A briefing paper for the Southwestern Synod regarding the URC Pensions Issue

Pensions are a complex issue. They involve guesses about the future and long-term commitments. But many of us depend upon pensions. Small changes when compounded over many years have large impacts.

Some basic definitions

There are basically 3 types of pensions:

- The state pension which most people are entitled to but provides a minimum income currently around £120/week or around £500 per month. It is paid for from current national Insurance contributions.
- A defined benefit (DB) pension where an employer or organisation provides an employee or minister with a pension related usually to final salary or stipend and the number of years of service. The costs are met by contributions by employee and employer over the years of service and saved or invested until payments are needed. These can be up to 75 or more years in the future. The fund is centralised and not related to any individual.
- A defined contribution (DC) scheme where both employee or minister and employer contribute to a pot of money that is set aside to provide a pension for the individual. The money would be invested to provide a pension for the individual at some future date. Pensioners have some control over how money is invested and how a pension is delivered.

The differences between the DB and DC scheme include:

- The risk in a DB scheme is with the employer, whereas a DC scheme it is with the employee.
- There is more control over DB schemes to ensure pensions are secure.
- DC schemes offer opportunities for the employee to manage their own investments.

The URC pension schemes

There are 2 schemes within the URC family.

The lay persons scheme and the Ministers' Pensions Scheme. Both are currently DB schemes.

The Lay scheme is much smaller and is manged by TPT (formerly known as The Pensions Trust). Having received significant additional contributions from central funds & Synods, its liabilities and assets are broadly matched.

The Ministers' Scheme (MPT) is according to the Pensions regulator in deficit, in that the assets are unlikely to meet the commitments already made. That is the cause of the current problem.

Pensions background

There is no doubt that a DB scheme offers security to employees. All the risks of pension provision are with the employer. The problem exists when employers cease to exist or go out of business. Many household names have ceased to exist in the last 20 years. We might also recall that some years ago Robert Maxwell risked all the pensions of his employees on a single venture and lost it all.

These challenges have forced the government to take action to protect pensions in DB schemes. To do this, the Pensions Regulator (TPR) was created and has the power to take over a pension scheme which is being managed badly. The TPR has also taken action to require all pension funds to carry out a valuation exercise every 3 years to ensure that the money or assets in the fund are sufficient to meet the pensions liabilities of the individual pensioners.

As you might imagine this is a difficult process. You need to consider investment returns, interest rates and inflation over the next 50 years or more. No-one knows what these will be. It is an estimate, but it matters since small changes in rates can have a large impact in the result.

Until 2018 we predicted that we would earn around 2.4% on our investments with 60% invested in index linked gilts (government bonds that match inflation). This a rate we have consistently exceeded over many years. TPR has decided that this is too risky and that we should use a lower rate of investment return closer to 1%.

Our 2021 triennial valuation showed that our assets will no longer meet our liabilities for those commitments we have already made. Hence, we have a funding gap of around £45 million pounds.

This is the reason that many employers have abandoned DB schemes for current employees.

General Assembly decision

The Finance committee took the issue to General Assembly which took a decision in principle to transfer pension contributions for ministers and lay staff from the DB scheme to a new DC scheme, probably from the start of 2023.

We cannot change the benefits already accrued in the DB scheme for pensioners and current ministers and staff. That is not allowed by law. So, we must continue to fund existing commitments.

The decision was only one of principle because work to design a new DC scheme is expensive in both costs and time, and a decision was needed in principle to proceed.

All ministers and staff will in future have a pension consisting of what they have already earned from the DB scheme plus what the new DC scheme will provide.

The intention is that any new scheme will provide a pension broadly equivalent to that currently provided. But as all individual's circumstances are different, there will be variations in how pensioners and potential pensioners view the outcome.

What happens next

As a denomination the URC needs to fill the deficit in our funds for the current DB scheme. We also need to design a new DC scheme for both lay staff and ministers. That work has begun. Consultation with individuals and the church will take place as a part of the process. A final decision is planned for General Assembly 2022.

Where is the money?

Centrally the URC does not have sufficient assets to meet the deficit without help. From the start we have recognised that this is a "family" problem, that needs to be addressed by the whole family of the URC.

Most of the funds of the URC reside in local churches and Synod Trust companies. In total the URC probably has assets of around £2,000 million pounds. Most of that is in property and buildings of churches and manses. Realisable assets are around £200 million. It is expected that around 10% of our 1500 churches are likely to close in the next 5 years.

Most of the Synods also have significant investment funds mostly invested in stocks and shares. At the end of 2019 these totalled around £150 million pounds. In many cases, such as ours, these funds generate income that enables the Synod to operate without calling on funds from churches.

Through discussion, all the Synods and Synod trusts have indicated a willingness to commit up to £50 million pounds to meet the funding deficit. I attach as an appendix a list of indicative commitments made by the Synods and the central URC.

Impact on our Synod

Our Synod accounts for 2020 indicate that as a Synod we have assets of over £17 million with almost £11 million in investments. Our Synod Trust has indicated a willingness to commit £3 million over the next 10 years. We plan to do so by offering £250,000 this year, £500,000 for each of the next 3 years and £250,000 for each of the following 5 years.

We believe that this will not have a major impact on our ability to fund our current and future work.

We currently give 10% of the net proceeds of sales of redundant church buildings. That will not meet the costs of our commitment. Therefore, we plan for the next 5 years to commit 50% of all net proceeds of sales of redundant buildings (churches and manses) to meet our commitment. If these are insufficient to meet the commitment, then we shall need to draw down reserves.

In the next 5 years it is likely that several churches in our Synod will decide to close. We wish it were not so, but realistically looking at the age profile of many churches this seems likely. We expect that there may be more closures than the current average of 2 per year, and hence we feel that the target of providing £3m for the pension deficit between now and 2030 is probably achievable.

The Synod cannot force closures, other than in exceptional circumstances. We are, we think, simply being realistic. It would be great to find that our predictions are too pessimistic.

Our Synod has a small number of churches which have investment assets of more than £500,000. These churches may feel that they too would like to contribute to the "family" problem.

Your decision

We hope that the Synod can support the Synod Trust's plan.

Proposed resolutions

Synod supports the need for the Synod Trust to commit to making a maximum contribution of £3 million pounds over 10 years to the URC Trust to meet the funds required to support the URC Retired Ministers' Pension Fund.

Synod notes and agrees that 50% of the net sale proceeds of all church buildings manses and other properties (Including but not limited to those of closed churches), where the funds are held by the Synod Trust upon trust to support the work of Synod, will be applied by the Synod Trust towards the cost of meeting this commitment.

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