CHURCH OF SCOTLAND PENSION TRUSTEES
May 2016

PROPOSED DELIVERANCE

The General Assembly:

1. Receive the Report.

REPORT

1. Background & Statistics

As at 31 December 2015, the Schemes under Trust covered some 5,400 members, with total assets of £430million.

2. Actuarial Valuation

A statutory triennial valuation was carried out at 31 December 2015. All aspects of the Valuation have not been concluded, though the Trustees can share the following summary points:

- The Trustees have used prudent assumptions in the valuation basis.
- The Trustees continue to de-risk the investment strategy, which improves member security as there is less reliance on investment returns to secure future benefits.
- The Trustees maintain the view that the willingness, desire and ability ('covenant') of the Employing Agencies to support the schemes remain strong.
- The combination of the above points leads to the Trustees being satisfied that members' benefits are secure.
- The interim results of each Scheme are summarised below:

Scheme	Funding Level	Surplus / (Deficit)
Ministers' Main Pension Fund	104%	£10.5m
Ministers' Widows' & Orphans Fund	109%	£2.7m
Ministers' Contributors' Fund	142%	£1.5m
Staff [CSC Section]	95%	(£1.9m)
Staff [CrossReach Section]	81%	(£11.9m)
Ministries" Development Staff	95%	(£0.8m)

- The above Table illustrates that in total the Schemes have returned to surplus with some variability across different schemes and sections. The CrossReach Section of the Staff Scheme has the largest deficit though the Trustees remain satisfied that members' benefits are protected via the strong Deficit Recovery Plan agreed with CrossReach together with underlying guarantees agreed by the General Assembly and Council of Assembly.

3. Proposed Dissolution of the Central Services Committee

As reported previously, the Pension Trustees are working with the Council of Assembly regarding the pension implications of the proposed restructuring of the Central Services Committee. This work continues to be on-going.

4. Increases to Pensions in Payment

4.1 Statutory Increases

As has been reported in previous years, increases to pensions in payment fall into three separate categories: pensions earned in respect of service accrued between April 1997 - April 2005 and pension earned in respect of post April 2005 service are subject to statutory increases [at potentially different rates], whilst pensions in respect of service accrued prior to April 1997 are increased at the discretion of the Trustees and are not protected by any statutory increases. The exception to this is the Scheme for Ministries Development Staff [the previously named PPW Scheme] where pre-97 increases are prescribed by the Rules. With effect from 1 January 2016, the CPI figure on which statutory increases was based was -0.1%; however, once in payment, pensions cannot be decreased and so the no statutory increase to pensions in payment was awarded.

4.2 Discretionary Increases

From time to time, the Ministers' Scheme benefits from the receipt of legacies and bequests. Previous practice has been to absorb such monies into the general funding but, this year, in consultation with Ministries Council, the Trustees decided to allocate legacies received over the three year period since the last actuarial valuation directly towards funding a discretionary increase to pensions earned before 1997. Those pensions were increased by 0.5%. Whilst the Trustees are pleased to report that this is the third year in succession where a discretionary increase has been awarded, it must be noted that, unless further funding becomes available, mainly through additional contributions or investment returns in excess of assumptions, this must still be regarded as a "one off" increase.

The Widows' and Orphans' Fund is a separate ring-fenced Scheme and the conditions were such that Trustees were able to use their discretionary powers to apply a 25% increase to the benefits.

5. Investment

During 2015 the Trustees of the participating schemes continued their investment strategy of seeking to improve security of members' accrued benefits by reducing the volatility of the funding position. This was achieved by selling certain gilts and corporate bonds and buying long dated and inflation linked gilts. This improved the interest rate and inflation matching of the assets with reference to the liabilities. This reduces reliance on asset market performance and on the Employing Agencies as more closely matching the liabilities means reduced volatility in the funding position. The Trustees have in place a framework to continue improving interest rate and inflation matching, the key variables are the funding level of the scheme(s) and the perceived value of longer maturity gilts.

The Trustees with input from Employing Agencies explored and ruled out the options of 'buy out' and 'buy in': arrangements where scheme assets are transferred to an insurance company who in turn undertake to make an agreed series of payments.

At 31 December 2015, the weightings held in 'return seeking assets' and 'matching assets' were broadly on target at 20% and 80% respectively across all Schemes, with the exception of the CrossReach section of the Staff Scheme which continues to have a higher exposure to risk assets in pursuit of excess returns to help reduce the scheme deficit. These positions have been reached after taking appropriate Investment and Actuarial advice as well as consulting with the Employing Agencies. We must now give further consideration as to whether or not a further risk reduction is appropriate.

In the name of the Trustees

W JOHN McCAFFERTY, *Chairman*
GRAEME R CAUGHEY, *Vice-Chairman*
STEVEN D KANEY, *Secretary*