

The Church of Scotland Pension Scheme for Ministers and Overseas Missionaries
The Church of Scotland Pension Scheme for Staff
The Church of Scotland Pension Scheme for Ministries Development Staff

1 Defined benefit pension schemes

In a defined benefit (“**DB**”) pension scheme, a member’s pension is calculated as a percentage of final pensionable salary for each year as a member of the scheme. This type of scheme is generally established under Trust law and is governed by a Trust Deed and Rules. A trust ensures that the pension scheme’s assets are kept separate from those of the employer.

Legislation requires trustees be appointed by each DB pension scheme. Trustees have statutory responsibility for:

- investment and safe keeping of assets;
- administration of the scheme on behalf of members.

Typically, the governing trust deed will cover certain key areas concerning the administration and management of the scheme, including:-

- how members’ benefits are to be calculated and paid;
- appointment and retirement of trustees;
- the Trustees’ administration of the scheme, for example, requirements on the conduct of Trustee meetings and what constitutes a quorum;
- the funding of the scheme (by its sponsoring employers) and the investment of the scheme assets;
- the trigger events for winding up the scheme and how the assets are to be distributed on winding-up.

Within the Church of Scotland there are three separate DB pension schemes, serving members from different areas of the Church:

- The Church of Scotland Pension Scheme for Ministers and Overseas Missionaries (the “**Ministers Scheme**”);
- The Church of Scotland Pension Scheme for Staff (the “**Staff Scheme**”);
- The Church of Scotland Pension Scheme for Ministries Development Staff (the “**MDS Scheme**”).

All three schemes are established under trust law and each is governed by its own distinct Trust Deed and Rules.

2 Background to the Schemes

The Schemes were established at different times to provide pension benefits for ministers and staff from different areas of the church.

Ministers Scheme

This Scheme has its genesis in the Widows and Orphans Fund, established by Henry Duncan and Professor Maclaurin in early 1800's. Its current form was established by the General Assembly of 1997 to provide pension benefits in retirement for ministers and overseas missionaries who were or who had been in the service of the Church as well as for their dependants. Consolidation of pre-existing funds provided a base of assets for the scheme. The scheme has four sections:

- the Main Pension Fund;
- the Widows & Orphans Fund;
- the Contributors Fund;
- the Insured Pension Fund.

The Ministers Scheme closed to the future accrual of benefits on 31 December 2013.

Staff Scheme

This Scheme was established by the Church of Scotland in 1975 for employees of the predecessors of the Central Services Committee and the Social Care Council. It was established as a single scheme but was divided into two sections in the 1990s because the Board of Social Responsibility (the predecessor to CrossReach) was unable to afford an increase in contributions which the Church agreed for staff in 121. This means that there are different rules and benefit structures for employees of the Central Services Committee in one section and those of the Social Care Council (CrossReach) in the other section. The assets of the two sections are accounted for separately and the funding positions of the two sections are reported separately.

The CSC section of the Staff Scheme closed to the future accrual of benefits on 31 December 2013 and the Social Care Council section closed on 31 August 2013.

MDS Scheme

This Scheme was established in 1963 by the Church of Scotland. It has previously been known as the Lay Missionaries Scheme and the Church of Scotland Pension Scheme for the Board of National Mission. Its members are persons employed by the Ministries Council and previously designated as a Presbytery or Parish worker by the Ministries Council. From 2013/2104, they have designated as Ministries Development Staff.

The MDS Scheme closed to the future accrual of benefits on 31 December 2013.

3 Trustees' duties and powers

Trustees have duties prescribed by law, known as “fiduciary” duties. The main duties of a trustee are:

- to act in line with the scheme’s Trust Deed and Rules;
- to act in the best interests of the Scheme’s beneficiaries;
- to act impartially amongst beneficiaries of the scheme;
- to act prudently, responsibly and honestly.

Legislation requires that trustees must have appropriate knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of occupational pension schemes (DB schemes only) and the investment of the assets of such schemes.

To allow trustees to discharge these duties they are granted powers which are governed by the trust deed and rules of the scheme.

In addition to duties prescribed in law, trustees are expected to follow guidance and codes of practice issued by the government’s regulatory authority, known as the Pensions Regulator.

Trustees must also be conversant with their own scheme documentation, for example, the trust deed and rules, the statement of investment principles and the statement of funding principles.

The Pensions Regulator provides comprehensive training materials for trustees, the “trustee toolkit” -which is an online trustee training facility for trustees. As a minimum, new trustees are expected to complete this training within six months of their appointment.

Each of the Church of Scotland Pension Trustees has completed this training. In addition they have also completed further specific training including annual training days organised by the Trustee Boards.

4 Trustee Board structure

Each of the three Schemes has a Board of Trustees. Each has provision for nine Trustees - six to be appointed by the General Assembly, known as Employer Nominated Trustees (“**ENT**”) and three to be appointed by the Scheme members, known as Member Nominated Trustees (“**MNT**”).

The total number of Trustees is a matter for the Trustees themselves to decide and they have the power to vary this, as appropriate. To ensure appropriate representation of Scheme members, legislation requires that at least one third of the total trustee number are Member Nominated Trustees.

The Church has three separate Schemes, each requiring six Trustees appointed by the General Assembly. The established practice is for the General Assembly to appoint six Trustees, each acting as ENT for all three schemes.

The current Trustees for each scheme are:

The Church of Scotland Pension Scheme for Ministers and Overseas Missionaries

ENT Graeme Caughey (Chair)
ENT Douglas Millar (Vice Chair)
ENT Andrew Sutherland
ENT Hamish Scott (retiring with effect from the 2019 General Assembly)
ENT Robert Coulter
ENT Adrian Bark
MNT Alan Garrity
MNT Pauline Gordon
MNT Sue Anderson

The Church of Scotland Pension Scheme for Staff

ENT Graeme Caughey (Chair)
ENT Douglas Millar (Vice Chair)
ENT Andrew Sutherland
ENT Hamish Scott (retiring with effect from the 2019 General Assembly)
ENT Robert Coulter
ENT Adrian Bark
MNT Lin Macmillan
MNT John Thomson
MNT Jennifer Hamilton

The Church of Scotland Pension Scheme for Ministries Development Staff

ENT Graeme Caughey (Chair)
ENT Douglas Millar (Vice Chair)
ENT Andrew Sutherland
ENT Hamish Scott (retiring with effect from the 2019 General Assembly)
ENT Robert Coulter
ENT Adrian Bark
MNT Lewis Rose
MNT Neil Campbell
MNT vacancy

The Trustees have a mix of skills and experience as detailed at the Appendix Part 1 of this document. They offer their time, skills and experience free from financial reward.

Recognising that specialisation is appropriate to discharge different areas of their duties the Trustees have established sub-committees for investment matters and for identification, management and governance of risk:

- Investment sub-group (“**ISG**”)
- Risk sub-group (“**RSG**”)

Terms of reference for these sub-groups can be viewed at the Appendix Part 2 of this document. The ISG and RSG meet quarterly, or more frequently as appropriate, with delegated remit from and reporting to the Trustee boards.

5 Operation of the Schemes

Legislation sets out parties responsible for the key aspects of the scheme:

- the Trustees are responsible for all aspects of investment of the Schemes” assets together with all aspects of the administration of the Schemes;
- the employing agency is responsible for paying any employer contributions to the Schemes to fund member benefits.

The Trustees of each Scheme meet regularly throughout the year to receive reports, discuss and take decisions on governance, oversight, investment and other appropriate matters for the sound administration of the schemes.

As the Church has three separate schemes, the Trustees usually hold joint trustee meetings of all three Schemes in order to address common interests as a group. This means that the administration of the Schemes, their financial reporting and the general business common to all three Schemes can be reported on efficiently.

Where business concerns only one Scheme, the Trustees of that Scheme convene separately.

5.1 Discharge of responsibilities

For the Schemes, the Trustees discharge their trustee responsibilities as follows:

Investment

- safe keeping of assets: delegated under contract to a global specialist in safe custody of assets and banks;
- investment strategy: the Trustees take decisions after taking actuarial and investment advice;
- day-to-day management of assets: delegated under contract to specialist fund management firms.

Administration

- calculation and payment of benefits;
- providing quotes and information, responding to queries;
- HMRC tax reporting;
- maintaining scheme records, data integrity and security.

These tasks are delegated to specialist pension administrators and finance department - in-house teams of the Church of Scotland Central Services Committee.

Secretarial

- Trustee meetings, business plans, minutes, actions – delegated to a specialist provider of scheme secretarial services – an in-house position of the Church of Scotland Central Services Committee;

- annual report & accounts, delegated to specialist pension accountant – an in-house position of the Church of Scotland Central Services Committee.

6 Other key parties to the Schemes

Although the Trustees have the primary statutory duties in respect of the Schemes, there are a number of other parties involved:

6.1 Employing Agencies

The Employing Agencies are responsible for meeting all employer contributions required for each Scheme:

Ministers Scheme – Ministries Council and the World Mission Council

Staff Scheme – Central Services Committee and Social Care Council

MDS Scheme - Ministries Council

6.2 Administration team

Administration of the Schemes is a duty and responsibility of the Trustees. The Trustees delegate this to the Church of Scotland Central Services Committee. The existing arrangements for the Schemes' Administration is provided to the Trustees through the services of the Pensions Team and others including payroll and accounting services. The Pensions Team is made up of 6 staff members.

A specialised pensions administration IT system was adopted by the administration team last year and went fully live on 1 January 2019. This enables the Pensions Team to store and maintain all data and records relating to the Schemes electronically.

6.3 Pensions Manager

The Pensions Manager is responsible for all aspects of ensuring administration meets high standards and is supported by a team of specialist pension administrators.

6.4 Scheme secretary

Each set of Trustees appoints a scheme secretary who is responsible for the all aspects of efficient and effective trustee board meetings together with the timeous completion and submission of annual and triennial regulatory returns. The Trustees delegate this role to the Church of Scotland Central Services Committee.

6.5 Scheme advisers

The Trustees are obliged by law to take professional advice on certain matters, including investment decisions and triennial actuarial valuations, and to appoint professional advisers for this purpose. These appointments include a scheme actuary, auditor, legal adviser and investment adviser.

These are:-

Scheme Actuary – Heather Allingham, Hymans Robertson LLP

Investment advisers – Aon

Legal advisers – Burness Paull LLP

Scheme auditors – Chiene & Tait LLP

7 Funding position of the Schemes

One key measure of the financial health of each Scheme is the funding position. This measure is the value of the Scheme's assets relative to the value of its liabilities. It is often expressed as a monetary amount (if assets are less than liabilities the Scheme is in deficit) and also as a percentage (if assets are less than liabilities the % is less than 100%).

The Schemes have enjoyed strong progress in funding position over the last decade as a result of a powerful combination of factors, which include:

- excellent investment planning and decision-making;
- the Schemes closing to future accrual;
- prudent actuarial assumptions;
- cash contributions from the employing agencies;
- cost savings and efficient management.

Progress of the funding of each Scheme since the last actuarial valuation as at 31 December 2015 is as follows:

Scheme	As at 31 Dec 2015	As at 31 Dec 2017
Ministers Scheme	103.3% £9.3m (surplus)	105.0% £18.6m (surplus)
MDS Scheme	95.0% £(0.8m) (deficit)	96.1% £(0.8m) (deficit)
Staff Scheme (CrossReach)	79.5% £(12.8m) (deficit)	85.8% £(10.3m) (deficit)
Staff Scheme (CSC)	93.0% £(2.6m) (deficit)	93.9% £(2.7m) (deficit)

The actuarial valuations which are required to be carried out for each Scheme every three years are in the course of being concluded. These have an effective date of 31 December 2018. Although the legislation allows trustees 15 months to complete and sign off the valuations, the Trustees expect to conclude these quickly. This should enable certainty to be provided on funding obligations to the Staff Scheme for the Social Care Council Committee. This was due to early engagement with the employing agencies and careful planning with the Scheme actuary.

On investments, the Trustees have reduced risk in all three Schemes bringing increased security for members' benefits and less volatility for the sponsoring employers by way of funding requirements. The Trustees maintain a specific statement of investment principles for each Scheme which sets out the Trustees' strategy of investment for each Scheme. The Trustees adopt a specific balance of growth and matching assets for each Scheme depending on the funding position of the Scheme and the relevant employing agency's appetite to risk.

8 Recent Improvements to the Schemes

Over the past two years or so the Trustees have made a number of significant improvements to the administration and governance of all the Schemes. They have reviewed Scheme Rules and documented changes. They have undertaken a complete review of benefits in payment and have corrected errors. They have overseen the production of an operating manual for the administration team. In 2018 implementation of a new IT system has been completed. This reduces the risk of human error, offers a better service to members and improves reporting to the Trustees.

The process of de-risking investments has continued with the aim of matching the investments to the long term liabilities of each Scheme. Investments for all three Schemes were held jointly in a Pension Investment Fund but to simplify accounting procedures, reduce costs and facilitate asset valuations, assets are in the course of being transferred into the name of each Scheme individually.

As a result of these moves and hard negotiation with fund managers, investment fees are now c£500,000 per annum lower than they were.

Appendix Part 1

Trustee Profiles

Sue Anderson has been a qualified Independent Financial Adviser for 30 years. Much of this work involves pension advice on a personal and corporate level including specialised advice on Defined Benefit Schemes. Sue has been a member nominated Trustee for the Ministers Scheme since November 2017.

Adrian Bark has a classics degree from Oxford and a Post Graduate Diploma in Personnel Management (HR). He worked at board level, as HR Director, in manufacturing industry (where he also served as a Pension Scheme Trustee and was responsible for Scheme Administration) and in the NHS. He held a number of other senior posts in NHS Argyll & Clyde and later NHS Greater Glasgow and Clyde. He was on the panel for Employment Tribunals (Scotland) and heard cases in Glasgow and elsewhere. He was a member of the Church of Scotland Social Care Council for eight years and at the same time sat as link representative on the Church and Society Council. Adrian is an employer nominated trustee who sits on the Trustee boards of all three Schemes.

Graeme Caughey is an experienced actuary, investment manager and pensions trustee. He is an employer nominated trustee and serves as Chairman of the Trustee boards for all three Schemes. In this role he focusses on governance & oversight and establishing Trustee structures, procedures & processes to deliver success for members. Graeme previously chaired their investment committee, leading the de-risking of the Schemes' investment strategy. Graeme has served as an examiner for the Institute and Faculty of Actuaries.

Neil Campbell is a Church of Scotland Mission Development Staff in the Urban Priority Area Parish of Craigiebank linked with Douglas & Mid Craigie. Neil was appointed as a member nominated Trustee for the MDS Scheme in November 2017. As part of Neil's role with the Church of Scotland he started and directs a community charity, RockSolid Dundee. This includes ensuring the efficient and effective governance, development and day-to-day management of the organisation. Neil has completed the Pension Regulator's Trustee Toolkit training providing a thorough understanding of pension scheme trustee obligations.

Robert Coulter, having studied Accountancy and Economics at the University of Glasgow, subsequently qualified as a Chartered Accountant with PricewaterhouseCoopers. He then embarked on a career in financial services, spending the majority of his career at Murray Johnstone, where his responsibilities included finance, investment management, principally specialising in UK equity research and the management of pension funds, unit trusts and investment trusts, and corporate development. He was a Director of Murray Johnstone Investment Management Limited and a member of the Association of Investment Companies taxation committee. He currently serves as an employer nominated Trustee for all three Schemes and is a member of the Trustee investment sub-group, which has been primarily responsible for de-risking the Schemes' investment strategy.

Alan Garrity was appointed a member nominated Trustee of the Ministers Scheme with effect from November 2017. He was ordained 50 years ago and has been minister of two congregations in Scotland - Fraserburgh South and The Auld Kirk of Ayr. He was also minister of Christ Church, Bermuda. He has, throughout his ministry, deliberately sought to learn from the Church elsewhere – during summers in America and in most of the Church of Scotland congregations in Europe.

When he was in Ayr he was vice-convenor of the Ministries' Council and during that time convened a review of ministerial housing provision, contacting all of the Church's ministers to discover their concerns. He was also instrumental in creating Mathieson House in Ayr, a Charitable Trust which over the past 20 years or so has provided care and support of older people in South Ayrshire.

When he was in Bermuda he launched what was to become Bermuda Overseas Mission, a church-based charity working with Habitat for Humanity to build homes for disadvantaged people in various third world countries across the globe. This also fulfilled his aim to inspire people in Bermuda. Over the last 15 years or so some 700 people from Bermuda have been involved, making a real difference to themselves and to Bermudian society as a whole. Alan is also a member of the Church of Scotland's Judicial Proceedings Panel.

Pauline Gordon started her career in 1994 as a consulting actuary with Mercer before moving into fund management for seven years, developing liability driven investment products and diversified growth funds for pension schemes. She then worked in-house at Heineken for seven years in charge of investments and funding/de-risking for the £4bn Scottish & Newcastle Pension Plan. Pauline now works as a professional trustee and has four trustee appointments, with assets in excess of £4bn and is also a Senior Adviser with MJ Hudson Allenbridge. Pauline became a member nominated Trustee for the Ministers Scheme in November 2017.

Lin Macmillan has worked as Secretary of the Church of Scotland Housing and Loan Fund for 15 years, and through this role has had regular liaison with the Pensions Department. Previously she administered the application of the NHS Pension Scheme for a large Primary Care team. As a former employee of British Home Stores, Lin was involved in a campaign to achieve a beneficial settlement for BHS staff and pensioners when the company went into administration. Lin became a member nominated Trustee for the Staff Scheme in December 2018.

Douglas Millar is a retired CEO / Company Director. He has been a trustee of various pension schemes since 1998. He served as a trustee for Scottish TV and Caledonian Publishing for 6 years. He also helped set up a Stakeholder Pension company for the British Chambers of Commerce where he became a founding Director and latterly served as its Chairman before the business was sold to Prudential. Douglas is an employer nominated trustee who serves as the Vice Chair of the Trustee boards of all three Schemes.

Lewis Rose has been involved in setting up a variety of community projects and business, Chairperson of Church Action on Poverty a UK wide charity and has also served as National Coordinator Scottish Churches Industrial Mission which became Work Place Chaplaincy Scotland under his guidance. Lewis is a member nominated Trustee for the MDS Scheme.

Hamish Scott is an employer nominated Trustee of all three Schemes. He chairs the Trustee Risk sub-group. He is a Fellow of the Faculty of Actuaries and served that body as an Examiner, Editor of its Transactions and as a Member of Council, during which time he served as the Chairman of the profession's Life Board's Supervision Committee. He joined the Trustees after a long career in the life assurance industry working mainly on the actuarial oversight of the with-profits fund of the old Scottish Mutual Assurance Society.

Andrew Sutherland is an employer nominated trustee of all three Schemes and chairs the Trustee Investment Sub-group. He has a deep understanding and experience of investment markets through his career at Standard Life Investments which encompassed all areas of fixed interest investment. He started to manage UK gilt funds in 1983 - fixed interest and index linked, moving on to Irish and European fixed interest markets in 1985. His career moved into Corporate Bonds in the 1990s where he stayed until early retirement in 2013. As Head of Credit for Standard Life Investments he personally managed very large fixed

interest funds on behalf of pension fund clients. He also worked closely with Standard Life actuaries in managing the £5bn fixed interest fund which backed annuities issued by the Life Company. He led the SLI credit team of 12 in Edinburgh and 6 in Boston, which covered all grades of corporate bond, from Hi Yield to AAA in many currencies. In addition he gained valuable experience dealing with derivatives - CDS, futures and options - when using them to hedge and position portfolios.

John Thomson is a former banker with 18 years' experience in retail financial services and is an administrator and committee secretary at the Church of Scotland Offices. John has also served as Treasurer and Secretary of Work Place Chaplaincy Scotland, is Secretary of the UK Oil and Gas Chaplaincy SCIO and Treasurer of the Falkirk & District Battalion of the Boys' Brigade. John is a member nominated Trustee for the Staff Scheme.

Appendix Part 2

Terms of Reference for Trustee Sub-committees

Investment Sub Group Remit and Powers

The Group shall consist of at least four Trustees with the relevant expertise or interest to participate fully in the work of the Group. The Chairman or Vice Chairman of the Trustees shall also be a member of this Group, ex officio.

Three Trustees in attendance at a meeting will form a quorum of the Group.

The Group shall determine the frequency and timing of their own meetings, but shall report at each quarterly meeting of the Trustees.

The Group, in consultation with the Chairman and/or Pensions Manager or Pensions Accountant where appropriate, shall be responsible for ensuring:

that the Trustees' Investment Policy is adhered to by the Investment Managers,

- that the returns from investments by Investment Managers are measured against appropriate indices and that representations are made to Investment Managers where returns are poorer than expected;
- that reporting is made not less frequently than quarterly by each Investment Manager and any outcomes reported to the Trustees at their next meeting;
- that recommendations are made to the Trustees by their investment advisers regarding changes in Investment Managers and thereafter acted upon;
- that recommendations are made to the Trustees regarding changes to Investment Policy and thereafter acted upon;
- that the Statement of Investment Principles is reviewed from time to time, making recommendations for change to the Trustees as appropriate;
- that the accounting for invested capital and returns through the General Treasurer's department is appropriate to the detailed profile of each Scheme;
- that the investment position and governance arrangements of the AVC benefits in the Schemes is reasonable, with reference to ensuring members are receiving value for money in respect of these benefits; and
- that an appropriate communication be sent to AVC members on behalf of the Trustees annually which explains in clear and relevant terms the value of the benefits

held in the Schemes, the charges members have paid over the year in respect of these benefits and any other information required to be provided by law.

The Group shall have powers:

- to act for the Trustees in negotiation with Investment Managers;
- to obtain such reports as are required from any professional resource;
- to negotiate with Investment Managers relating to the size or construction of fees, subject to final approval by the Trustees;
- to make decisions and instruct action in relation to changes to asset allocation not exceeding 10% of the value of the Fund, reporting such changes to the next meeting of the Trustees;
- to take such other measures on behalf of the Trustees as are necessary to fulfil the Group' objectives, reporting all such actions to the Trustees as soon as possible thereafter.

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Risk Sub Group – terms of reference

Remit and Powers

The Group shall consist of at least three Trustees together with either the Chairman or the Vice-Chairman of the Trustees. The Pensions Manager and the Pensions Accountant shall also be invited to attend Risk Group meetings.

The Group shall determine the frequency and timing of its own meetings, but shall report at each quarterly meeting of the Trustees.

The Group shall be responsible for ensuring:

- that the Risk Register is maintained in an up to date condition, with new risks being added as they are discovered and all risks rated for impact;
- that the activities and actions associated with each risk are adequately resourced and managed;
- that any proposed controls or control improvements associated with any risk are implemented as quickly as possible;
- that the higher rated risks included in the register are carefully monitored and that a degree of external monitoring is applied to those risks where appropriate;

- that appropriate Service Level Agreements are put in place between the Trustees and the Church as provider of administration services to the Schemes;
- that suitable action is taken urgently where a breach of regulation or law is discovered;
- that the Schemes take appropriate steps to ensure compliance with the GDPR;
- that the IRM framework is reviewed annually to ensure it remains fit for purpose;
- that the contracts with and appointments of the Scheme Actuary, the Scheme Auditor, the Scheme Investment Consultant and the Scheme Legal Adviser are reviewed at least triennially.

The Group shall have power:

- to commission and obtain such reports as are necessary to manage the Risks in the Register;
- to make recommendations to the Trustees for any changes considered necessary to the IRM framework;
- to negotiate with other departments and agencies on behalf of the Trustees;
- to investigate and report on any risks found in the Pensions Department;
- to determine the content of Service Level Agreements for agreement by the Trustees, to monitor these on behalf of the Trustees and to review and, where appropriate, recommend future changes no less frequently than triennially;
- to involve the Investment Group directly when investment risk is being considered and to delegate oversight authority on investment risk actions to the Investment Group if necessary;
- to take such other measures on behalf of the Trustees as are necessary to fulfil the Group's objectives, reporting all such actions to the Trustees as soon as possible thereafter;
- to make recommendations to the Trustees for any changes needed to the appointments of or the contracts in place with the Scheme Actuary, the Scheme Auditor, the Scheme Investment Consultant and the Scheme Legal Adviser.