Paper G5

URC future pension arrangements

Finance and Pensions Committees

Basic information

Contact name and
email address

22. With Assembly’s approval, we will also finalise our contract with Aon following this endorsement.

23. The consultation may throw up no issues for reconsideration, in which case the resolution suggests that Assembly officers be authorised to give final approval on

between an annuity and drawdown. Drawdown typically means agreeing once a year on an amount to be withdrawn, leaving the rest of the pension pot invested. The alternative is to use the pension pot to purchase an annuity from an insurance company. The member in effect sells their pension pot but, in exchange, they (and possibly their spouse in the event of the prior death of the member) are guaranteed a monthly income for life. It is possible to use drawdown for a period after retirement and then, later, change to an annuity.

2.3 Office holders and staff . In this note, 'office-holders' are defined as ministers and Church-Related Community Workers who are working under the terms of the URC Plan for Partnership. Almost all office-holders are currently members of the MPF. 'Staff' are those who have employment contracts with the Church, and this includes a small number of URC ministers.

2.4 Pensions Review Group (PRG) . This is the group that has been working on the development of new pensions arrangements, as explained in section 4.

3. Decisions taken at Assembly 2021

3.1 Resolution 19 agreed at General Assembly 2021:

The General Assembly, being representative of Local Churches, Synods and the whole Church, confirms the Church's commitment to the pensions promises already made, and wishes any consideration of future pension arrangements for the Church's Ministers of Word and Sacraments, Church Related Community Workers, missionaries and staff to keep clearly in mind:

a) The Church's warm gratitude for the commitment, gifts and service of those who work among us and serve in our name;
b) The Church's desire to deal with these people honourably in their retirement;
c) The Church's desire to act as a responsible employer, for the people we employ and for our stipendiary office-holders.

3.2 The principles contained in this resolution have governed the work on designing new pension arrangements for office holders and staff.

3.3 *Resolution 20 agreed at General Assembly 2021:*

General Assembly, recognising that the significant changes to the legal and regulatory framework for defined benefit pension schemes are making the two current URC pension schemes disproportionately expensive for the benefits they deliver, agrees in principle to the closure to future accruals of both the Ministers' Pension Fund and the Final Salary Pension Scheme.

3.4 It is worth recapping the scale of the financial challenge that would face the United Reformed Church if it was to stay with the two existing DB pension schemes.

At the time of Assembly 2021, the contributions being paid into the two pension schemes were:

Ministers' Pension Fund (MPF)	Church	21.95% of stipend
	Members	7.5% of stipend

Final Salary

Paper G5

5. Future process and possible timetable following Assembly 2022

5.1 There is a legal requirement for the Church to carry out a formal consultation with the members of both current URC pension schemes before new arrangements are introduced. That is why Assembly is being asked to agree to the proposals set out in Part B below subject to consultation, with authority delegated to the Assembly officers or to Assembly Executive to give final approval to the new scheme.

5.2 If Assembly accepts these proposals, then the formal consultation process will begin straightaway, probably concluding in the second half of October.

5.3 The results of that consultation will be considered carefully. The PRG will discuss these results with the Assembly officers. If the consultation results in no changes or very minor changes to the proposals, then Assembly officers will be asked to give final approval to the proposals so that the process of implementation can continue. In the extremely unlikely event that the consultation gives rise to some significant issues, then Assembly officers may decide to refer the matter to Assembly Executive. This would almost certainly result in a delay in the implementation of the new pension arrangements, resulting in further significant costs to the Church or to the URC Trust beyond the end of 2022.

5.4 In parallel with this decision-making process, planning for the implementation of the new pension arrangements will continue. In particular, the Church and Aon will work closely together to ensure that all members are provided with appropriate information and support before, during, and after the implementation. Members will be signposted to sources of independent financial advice, and will be encouraged to make regular use of such advice.

5.5 The PRG continues to plan for an implementation date of 1 January 2023.

Part B: proposals

6. In summary…

6.1 Current Defined Benefit pension schemes:
The benefits earned by members of the two URC Defined Benefit (DB) pension schemes up to the point when they are closed to future accrual are protected, and will be unaffected by these changes.

For example, a minister who has been a member of the MPF for 20 years at this date will, on retirement at normal retirement age, receive a pension from the MPF of 20/80 of stipend. This will be in addition to any income from the new DC scheme.

6.2 Proposed new Defined Contribution pension scheme
One new DC pension scheme for all office holders and staff. See 8.

The new scheme is to be managed by Aon through its Master Trust. See 9.

Contribution rates: See 10.

Members (minimum): 7.5% of salary or stipend (as now)

Church: Office holders age related contributions
- estimated total cost of 18% of stipends

Staff 16% of salary

Death-in-service benefits: See 12.

Office holders 8 times stipend plus any pension from the DB scheme.

Staff 5 times salary plus any pension from the DB scheme.

Ill health benefits: See 13.

Office holders Total payments of either 50% of stipend or 25% of stipend depending on level of incapacity and up to normal retirement age. This will include any pension from the existing DB schemes, which are payable for life. See 13.

Staff

January to explore the Church's needs in more detail. Aon has serviced the Church well for many years as key advisers to the Ministers' Pensions Trust. The team from Aon not only demonstrated a good understanding of the Master Trust market and how this is likely to develop, but also had a clear vision of the needs of the Church and of how Aon can meet them. They showed real enthusiasm for becoming the Church's partners in this new venture.

Providers of Master Trusts get most of their income by levying a charge on the investments they manage. However, Aon is also proposing to charge the Church an implementation fee of £10,000 and an annual service charge of £5,000. Although Aon's service is slightly more expensive than that of the other shortlisted providers, the PRG is clear that the extra cost is worthwhile.

Aon has been appointed as the Master Trust provider, subject to contract.

9.3 Choosing the default investment fund

The Church will choose a default investment fund into which all Church and member contributions will be paid, except where a member opts (or 'self-selects') for a different Fund or Funds to receive some or all of their contributions. The management charges on self-select funds are likely to be higher than those on default funds.

The PRG has identified the Aon Target Date Managed Retirement Pathway Fund as its preferred default fund for the new DC pension scheme. With this Fund, as a member approaches and then moves into retirement, the pension pot of that member is gradually transitioned into investments carrying less risk. This Fund is made up of several elements, containing different sorts of investment with their associated risks/rewards. The management of all the Aon Funds takes account of ESG issues, and this one includes a climate transition focus.

For members not close to retirement, 10% of this proposed default fund is invested in the Aon Global Impact Fund. One of the aims of this Fund is sustainability, including carbon reduction. Although this Fund does not explicitly exclude investment in fossil fuel businesses, the emphasis on sustainability makes such investment highly unlikely. This is an almost-identical approach to that of the current MPF equity fund managers paying in 2021, excluding the items that will be paid for separately which are dealt with in sections 12 and 13.

The argument for age -related contribution rates:
The standard Church contribution rate to the MPF is really an average. In the MPF, a minister who works for a year at age 28 earns the same pension as a minister who works for a year at age 68. However, the pension earned by the older minister will actually be much more expensive for the Church because it will have to be paid out almost immediately, whereas the contributions for the younger minister will be invested for a long time before the pension is payable.

The same point applies to the new DC pension scheme, except here the effect is on the members rather than on the Church. If the same contribution is made for a 28-year-old as for a 68-year-old, then the income in retirement of the 28-year-old will almost certainly be significantly higher than that of the 68-year-old, because the money will be invested for much longer. The way round this problem is to use age-related contribution rates which aim to make the member benefits 'more equal', whatever their ages. Part C of this paper includes some financial modelling based on the age-related contribution rates and, for comparison, provides information on the effect of using a standard contribution rate of 18%.

Proposed age -related Church contribution rates:

Age at 1 January	Church contribution
Under 28	11%
28 to 37	13%
38 to 47	15%
48 to 57	17%
58 and over	19%

A member's age at 1 January will determine the contribution rate for that calendar year.

The spread of these rates has been set by actuaries to try to equalise the impact

Church contribution rate is much higher than the rates being paid by most employers operating DC pension schemes (see 11.7 below).

Proposed Church contribution for staff: 16% of salary

10.4 It will be appropriate for these pension contribution rates to be regularly reviewed. The frequency of such reviews has not yet been determined.

11. Projected income in retirement

11.1 Most individuals will receive income in retirement from several different sources. What will matter to them is their total income, from whatever source. Because everyone's circumstances are different, it is hard to make any comments that will be generally applicable.

11.2 State pension . The level of state4 Tc2(of)2(s)4(rl1oi(t)-3(atTd [(I2(e4 T.o4Tw 1 w)6(i)6)4(e)

13. Dealing with Ill Health Early Retirement (IHER)

13.1 Current benefits from the URC DB pension schemes
In appropriate circumstances, a member of either of the two current URC pension schemes may retire early on grounds of ill health, and they will then receive a pension from that date. The arrangements in the two schemes are different and they are complicated – partly because they have been changed several times.

The maximum IHER pension payable to a member of the MPF is 50% of stipend, based on their prospective years of service to normal retirement date.

The IHER pension payable to a member of the FSS is the pension accrued at the date of their ill health early retirement.

13.2 Continuing benefits from the URC DB pension schemes
Those who have already retired on grounds of ill health will be unaffected by these changes.

It is expected that, after the new pension arrangements have been introduced, someone who was a member of one of the two DB pension schemes will receive a pension fro3(d(B)11(p4 TD [(a pens)4(i)6(on f)22(r)0 -1.14 T becr)-3(cr)i)6(l1(v)3uli)6(r)-3(

14.2 There is

First:
The existing defined benefit pension scheme, were it to continue as it is.

As explained in section 11, there lots of choice is available to members regarding the use of their DC pension pot in retirement. The following scenarios are based on just two of those options.

Second:
Purchase of an annuity at retirement. This is a prudent or low-risk approach, but it is also costly, which means that the returns are likely to be lower than using drawdown. The pension pot of a member is transferred to an insurance company, in exchange for a pension for life.

Third:
Drawdown. Here, the member decides periodically (say, once a year) how much money to take out of the pension pot. The rest remains invested. The income is likely to be higher, but it requires more involvement from the member.

A popular approach is to use drawdown in the early years of retirement, and then convert to an annuity later. The appropriate approach for each member will depend on their own circumstances and their priorities.

16. Financial modelling based on age-related contributions

16.1 Contribution rates
Section 10 explains why it is proposed to use age-related Church contribution rates for office holders and sets out the proposed rates, which are:

Age	Percentage of stipend
Under 28	11%
28 to 37	13%
38 to 47	15%
48 to 57	17%
58 and over	19%

Member contributions will, as now, be a minimum of 7.5%.

16.2 Member aged 28 when the new pension scheme is introduced

This person is just starting work when the new pensions arrangements are introduced. Therefore, they have no pension built up in the MPF. It is assumed they will work for 40 years as a member of the new pension scheme. The chart shows estimated income in retirement on three bases. In all three cases, the bottom rectangle represents a State Pension of £9,000.

Existing DB scheme
The left-hand block shows that, if the existing DB scheme continues as now, the member will receive a pension from the MPF of £14,214 plus the State Pension of £9,000, making total income in retirement of £23,214.

Proposed DC scheme with an annuity purchased at retirement
The central block represents the proposed DC scheme, with an annuity purchased at retirement.

The dark blue rectangle indicates a 75% chance of receiving an annuity at retirement of at least £9,055.Total annual income including the State Pension would be more than £9,000 + £9,055 = at least £18,055.

The light blue rectangle indicates a 50% chance of receiving an annuity at retirement of at least £25,081.Total annual income including the State Pension would be more than £9,000 + £25,081 = at least £34,081.

Proposed DC scheme with drawdown used after retirement
The right-hand block represents the proposed DC scheme, and assumes that the

Projection of all pension for sample member aged 58

Member is 10 years from retirement for investment return timescale purposes. 30 years of past service.

Age related ER rate

HYMANS ROBERTSON

Existing DB scheme

The left-hand block shows that, if the existing DB scheme continues as now, the member would receive a pension from the MPF of £14,215 plus the State Pension of £9,000, making total income in retirement of £23,215.

Proposed DC scheme with an annuity purchased at retirement

The central block represents the proposed DC scheme with an annuity purchased at retirement.

The dark blue rectangle indicates a 75% chance of receiving an annuity at retirement of at least £1,857. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £1,857 = at least £21,518.

The light blue rectangle indicates a 50% chance of receiving an annuity at retirement of at least £2,641. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £2,641 = at least £22,302.

Proposed DC scheme with drawdown used after retirement

The right-hand block represents the proposed DC scheme, and assumes that the member will use drawdown to provide income in retirement. The same assumptions are made as before.

The dark blue rectangle indicates 75% chance of delivering at least £3,441 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £3,441 = at least £23,102.

This total is almost the same as the income in retirement if the current DB pension scheme remains open.

The light blue rectangle indicates a 50% chance of delivering at least £4,678 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £4,678 = at least £24,339.

Observations
The expected time to retirement is now ten years. The standard approach of the trustees of the DC scheme for a member this close to retirement would be to gradually de-risk the investments held, leading to a reduction in the expected investment returns. This is factored into these modelling results.

It will be noted that, even assuming this de-risking of the investments, using drawdown there is still a good chance of income in retirement being at least as good as from the current DB pension scheme if it remains open. This would not be true if a standard contribution rate was used across all ages – see 17 below.

17. Financial modelling based on a standard contribution rate

17.1 The proposals in Section B are based on age-related Church contribution rates for office holders. The reasons for this are explained in 10.2.

17.2 If a standard contribution rate is used, then the outcomes for members aged over 48 when the new arrangements are introduced will be slightly worse than those set out above. The outcomes for members aged under 48 when the new arrangements begin will be significantly better than those set out above.

17.3 All the detail is not reproduced here. However, the following comparisons of the modelling of income when using drawdown may be of interest:

Age of member	Income in retirement		Income in retirement	
at changeover to	Age-related contributions		Standard contributions	
new arrangements	75% prob.	50% prob.	75% prob.	50% prob.
	at least	at least	at least	at least
	£	£	£	£
28	28,283	45,313	30,311	49,959
38	25,763	34,411	26,400	35,709
48	23,740	27,728	23,740	27,779
58	23,102	24,339	22,973	24,163