Funding the Deficit in the Ministers Defined Benefit Pension Scheme

All pension schemes are subject to increasingly onerous guidance from the Pension Regulator (PR). This is partly in response to recent failures of commercial enterprises leaving their pensions insufficiently funded. The PR is also requiring many deficits to be cleared in shorter time frames than in the past.

The URC's Ministers Pension Scheme is subject to an actuarial valuation every three years by an independent actuary. In the same manner as annual accounts, the valuation is a snapshot of the scheme on one day. In January 2018 the normal valuation process took place. The result of the valuation showed an estimated deficit of £3.9 million.

However, the Pension Regulator expressed serious concerns about the basis of the valuation. While not requiring a re-evaluation of the 2018 fund the PR advised that a much more prudent approach would be taken in the next valuation (January 2021). Due to these comments the Integrated Risk Management (IRM) project group was set up. The IRM was tasked with coordinating the work necessary to enable the URC and the Ministers Pension Trust to plan effectively for the future.

During this period the PR advised that all Defined Benefit Schemes would need to focus on what they call the "Long Term Objective" (LTO) for schemes to become "significantly mature". This requires schemes to be funded at a much higher level than they are currently.

This position has resulted in the Trustees of the pension scheme, the actuary, and the URC re-evaluating the potential deficit after the 2021 valuation. Their discussions have estimated that this more prudent approach will result in a deficit of £45.0 million to be met by 2031. It is important to understand that the perceived deficit is <u>NOT</u> due to anyone making mistakes. This results from the governance of the PR becoming increasingly onerous.

The Integrated Risk Management (IRM) project group has been holding discussion with the synods over the last two years concerning the challenge to the URC presented by the stance of the PR. The result of these discussions is contained in this paper.

In our discussions and exchange of correspondence the IRM group often refer to the "URC Family" when looking to solve the current and pending deficit in the Ministers Pension Fund (MPF). I feel that this is a correct reference in view of the structure of the URC, the synods, and the relationship between the respective bodies.

TIMING:

The IRM group are seeking to reach agreement in principle on funding the deficit by June / July 2021 as follows:

1. Meet with individual synod representatives, by end of March 2021, (we have set up a meeting on 18th March)
2. Meet with representatives of all the synods (four from each) by end of May,
3. Meeting with all the synod representatives in June.

ESTIMATED MINISTERS PENSION FUND DEFICIT:

Total £45.0 million – with £30.0 million required to be paid by 2026 and £15.0 million by 2031.

FUNDING THE DEFICIT:

The IRM is seeking to put in place two separate funding streams from the synods:

1. £20.0 million to be provided by synods committing to provide 15% of the level of their investments as at 31st December 2019. IRM calculate total synods investments at that date to be £133.33 million. A "Briefing Paper" from the IRM seems to suggest that these funds would be paid over earlier rather than over an extended period.

2. Commencing from 2020 each synod to provide at least 50% of the future proceeds of the sale of redundant church properties towards the deficit. These funds would contribute towards both the £30.0 million required by 2026 and the £15.0 million balance by 2031.

FLOW OF FUNDS TO THE RMP FUND:

The IRM anticipate the URC Trust establishing a "Designated Fund" to receive the synods contributions. They appear to expect these to be paid over to the MPF immediately upon receipt. If the "Designated Fund" receives funds in excess of that required by the MPF they will not be paid to the MPF.

SOUTHERN SYNOD'S FUNDING POSITION:

A. SOUTHERN'S INVESTMENT POSITION AS AT 31.12.2019

As of 31st December 2019 Southern's total equity position was £24.1 million (including endowment funds of £0.5 million). The IRM in asking all the synods to commit to an amount roughly equal to 15% of their total investments. For all synods that equates to £20.0 million with Southern's share being £3.6 million.

THE EFFECT ON SOUTHERN'S INVESTMENT PORTFOLIO, INCOME AND BALANCE SHEET.

The Synod's investment portfolio continues to reflect the adverse effect of the stock market's reaction to the pandemic. The 31st December 2020 investment valuation from Epworth shows a value of £22.1 million (£23.6 million as at 31.12.2019). It is too early to provide a precise balance sheet breakdown of the entire investment portfolio as normally seen in the audited accounts.

Due to the financial structure of the Synod's funds, the only fund available to provide the £3.6 million contribution is the "General Purposes Fund" (GPF) which also acts as the Synod's reserve fund. The value of available investments held by the GPF as at 31st December 2019 was £10.6 million with net assets being £9.9 million. Due to the fall in the value of investments the £3.6 million is likely to be between 40% and 45% of the 2020 GPF balance.

This £3.6 million reduction of the Synod's investment portfolio will result in a fall in investment income. Further falls in the investment income will occur when St Andrews Eastbourne commences drawing on the £1.0 million (currently in the investment portfolio, but not held as part of the GPF) the Synod has agreed to provide towards the funding of the building of a new church.

As you will be aware from past financial discussions investment income <u>never</u> covers the full cost of the Synod's operations. To balance this figure, we are dependent on the proceeds from sales of redundant church buildings with any remaining shortfall being covered by transfers made from the GPF. There have been years where the sale of redundant churches has created an excess of funds which are allocated to the General Purposes Fund, but this cannot be guaranteed.

B. <u>SALE OF REDUNDANT CHURCH BUILDINGS.</u>

The IRM is looking for synods commencing from 2022 to commit to providing at <u>least</u> 50% of the sale proceeds of redundant church buildings towards the RMP Fund until at least 2031. Agreeing to this, rather than making a second one-off payment, further depleting investments, provides the Synod with a mechanism to possibly replenish the investment portfolio and thus income.

There is also the possibility that the net sales of redundant churches, after sending 50% to the URC Trust, is insufficient to meet Synod expenses meaning further calls on the GPF resulting in its reduction and that of the Synod's reserves.

<u>IMPLICATIONS TO AGREEING WITH THE PROPOSALS:</u>

1. Balance of property sales do not cover net costs of Synod's operations resulting in a series of claims from the GPF.
2. Continued claims on the GPF reduces it to the position where other activities must be reprioritised, e.g. funding of grants / loans panels, building / mission projects, Synod Office support.

AGREEMENT FROM THE TRUSTEES AND SYNOD COUNCIL:
The following was agreed by the Synod Trustees and Synod Council.

Based on the January 2021 IRM briefing papers and the Synod Treasurer's report, it was agreed to bring the following recommendations to the Synod Together meeting on 13th March, recognising the potential impact this will have on Southern Synod's mission in the future.

1. To continue discussions with the IRM Group with a view to Southern Synod initially contributing up to £3.6 million.
2. To continue discussions with regard to the contribution of 50% of proceeds of redundant church buildings with a review in 2026.

The Trust / Council appoints:
a) a group from the Trust / Council meeting to meet with members of the IRM by the end of March 2021 to advise the position of Southern Synod and
b) four individuals to attend the meeting of all the synod representatives to be held by end of May 2021. These individuals will keep the Trust informed of the details of the meetings. The Trust and Council will then decide its position for the June meeting of all representatives.

We need to recognise that the request for Southern Synod's participation in meeting the deficit of the MPF results from a unique set of circumstances. Within the synod structure of the URC Southern Synod is one of the better funded synods and therefore I believe needs to make a positive response regarding funding the deficit.

SYNOD TOGETHER
I am asking the meeting of Synod Together to endorse the position of the Trustees and Synod Council with a view to Southern Synod participating in meeting the deficit in the Ministers Pension Fund.

John Denison
Trustee
Synod Treasurer
March 2021