

**CHURCH OF SCOTLAND PENSION TRUSTEES MAY 2022****Proposed Deliverance****The General Assembly:**

1. Receive the Report.
2. Approve the appointment of Gillian Graham and Gordon Taylor as Employer Nominated Trustees of all three Schemes.

**Report****1. BACKGROUND & STATISTICS**

As at 31 December 2021, 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 nearly 4,600 members. This Report is made by the Trustees of each of those Schemes (the **"Trustees"**). As at 31 December 2021 the Trustees held, in aggregate, total assets of approximately £514 million for the purposes of the Schemes.

**1.1 Scheme funding**

A summary of the respective funding positions of the Schemes at 31 December 2021 following completion of the triennial valuations and the change since the last triennial valuations as at 31 December 2018 is set out below:-

<b>Scheme</b>	<b>Funding level at 31/12/2018</b>	<b>Funding level at 31/12/2021</b>
Ministers Scheme, Main Pension Fund	<b>119%</b>	<b>106%</b>
Ministers Scheme, Widows & Orphans Fund	<b>106%</b>	<b>111%</b>
Ministers Scheme, Contributors Fund	<b>107%</b>	<b>110%</b>
Staff Scheme (CSC Section)	<b>102%</b>	<b>101%</b>
Staff Scheme (SCC Section)	<b>92%</b>	<b>101%</b>
MDS Scheme	<b>101%</b>	<b>101%</b>

The Trustees are delighted to advise that each Scheme/Section is more than 100% funded. This means the Schemes are self sufficient, with all the money needed to pay benefits and expenses already held within the Schemes. There is no requirement for funding from the Employing Agencies of the Church.

The triennial actuarial valuations were completed in a matter of weeks, a testament to the operations, systems and processes in place and the strong working relationships of all the parties involved.

The table shows that funding levels have been stable to improving.

The Ministers' Main Pension Fund shows a reduction in funding level as a result of the strengthening of its valuation basis to include allowance for annual inflationary increases to members' pensions accrued in respect of service before 1997. Any such increases remain at the discretion of the Trustees and will be assessed on an annual basis.

The Social Care Council Section of the Staff Scheme had a larger improvement due to having a higher weighting in risk seeking assets and receiving deficit repair contributions. With funding now in excess of 100% these cash contributions have ceased.

**COVID19 – impact on the valuation**

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, 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 2022, were 3.1% 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 3.1%.

## 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.

### 2022 pension increases

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

- Ministers Main Fund: 3.1% increase on pre-1997 pensionable service for all pensions in payment as at 1 January 2022
- Widows and Orphans Fund: 4.9% increase on benefits as at 1 January 2022 for all deferred and pensioner members' benefits
- Contributors Fund: 4.9% increase on benefits as at 1 January 2022 for all deferred and pensioner members' benefits.

## 1.3 Investment Strategy

The Trustees investment strategy for each Scheme is to target a return from assets of 0.3% per annum above the matching gilt yield.

Matching assets, typically fixed income securities, gilts and inflation linked gilts, are held to ensure that funding levels remain stable and there is a high level of security that assets are sufficient to pay members' benefits.

In addition, risk seeking assets are held with the aim to deliver, on average, an excess return of 0.3% per year above the matching rate.

Overall the Trustees investment strategy may be considered as low risk, which means the volatility of the funding position of the Schemes is low. This provides the Trustees with security that members' benefits will be met and provides certainty for the Employing Agencies of the Church that future contributions will not be required.

### 1.3.1 Structure of investment holdings

The Schemes' assets are held in pooled investment funds which are offered by regulated investment managers. The Trustees decision to invest is based on the rating of the Investment Manager and the mandate of the pooled fund. The day-to-day management and choice of specific assets is the responsibility of the Investment Manager, operating within the specified mandate.

### 1.3.2 Environmental, Social & Governance (ESG)

The Trustees have reviewed and updated their position on ESG factors, determining their policy is for the Schemes' assets to have the highest ESG rating available. The Trustees consider ESG factors by receiving regular reports from their investment managers on the action they are taking concerning ESG matters and taking advice from their investment consultant.

### 1.3.3 Impact of Russian invasion of Ukraine

Markets have been very volatile in the aftermath of the invasion of Ukraine. The Schemes' low risk investment strategy means that their funding positions have been mostly immunised from these moves.

The Trustees continue to monitor events with the support of the Schemes' Investment Advisers.

## 1.4 Changes in Staff and Trustees

### 1.4.1 Staff

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. The Trustees would like to thank Simon for his services.

### 1.4.2 Trustees

Hugh McKee sadly passed away on 12 December 2021. 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 retires as an Employer Nominated Trustee of all three schemes in May 2022 after 14 years' service and the Trustees are grateful for his dedicated service to the Pension Schemes.

We are pleased to propose the appointment of Gillian Graham and Gordon Taylor as Employer Nominated Trustees of all three schemes with effect from May 2022.

Following Gillian and Gordon's appointment, we are delighted to again record a full complement of 15 Trustees. 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 carried out a review of the policies, practices and procedures used by the in-house administration team.

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 used by the team was deemed fit for purpose into the next decade.

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.

**3 GOVERNANCE**

**3.1** The Trustees completed a formal review of the roles of Actuary and Investment Adviser for the Schemes. They decided to seek firms who could act as both Actuary and Investment Adviser, as this would lead to synergies.

Following an open tender exercise, the professional services firm XPS were appointed, effective 1 June 2021.

**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*