

CHURCH OF SCOTLAND PENSIONS TRUSTEES MAY 2018

Proposed Deliverance

The General Assembly:

1. Receive the Report.

Report

1. BACKGROUND & STATISTICS

As at 31 December 2017, 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"**) and The Church of Scotland Pension Scheme for Ministries Development Staff (the **"MDS Scheme"**) (together referred to as the **"Schemes"**) collectively covered some 5,100 members, with total assets of approximately £500 million.

2. FUNDING POSITION OF THE SCHEMES

2.1 The Trustees are pleased to report that the Ministers Scheme is in surplus on a prudent actuarial basis with appropriate Recovery Plans in place for both the Staff Scheme and the MDS Scheme which are in deficit.

2.2 A summary of the respective funding positions of the Schemes at 31 December 2017 is set out below:

Scheme	Funding Level	Surplus / (Deficit)
Ministers Scheme, Main Pension Fund	106%	£18.6m
Ministers Scheme, Widows & Orphans Fund	103%	£1.0m
Ministers Scheme, Contributors Fund	122%	£0.9m
Staff Scheme (CSC Section)	94%	(£2.7m)
Staff Scheme (CrossReach Section)	86%	(£10.3m)
MDS Scheme	96%	(£0.8m)

2.3 The CrossReach Section of the Staff Scheme continues to have the largest deficit amongst the Schemes but good progress has been made over the year to 31 December 2017 with the funding level improving from its

position as at 31 December 2016 (82%, £13.5m deficit). The underlying guarantees agreed by the General Assembly on 6 June 2014 and by the Council of Assembly on 27 December 2013 for the Staff Scheme are reassuring for the Trustees when considering the security of members' benefits.

3. INCREASES TO PENSIONS IN PAYMENT

3.1 Statutory Increases

The statutory increases applied to pensions in payment across all Schemes, from 1 January 2018, were 3% in respect of benefits accrued between 6 April 1997 and 5th April 2005 and 2.5% in respect of benefits accrued after 6th April 2005. Only the MDS Scheme had increases applied in respect of benefits accrued prior to 6th April 1997 and these were awarded at the statutory rate of 3%. The difference in treatment is due to the particular wording of the governing scheme rules.

3.2 Discretionary Increases

At the request of the Council of Assembly, the Trustees of the Ministers Scheme deferred a decision on discretionary increases relating to the pre 6th April 1997 pensionable service for pensioner members of the Ministers Scheme.

4. INVESTMENT STRATEGY

4.1 The investment objective of the Schemes is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Schemes payable under the trust deed and rules as they fall due.

4.2 The Trustees set the investment strategy for each Scheme taking into account considerations such as the strength of the employer covenant, the long term liabilities of the Scheme and the funding agreed with the Church. The investment strategy is set out in its Statement of Investment Principles.

4.3 The current strategy is to:

4.3.1 match the interest rate and inflation exposures of the liabilities, by holding fixed income and index linked assets;

4.3.2 hold an appropriate weighting in return seeking investments, including UK and overseas equities, and Absolute Return Bonds.

5. BENEFITS AND RULES REVISION AND ADMINISTRATION SYSTEM

5.1 As reported at the 2017 General Assembly, the Trustees oversaw a comprehensive benefits and rules review across all of the Schemes in 2016. This work was completed in 2017 with amendments made to the rules of the Schemes to clarify the benefit structure of each. The consequence of these amendments is that the correct benefits are now being paid to the members and beneficiaries of the Schemes.

5.2 The Church's in-house Pensions Team continue to work with a third party supplier to transfer the administration of the Schemes onto a new bespoke pensions administration system. The transfer has proved challenging but is expected to complete in 2018. The new system should enable better administrative reporting for the Schemes as well as provide effective efficiencies and reduced risk.

6. TRUSTEES

6.1 Graeme Caughey's re-election as a Trustee was approved by the 2017 General Assembly and he subsequently became Chairman of the Trustees.

6.2 Adrian Bark was elected as a Trustee by the General Assembly in 2017 and Douglas Millar became Vice-Chairman of the Trustees in May 2017.

6.3 Due to Trustee resignations in 2017, each of the Schemes had a number of Trustee vacancies for the proportion of the Trustees who must be elected by the Scheme membership. There was a difficulty in finding Trustee candidates and so, for the first time, the Trustee vacancies were opened out to existing members of the Schemes and to persons nominated by existing members as suitable Trustee candidates. As a result, all of the Trustee vacancies were filled other than one vacancy remaining in the MDS Scheme.

The new member nominated Trustees appointed in the course of last year were:

Ministers Scheme

Susan Anderson

Alan Garrity

Pauline Gordon

Staff Scheme

Lin Macmillan

MDS Scheme

Neil Campbell

In the name of the Trustees

GRAEME CAUGHEY, *Chairman*
DOUGLAS MILLAR, *Vice-Chairman*
JENNIFER ADAMS, *Acting Scheme Secretary*