

note the decisions of the Trustee Board of MMPS on 4 March 2010 regarding the Review of Benefits;

APPENDIX 1

Copy of a letter sent to all members of MMPS about proposed changes to the Scheme from 1 September 2010.

March 2010

Dear Member

Methodist Ministers' Pension Scheme

I am writing to you on behalf of the Trustee of the Scheme and the Methodist Council to inform you of proposals being made to this year's Conference to change some of the Scheme's benefits.

At the last valuation in 2008 the Pension Fund had a deficit of nearly £39 million. This was due largely to ministers, on average, living longer but also because of the downturn in financial markets. Last year's Conference agreed that additional contributions of 14% of stipends should be paid to the Scheme to eliminate the deficit over about 12 years. It was agreed that the member's contribution be increased by 2% from 2009/10 and that the increase in the Circuit contribution be implemented in two stages viz, 5% in 2009/10 with a further 7% in 2010/11.

In response to concerns about how Circuits could afford to pay these additional contributions, the 2009 Conference initiated a review of the Scheme and asked for a report to be made to this year's Conference. A review group was set up consisting of representatives from the Trustee, the Methodist Council and the Actuaries.

The current Scheme, which is a defined benefit or final salary scheme, provides a predictable level of pension and the review group concluded that it is the most satisfactory type of scheme within the context of the Church's life-long covenant relationship with ministers. The review group went on to examine ways of reducing the benefits for future service (benefits for past service cannot legally be changed) and proposed the following three changes to take effect from 1 September 2010:-

1. The Scheme's Normal Pension Date (NPD), currently 31 August in the calendar year of attaining age 65, be changed to 31 August in the calendar year of attaining age 68. **Members would still be able to choose to retire and take their pension at age 65 but, if they do, benefits in respect of service from 1/9/2010 would be reduced to take account of payment three years early.**
2. The rate at which pension accrues be reduced, for future service only, from 1/70th of final stipend for each year of pensionable service, to 1/80th of final stipend.
3. The pension of a member who retires early due to ill health is enhanced to take account of prospective service to NPD 65. The Trustee has been concerned about the cost of these pensions, for example, the cost of an ill health pension for a member under age 45 with less than ten years' service, payable for the rest of the member's lifetime, is substantial. It is therefore proposed that from 1/9/2010 the enhancement will be based on only a proportion of prospective service to the new NPD 68 related to the actual service already completed by the member. The effect of this change will depend on the member's age and service at the time of the ill health retirement. It will have no effect on the current level of ill health pension for a member retiring at age 60 with 20 years' service. A member with more service will be better off under the proposed new basis.

Pension expectations will be reduced only gradually and there will not be a significant effect on the current pension expectations for members who are approaching age 65. The pension entitlements

for members which have accrued to 1/9/2010 will be ring-fenced, that is, payable unreduced from the current NPD 65. If a member chooses to continue in pensionable service beyond NPD 65, the accrued pension at 1/9/2010 will be enhanced to take account of payment at the later date.

The effect of the proposed changes is shown in the illustrations accompanying this letter. The changes will effect the pension expectations of active members (1,723 at 1/9/09) but the pensions of retired members and their dependants, and the deferred pensions of former members yet to come into payment, will not be effected.

The proposed changes will reduce the additional contributions to be paid by Circuits from 1/9/2010 from 7% to 2% making a revised total Circuit contribution rate of 24% of stipend instead of 29% as agreed by last year's Conference. The member's contribution rate will remain at 9% of stipend.

Considerable thought has been given as to how to arrive at a fair balance between providing good pensions for ministers and ensuring that the cost of those pensions are affordable by Circuits (and ultimately congregations). The Trustee and the Methodist Council will be recommending to Conference that fundamentally the Scheme should remain the same but to reduce costs, the proposed changes to benefits should be made.

In addition to the above proposals, the Trustee has agreed, in accordance with its powers under the Scheme Rules, to make the three changes described below with effect from 1 September 2010.

- Currently a member who retires before NPD (age 65) having paid contributions to the Scheme for 40 years or completed 40 years in the ministry, receives an unreduced pension. As from 1/09/10 an unreduced pension will be available only after completion of 43 years' service. However, members who have already completed 40 years at 1/09/10 will retain the right to an unreduced pension in respect of their accrued entitlement at 1/09/10.
- It has been the Trustee's practice to pay an unreduced pension if a member retires before NPD (age 65) on 31 August following their 64th birthday. This will no longer apply after 1/09/10.
- The contingent spouse's or civil partner's pension payable following the death of a member either in service or in ill health retirement is 50% of the member's prospective pension at NPD. As a consequence of changing the basis of calculating an ill health pension (see 3 above) the amount of the spouse's/civil partner's pension could be reduced. Therefore, the Trustee will ensure that if the member dies prior to NPD after retiring on ill health grounds, an amount not less than the current level of the spouse/civil partner pension will be paid.

If you wish to comment on the proposals please write or email me with your comments **no later than 31 May 2010**. A summary of the comments received will be included in the Conference paper. You will be notified by the Trustee of the Conference decision and when any changes are to take effect.

The Trustee and the Methodist Council believe this consultation is being carried out in line with pension law. If you have any questions or concerns you are entitled to contact the Pensions Regulator whose telephone number is 0870 606 3636.

Yours sincerely

N P Wrighton, Pensions Manager and Secretary to the Trustee

Methodist Ministers' Pension Scheme (MMPS)
Illustrations to show the effect of proposed changes to benefits

The figures in the following illustrations are based on the current stipend and assume for simplicity that both stipend and pension increases are zero between age 65 and 68. The early/late retirement factors (ERF/LRF) in these illustrations are those which the Trustee proposes to adopt from 1/9/10 but will be subject to change in future.

- 1.** Illustration to show the combined effect of the change in Normal Pension Date to age 68 and the reduction in the accrual rate from 1/70th to 1/80th of final stipend. It assumes that the member is aged 50 with 15 years' accrued service at 1.9.2010 and a further 15 years' prospective service to age 65 (18 years' prospective service to age 68).

<u>Current prospective pension at age 65</u>		
£19836 x 1/70 x 30 years	=	£ <u>8500 p.a.</u>
<u>Revised prospective pension at age 65</u>		
£19836 x 1/70 x 15 years	=	£ 4250
plus £19836 x 1/80 x 15 years x ERF 0.82	=	£ <u>3050</u>
		<u>7300 p. a</u>

Note: Pension for service after 1.9.2010 will be reduced for payment before age 68. The early retirement factor (ERF) shown above for payment at age 65 is 18% ie, 82% or 0.82 of the full pension.

<u>Prospective pension at age 68</u>		
£19836 x 1/70 x 15 years x LRF 1.20	=	£ 5100
plus £19836 x 1/80 x 18 years	=	£ <u>4460</u>
		£ <u>9560 p.a.</u>

Note: Pension for service before 1.9.2010 will be increased for payment after age 65. The late retirement factor (LRF) shown above for payment at age 68 is 20% i.e., 120% or 1.2 times the full pension. Members can, of course, retire at ages 66 or 67. The pension available at those ages, in the above example, would be £7,990 pa at age 66 and £8,760 pa at age 67.

- 2.** Illustration to show the effect of changing the current practice of allowing a member to retire at age 64 with an unreduced pension. It assumes that the member is aged 55, with 20 years' accrued service at 1.9.2010 and a further 9 years' prospective service to age 64 (13 years' prospective service to age 68).

<u>Current prospective pension at age 64</u>		
£19836 x 1/70 x 29 years	=	£ <u>8210 p.a.</u>
<u>Revised prospective pension at age 64</u>		
£19836 x 1/70 x 20 years x ERF 0.95	=	£5380
plus £19836 x 1/80 x 9 years x ERF 0.77	=	£ <u>1710</u>
		£ <u>7090 p.a.</u>

Note: Pension for service prior 1.9.2010 will be reduced for payment before age 65 and pension for service after 1.9.2010 will be reduced for payment before age 68.

3. Illustration to show the effect on ill health pensions of the proposed three changes viz, NPD age 68; accrual rate 1/80th and a graduated enhancement. It assumes that the member is aged 50 with 20 years' accrued service at 1.9.2010 and a further 15 years' prospective service to age 65 (18 years' prospective service to age 68).

<u>Current ill health pension</u>	=	£ <u>9920</u> p.a.
£19836 x 1/70 x 35 years		
<u>Revised ill health pension</u>	=	£ 5,660
£19836 x 1/70 x 20 years		
plus £19836 x 1/80 x 9.47 years	=	£ <u>2,340</u>
		£ <u>8,000</u> p.a.

Note: (i) The graduated enhancement of 9.47 years is calculated as $A \div T \times P$ where $A = 20$ years' accrued service, $T = 38$ years' prospective service to NPD age 68 and $P = 18$ years' prospective service from date of ill health retirement to NPD age 68. Thus $20 \div 38 \times 18 = 9.47$ years.

(ii) A member of MMPS who has retired on ill health grounds can claim State incapacity benefit, currently known as Employment Support Allowance (ESA). The long-term rate of ESA for tax year 2009/10 is £89.80 per week but if the claimant has an occupational pension, such as the MMPS pension, of more than £85 per week, the ESA benefit is reduced by half the excess. In the above example the claimant would be entitled to an EAS benefit of £2,880 p.a. in addition to the MMPS pension of £8,000 p.a.