

## CHURCH OF SCOTLAND PENSION TRUSTEES MAY 2023

### Proposed Deliverance

#### The General Assembly:

1. Receive the Report.
2. Approve the appointment of Stuart Stephen and George Russell as Employer Nominated Trustees of all three Schemes.

### Report

#### 1. BACKGROUND & STATISTICS

As at 31 December 2022, 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 approximately 4,600 members. This Report is made by the Trustees of each of those Schemes (the “**Trustees**”). As at 31 December 2022 the Trustees held, in aggregate, total assets of approximately £352 million for the purposes of the Schemes.

##### 1.1 Scheme funding

A summary of the respective funding positions of the Schemes at 31 December 2022 following completion of the annual actuarial updates are set out below:

Scheme	Funding level at 31/12/2021	Funding level at 31/12/2022
Ministers Scheme, Main Pension Fund	106%*	108%
Ministers Scheme, Widows & Orphans Fund	111%	112%
Ministers Scheme, Contributors Fund	110%	109%
Staff Scheme (CSC Section)	101%	101%
Staff Scheme (SCC Section)	101%	98%
MDS Scheme	101%	98%

The Trustees are pleased to advise that each Scheme/ Section remains well funded.

This means the Schemes are self sufficient, with all the money needed to pay benefits and expenses already held within the Schemes. This is no requirement for funding from the Employing Agencies of the Church.

The Scheme Actuary excluded data relating to the period of the pandemic, in line with industry practice. The Trustees accepted a recommendation to review mortality assumptions at the next triennial valuation as at 31 December 2024, when more information would be available about the lasting impact of the pandemic and its associated restrictions.

The Trustees record thanks to the Assembly Trustees and each Employing Agency for their past and continued support for the Schemes.

##### 1.2 Increases to Pensions in Payment

###### 1.2.1 Statutory increases

The statutory increases applied to pensions in payment across all of the Schemes, from 1 January 2023, were 5.0% in respect of benefits accrued between 6 April 1997 and 5 April 2005 and 2.5% in respect of benefits accrued after 6 April 2005.

The MDS Scheme had increases applied in respect of benefits accrued prior to 6 April 1997 and these were awarded at the statutory rate of 5.0%.

###### 1.2.2 Discretionary increases in the Ministers Scheme

Within the Ministers Scheme the Trustees have the unilateral power to award discretionary increases to benefits.

#### 2023 pension increases

The Trustees of the Ministers’ Scheme decided to implement increases as follows

- Ministers Main Fund: 10.1% increase on pre-1997 pensionable service for all pensions in payment as at 1 January 2023
- Widows and Orphans Fund: 12.6% increase on benefits as at 1 January 2023 for all deferred and pensioner members’ benefits
- Contributors Fund: 12.6% increase on benefits as at 1 January 2023 for all deferred and pensioner members’ benefits.

##### 1.3 Investment Strategy

The investment strategy employed by the Trustees reflects the high funding level and the desire of the Trustees, with the support of the participating employers to minimise the risk of any future deficit contributions. This means holding predominantly assets which match the nature and duration of the Scheme’s liabilities. These matching assets are typically fixed income securities, gilts and inflation linked gilts.

Adopting a low risk investment strategy means the volatility of the funding position of the Scheme is reduced, leading to improved security of member benefits and more certainty for the employer around the requirement for future contributions.

The Trustees have agreed to target a return from the Scheme's assets of 0.3% per annum above the liability matching assets. This is achieved by investing in a diversified manner. This target return is met by taking a low risk approach which should result in a risk of the assets moving against the liabilities by no more than 1% per annum in two years out of three. This new strategy was implemented in the first quarter of 2021.

### **1.3.1 Environmental, Social & Governance (ESG)**

The Trustees' policy is for the pooled investment funds, and the underlying investment managers, they select going forward to have the highest ESG rating available for the asset class they are looking to invest in, as determined by the Trustees' Investment Adviser. They will also consider going further by investing in explicitly sustainable approaches as the sector evolves and more funds become available.

During the year, one of the existing funds managed by Blackrock was reviewed and replaced by a new fund with similar risk and investment return objectives, managed by Alliance Bernstein, that invested in line with the United Nations 17 Sustainable Development Goals.

### **1.3.2 Investment Markets**

Once again this year markets have been very volatile. Particularly in the aftermath of the invasion of Ukraine and the so called mini budget of 23 September 2022.

The year was dominated by the Russian invasion of Ukraine. As a result, the small level of rouble assets (less than 0.02%) the Scheme held were sold by the Scheme's investment managers. The Trustees have a policy not to hold any Russian assets going forward.

Gilt yields rose significantly in the year directly impacting both asset and liability values which both reduced sharply.

The Schemes' low risk investment strategy means that their funding positions have been largely immunised from these moves, as seen in the table.

## **1.4 Changes in Staff and Trustees**

### **1.4.1 Staff**

Helen Osborne, our payroll supervisor, left the employment of the Church having completed over forty years' service. The Trustees would like to thank Helen for her dedicated service over the years. Suzanne Nolte continues in her appointment as Payroll and Accounting Manager.

### **1.4.2 Trustees**

Graeme Caughey and Adrian Bark retire as Employer Nominated Trustees of all three schemes in May 2023 after 12 years' service and 6 years of service respectively. The Trustees are grateful for their dedicated service to the Pension Schemes.

We are pleased to propose the appointment of Stuart Stephen and George Russell as Employer Nominated Trustees of all three schemes with effect from May 2023. Stuart Stephen will take over the Trustee Chair role from Graeme Caughey.

*The Pension Scheme for Ministers and Overseas Missionaries.*

Pauline Gordon resigned as a MNT in July 2022 and Susan Zappert was appointed with effect from 1 April 2023.

We are fortunate to be served by so many skilled and experienced people, willing to serve in this way. With regular Trustee retirements we are always looking for new Trustees, so please consider serving yourself or nominating someone who would make a good Trustee.

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## **2. SCHEME ADMINISTRATION**

**2.1** The Trustees monitor the administration team's performance by receiving quarterly reports on service achieved and welcoming feedback from Scheme members on the service they have received from the team.

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## **3. GOVERNANCE**

**3.1** The Trustees completed a formal review of the Scheme's auditors and after due consideration decided to continue to engage the services of the incumbent providers, Chiene+Tait.

**3.2** The Trustees continue their focus on training and development. Each new Trustee completes the Pensions Regulator's Trustee Toolkit. On-going training this year included a day of training from the Schemes' advisers prior to the November Trustee meeting and shorter topical sessions as part of quarterly meetings.

*In the name of the Pension Trustees*

GRAEME R. CAUGHEY, *Chair*  
LIN MACMILLAN, *Vice-Chair*

### **Addendum**

Graeme Caughey is retiring as a Trustee of the Pension Schemes, after serving for 12 years, the last 6 of which he has been the Chair of the Board.

Graeme has brought a wealth of financial knowledge and experience to the Pension Trustees from his professional life. He has chaired meetings with quiet firmness, always alert to ensuring that every point of view is heard fairly and discussed fully. This has been particularly challenging during the pandemic, when all meetings were held on line.

He has worked hard to build up productive relationships with the Assembly Trustees and senior staff within the Church offices. He has also nurtured good working relationships with the Trustees' professional advisors.

Underpinning all his work is his unstinting concern for the beneficiaries of the Pension Funds, and his care that every decision made by the Trustees should have this at its heart.

He leaves all the Pension Funds in a healthy position – a major achievement in such turbulent financial times.

LIN MACMILLAN, *Vice-Chair*  
JANE MCLEOD, *Secretary*