

Pension Schemes Trustee speech — General Assembly 2022

Graeme Caughey

Moderator, commissioners here in the Assembly Hall and everyone watching:

Does life get better when you retire?

The Pensions Trustees' written report is available to everyone; it's in your Blue Book and it's on the Church website.

I'm here today on behalf of the Pension Trustees, the body tasked by primary legislation to be responsible for the safekeeping and investment of pension schemes' assets and for the proper administration of members' benefits.

Individual pension schemes are established by Employers (in our case, agencies of The Church of Scotland).

The Employer does this as a benefit to employees and their families. These Employees become the Members of the scheme – who, upon retirement, are entitled to receive payments from the scheme – commonly in the form of monthly pension amounts, paid until death.

The Government has set legislation to establish the principles of how schemes should operate. And The Pension Regulator is tasked with setting and enforcing minimum standards as well as for driving best practice in governance and oversight.

For the type of scheme we are talking about today – The Church of Scotland Defined benefit schemes – they work like this:

Money is paid into the Scheme to provide for the benefits which will be paid in the future. This money comes mostly from the Employer though Members do sometimes contribute as well. The Trustees look after the money, making sure it is safe and invested appropriately. Legislation and Regulation set out various standards and reporting which the Trustees must satisfy – for example, at least every 3 years the Trustees must assess if the value of the assets is sufficient to meet the value of the liabilities.

The Trustees are also responsible for ensuring that all benefits from the Scheme are calculated correctly and paid timeously.

Why am I telling you this?

It's to set the background to the story I'm about to tell you. Now you have an idea of how things should go –the plot – and also the parties involved – the characters.

We'll pick up the story after the latest 3-yearly financial health check – which was required as at 31 December just past. Put simply, the job here is for the Trustees to assess if there is enough money in the scheme to pay the all the benefits of all the Members, today and for all time into the future.

If there is not sufficient money The Pensions Regulator requires the Trustees and Employer to agree a plan for how this deficit will be made good. There are really only two options – the Employer contributes more money, and the Trustees pursue for higher investment returns.

Commissioners who have followed this story over the years will know that the script has been pretty consistent on this point – with Deficits, and I mean with a capital D, being the order of the day, decade and longer.

Last year I was able to report this had changed and can now confirm the addition of a new word to the script. Surplus. As confirmed by the Schemes Actuary in the most recent valuation. All the schemes and all the sections are in surplus.

For those interested in the numbers, a summary of the results are shown in the blue book report.

With no exceptions: each of the scheme sections is in surplus, on a prudent set of actuarial assumptions.

For each of our schemes—the Church of Scotland Schemes—achieving this Surplus brings a number of significant positive benefits.

Thinking about the each of the main characters I mentioned earlier– the Members, the Employer, the Trustees and the Regulator

- For our nearly 5000 Members, each and every Member will benefit from strong security of their accrued benefits. Put another way, Members can go about their lives and business safe in the knowledge that their Church of Scotland pension benefits are secure.
- For the Employer – remember these are agencies of the Church, with responsibility for pensions; in this case I’m talking about the agencies responsible for:
 - Ministers and Overseas Missionaries
 - Ministries Development Staff
 - The Church’s central staff based at 121 George Street
 - And for the staff of CrossReach

Each of these agencies can look to the future, plan for the future, with the knowledge that they do not need to allocate money for Deficit Reduction Contributions.

The Pension Scheme Trustees too – also feel these benefits.

They can sleep at least a little easier, knowing that all the money needed to meet members’ benefits and the costs of administering them are already held within the Schemes funds.

I’ve mentioned the Regulator so should complete this section with the benefits they feel too – with our schemes in surplus they can apply a lighter touch review of our submissions. A ‘fast track’ approach, to use their terminology. This saves them time to deal with the schemes in far less fortunate positions than ours.

Indeed there is another financial benefit which will accrue to the schemes each year.

The government has established an insurance company, it’s called the Pension Protection Fund, to handle unfortunate cases where schemes are in deficit and the Employer has become unable to support the scheme. This insurance company is funded by charging all pension schemes an annual premium, based on each scheme’s individual riskiness. Given the strong funding position of our schemes – the surplus – the premiums we pay are now at the lowest possible level, having previously been much higher. In monetary amounts this translates into an annual saving of over £100 thousand pounds.

I said I was here today on behalf of The Pensions Trustees, and on their behalf I have an invitation for you.

We’d love to hear from you.

Please get in touch.

If you are a member of any of the schemes, what's your experience been like? What has worked well, and what could we improve?

It's customary in this report that I cover, at least a flavour, of the work the Pension Trustees have been doing. Today I'd like to tell you about work on ESG—that's Environmental, Social and Governance considerations. With the 26th Conference of Parties hosted in Glasgow last November, there was increased media attention, at least for a while, on climate change.

Investment markets and the pension industry are making progress on what they can do to promote positive outcomes. One of the biggest things pension trustees can do is to invest scheme money with climate change environmental factors in mind.

The Pension Trustees have agreed a policy of investing in assets with the highest ESG rating.

I mentioned that media attention was briefly on climate change and ESG factors around COP26. Moderator, with the war in Ukraine I know that the General Assembly would welcome an update on this from the Pension Trustees.

Commissioners with a keen eye will have noted from the Blue Book report that the assets of the scheme stood at £514 million as at 31 December.

The scheme's assets are predominantly invested in UK gilts and inflation-linked gilts. The Trustees do have an allocation to risk-seeking assets and, before the Russian invasion of Ukraine, there were holdings associated with Russia, totalling around 500 thousand pounds or 0.1% of the total. Following the invasion that value is now nil with the manager taking the decision to divest.

Elsewhere, A further piece of work reviewing administration policies, practices and procedures has been completed this year.

The review concluded that the existing administration was effectively managed and staff were well motivated.

The structure, which includes support from different Church teams such as payroll, treasury and accounting, works well and the pensions administration system is fit for purpose into the next decade.

No-one was untouched by the pandemic and related restrictions. In the pensions area our Pensions Manager and her team ensured members' pensions were paid throughout, as well as ensuring Trustee meetings continued, albeit transferred to a different forum. With restrictions now lifted the Trustees are starting to meet face-to-face again, though, having all learned how to, we have retained the flexibility to meet virtually.

Many thanks are due to Jane McLeod and all the team for keeping things moving during this period of change and uncertainty.

During the year Simon Bree resigned as the pension fund accountant to the Schemes to take up a new position within the Church and Jenny Law was appointed in his place. Good luck Simon and welcome Jenny.

We simply could not have achieved what we have without the help and support of many people.

I'd also like to thank all of the Pension Trustees for their continued time and input.

Hugh McKee sadly passed away in December last year. The Trustees were greatly saddened by Hugh's death and would like to express thanks for his dedicated service and contribution to the work of the Trustees.

Robert Coulter, who joins me here at the table – retires, today, after 14 years' service. Robert, the Trustees are grateful for your dedicated service to the Pension Schemes and wish you all the very best.

The Trustees are pleased to propose the appointment of Gillian Graham and Gordon Taylor as Employer-Nominated Trustees of all three schemes with effect from today. Gillian and Gordon bring skills in pensions and the law which will compliment the existing skillset of Trustees.

General Assembly, if you approve Gillian and Gordon's appointments, I would be delighted to again be able to record a full complement of 15 Trustees. We are indeed fortunate to be served by so many skilled and experienced people, willing to serve in this way.

It's a timely reminder for me to take the this opportunity to ask you General Assembly 2022 – everyone watching - to please consider if you or anyone you know have the interest and energy to serve as a Pensions Trustee.

Again, please just get in touch.

And so, Does life get better when you retire?

All of us here in the hall and everyone watching online will have their own personal view and experience. Some will already know the answer and others, like myself, will have to wait a long time to find out

That said, a 2021 Research report found that, of all periods in our life, we are happiest and most content in retirement.

I hope you have enjoyed hearing the story of the Church's defined benefit pension schemes.

Thank you for listening.

Moderator, as I am not a commissioner may I ask that the Principal Clerk moves the report.