

## Pension Trustees Speech—General Assembly 2023

### Mr Graeme Caughey

If you were retired and could go on a dream holiday, where would it be?

And who would be with you?

And what would you be doing there, together?

I'm delighted to report to you once again that the Church of Scotland pensions schemes are in great shape.

Each year the schemes actuary conducts an assessment of the financial position and the latest results are shown in the Blue Book report. I'd like to spend just a moment to highlight to you the excellent financial position of the schemes.

Each of the scheme sections is in or very close to being in surplus, on a prudent actuarial basis. General Assembly—in the pensions world this position, of being fully funded on a prudent basis—is the gold standard to which the Pensions Regulator aims all schemes towards. We are already there.

For schemes in surplus there are a number of significant implications:

- Members security of accrued benefits is very high
- Where scheme rules allow, trustees have increased ability to make discretionary increases
- Resource is available to invest in improving outcomes for members, such as improved service
- The Church is not required to make any new financial contribution, as all the monies required are already held safely within the schemes

I mentioned increases to pensions and am delighted that the trustees were able to grant and pay increases to the members of each scheme section. As a minimum, the trustees awarded all increases established by scheme rules and legislation—to use the pensions jargon. These are the annual statutory, or inflationary increases.

In addition, in the scheme for Ministers and overseas missionaries, because of the strong financial position and the rules permit, the trustees were also able to award discretionary increases.

The detail of all the increases for each of the Schemes and sections is set out in the Blue Book. I'd summarise that the Trustees were delighted to be in the position of being able to award such increases – especially this year when inflation in energy and food prices particularly has provided so challenging for many, including for our members.

The Pension Trustees are established to serve the interests of members, and so it's especially pleasing to be able to report to you a significant uptick in the positive feedback received from members, partly, of course, in response to these increases.

Moderator, it was only within the last decade that each of the church pension schemes had to report significant deficits, frankly of rather scary proportions.

It is so pleasing to record once again that the annual update from the schemes actuary shows financial positions in or very close to surplus.

The Pension Trustees have taken action to ensure this continues to be the case – through the use of an investment strategy which selects assets which will behave in a similar way to the liabilities, regardless of the latest turmoil in the investment markets.

Last year the turmoil was caused by high inflation, prompted by post-Brexit trade frictions, together with the Russian invasion of Ukraine. This year it was the significant increase in government bond yields following the failed so-called Kami Kwasi mini budget. Because of the investment strategy of the trustees, liabilities and assets move in the same way in response to market events meaning the funding position remains remarkably stable.

The trustees delegate day-to-day investment of the assets to specialist fund management firms – Legal and General, Baillie Gifford, Insight, and Alliance Bernstein and monitor each of these firms regularly, including their rating for environmental, social and governance – that's ESG - factors. This year the trustees switched out a firm which did not have the trustees' highest ESG rating, for one which did.

## **Outlook**

I've received questions from Commissioners about the outlook for the schemes and would like to address those here.

## **Impact of COVID**

At the actuarial valuation as at 31 December 2021 we were just under two years into the COVID-19 pandemic. At that time the scheme actuary took the approach, industry standard, to ignore the mortality experience for 2020 and 2021 when deciding best how assess future

longevity. Or said in plain language, it was too early to know what the impact of the pandemic and associated public policy restrictions would have.

Further time has since elapsed and the Institute and Faculty of Actuaries will shortly publish their latest mortality tables. Sadly these will show the extent of lasting detriment caused by pandemic and public policy restrictions. For the schemes There will be a corresponding positive effect of about 3% improvement in scheme funding, recognising members reduced life expectancy.

### **The Trustees give focus to cost-effective management**

The Schemes continue to benefit from significant simplification work completed in recent years, including a simplification of the investment management arrangements, an update of Scheme rules and documentation and the implementation of a new administration software system. These items will deliver improved outcomes for members through better service, reduced risk and substantial financial savings annually. Indeed, the Schemes investment management costs were recently assessed to be in the lowest 10% of an industry survey.

### **Improvements**

As part of their ongoing reviews and in anticipation of forthcoming new regulations the trustees have identified areas of their documentation for improvement. Where these require signing by the Assembly Trustees on behalf of the Church updated versions have been drafted and signed by the Pension Trustees and shared with the Assembly Trustees for their review.

### **Administration**

The Trustees are responsible for the administration of members' benefits – that's to say ensuring the right payments are made to the right people at the right time. This service is provided for the Trustees by the excellent Pensions Team based at 121 George Street, led by Jane McLeod. The Trustees review reports on administration regularly and I'm delighted to report that Jane and the team provide consistently high service levels. That's important to our members. Thank-you Jane and team.

### **Pension Trustees**

I'd like to thank each of the Pension Trustees, some of whom join me at the table and in the hall today, for their significant work on behalf of the Schemes. Like many committees, much of the work is unseen as its, rightly, conducted in private. Pension Trustees, I'm certain that

pension scheme members enjoy the best possible outcomes because of the work you do. Thank you.

Adrian Bark retires today after a significant contribution to the work of the Pension Trustees, for which I say a special thank you, personally, on behalf of the trustees and on behalf of all the scheme members. Adrian, all best wishes for your next adventures.

Pauline Gordon resigned during the year and Susan Zappert joined as replacement.

The Trustees are delighted to propose George Russell as Employer Nominated Trustee. Mr Russell is recently retired Government Actuary in Scotland and has an excellent skill set for the role.

As I will retire today, the Trustees also propose Stuart Stephen as Employer-Nominated Trustee to allow him to take over as Chair of the Pension Trustees. Mr Stephen is an existing Pension Trustee and the proposal here is a technical one changing his appointment route to Employer-Nominated Trustee from Member-Nominated Trustee as the Trustees feel their Chair should be Employer-Nominated Trustee of all three schemes.

This is an opportune time to recognise the strength and depth of resource available through this church family, in this context to provide individuals with the skills experience and willingness to serve as Pension Trustees. The most recent mentioned earlier, Susan and George, with significant business and actuarial experience respectively, are excellent examples of this resource. The Trustees would struggle to replicate the quality of the resource available through this church family in the open marketplace.

Moderator, if I may, I thank the General Assembly for entrusting me in the role of pensions trustee, from which I retire today.

So... If you were retired and could go on a special holiday, where would it be?

And who would you be with, and what would you be doing there together?

I very much hope the members of the church pension schemes have some very happy thoughts about this questions, or memories of special places already visited. Secured, at least in part, with the financial support of their pension from the scheme.

Moderator, As I'm not a commissioner I ask that the Principal Clerk moves the Proposed Deliverance.