

# CHURCH OF SCOTLAND PENSION TRUSTEES

CHAIRMAN'S VERBAL REPORT MAY 2017

MODERATOR

[1] COMMISSIONERS WILL HAVE THE WRITTEN REPORT IN THE BLUE BOOK AND THIS GIVES THE BASIC FACTS AS AT FEBRUARY WHEN IT WAS PREPARED.

I WOULD LIKE TO ADD SOME FLESH TO THESE BONES AND MAKE SOME OTHER COMMENTS WHICH I THINK THE GENERAL ASSEMBLY MAY FIND HELPFUL.

[2] REFERRING TO THE BLUE BOOK REPORT I WOULD MENTION THE SECTION ON DISCRETIONARY INCREASES. FOR MANY YEARS IT WAS NOT POSSIBLE TO MAKE ANY DISCRETIONARY INCREASES FOR MEMBERS BENEFITS EARNED BEFORE 1997. OVER THE LAST FEW YEARS IT HAS ONLY BEEN POSSIBLE TO DO SO BY GETTING ADDITIONAL FUNDS FROM THE MINISTRIES COUNCIL OR FROM LEGACIES FROM GRATEFUL ESTATES. FOLLOWING THE ACTUARIAL VALUATION AS AT DECEMBER 2015 – CONCLUDED IN LATE 2016 – IT HAS BEEN POSSIBLE TO GRANT A FURTHER 1% INCREASE – WHICH IS STILL NOT A LOT

BUT IT IS A RECOGNITION THAT WHILST THE TRUSTEES HAVE NO LEGAL REQUIREMENT TO INCREASE BENEFITS FOR THE PRE 1997 BENEFITS THERE ARE STILL MEMBERS WHERE THE PRE 1997 BENEFITS ARE AN IMPORTANT PART OF THEIR PENSION AND WE ARE GLAD TO INCREASE THESE A LITTLE FOR THE FOURTH YEAR RUNNING.

FOR THE WIDOWS AND ORPHANS FUND THE ASSETS ARE RING FENCED FOR THAT SCHEME ONLY AND AS PEOPLE LIVE LONGER THE CLAIMS FROM WIDOWS AND ORPHANS REDUCE. TO AVOID THE FUND BUILDING UP AND NOT PAYING CLAIMS WE INCREASE THE BENEFITS AS OFTEN AS WE CAN. LAST YEAR WE INCREASED THE BENEFIT BY 25% AND THIS YEAR WE HAVE INCREASED THEM BY A FURTHER 10%. WE WILL KEEP THESE BENEFITS UNDER REVIEW.

SIMILARLY THE BENEFITS UNDER THE CONTRIBUTORS FUND HAVE INCREASED WELL IN RECENT TIMES AND A 10% INCREASE WAS MADE TO KEEP BENEFITS FAIR TO ALL MEMBERS.

[3] COMMISSIONERS AND OTHERS WHO HAVE FOLLOWED THE PROGRESS OF THE PENSION SCHEMES OVER THE YEARS WILL NOTE THE POSITION IMPROVING AGAIN THIS YEAR. NOT ONLY IS THE MAIN SCHEME IN SURPLUS ON A VERY

SOUND BASIS BUT THE OTHERS – APART FROM CROSSREACH – ARE QUITE CLOSE. THERE HAS BEEN CONSIDERABLE ENGAGEMENT FROM EACH OF THE EMPLOYING AGENCIES OVER THE PAST YEAR AS WE HAVE DISCUSSED, DEBATED, AGREED AND CONCLUDED THE LATEST STATUTORY TRIENNIAL ACTUARIAL VALUATION.

THANKS ARE DUE TO EACH OF MINISTRIES COUNCIL, SOCIAL CARE COUNCIL AND THE COUNCIL OF ASSEMBLY FOR THEIR VIGOUROUS ENGAGEMENT. THE WORKING RELATIONSHIPS BETWEEN EMPLOYERS AND TRUSTEES CONTINUE TO STRENGTHEN.

IN TERMS OF THE SUCCESSFUL CONCLUSION ACTUARIAL VALUATIONS OF THE SCHEMES I CAN CONFIRM TO THE GENERAL ASSEMBLY THAT ALL MATTERS WERE CONCLUDED TIMEOUSLY WITH THE NECESSARY DOCUMENTATION SIGNED AND SUBMITTED TO THE REGULATOR WITHIN REQUIRED TIMELINES.

WITHIN THAT - SOME SCHEMES WERE MORE TIMELY THAN OTHERS – MOST DISCUSSION WAS REQUIRED IN RELATION TO THE CROSSREACH SECTION OF THE STAFF SCHEME. HERE

THE FUNDING DEFICIT - WHILE GENTLY REDUCING - REMAINS AN AREA FOR FOCUS.

IT IS WORTH SAYING THAT THE PENSION TRUSTEES HAVE TAKEN A SENSIBLE APPROACH TO THE MATTER OF CROSSREACH'S FUNDING. WE COULD HAVE BEEN DEMANDING AND FORCED THE ISSUE SO THAT WE RECEIVED MORE MONEY MORE QUICKLY. HOWEVER, WE HAVE GUARANTEES FROM THE COUNCIL OF ASSEMBLY AND THE GENERAL ASSEMBLY SUCH THAT IF THERE WERE TO BE A PROBLEM THE SCHEME MEMBERS WILL GET THE MONEY NEEDED. THIS MEANT THE TRUSTEES WERE COMFORTABLE TO MAINTAIN THE EXISTING AGREED LEVEL OF ADDITIONAL CASH CONTRIBUTIONS BEING A COMPROMISE WHICH GIVES CROSSREACH SOME ADDED TIME AND SPACE TO CONTINUE THE WORK THEY HAVE BEEN DOING TO BALANCE THEIR BOOKS INCLUDING THE PENSION DEFICIT PAYMENTS RATHER THAN HAVING THESE PAID FROM OTHER RESERVES.

WE ARE HAPPY WITH THE OVERALL SITUATION AS FAR AS THE FUNDING OF THE SCHEMES IS CONCERNED AND, IN THE TRUSTEES OPINION, ALL THE PENSIONS OF ALL THE SCHEMES ARE SECURE.

TOTAL FUND ASSETS NOW EXCEED £500 MILLION AND ARE INVESTED IN A WAY WHICH MATCHES QUITE CLOSELY THE LIABILITIES OF THE SCHEMES FOR PAYING PENSIONS SO THE RISK IS MINIMISED OF ANY CALLS ON THE CHURCH GENERALLY FOR FURTHER ADDITIONAL MONEY.

[4] I MENTIONED LAST YEAR THAT WE WERE HOPEFUL OF SECURING SERIOUS SAVINGS IN THE COSTS OF INVESTMENT AND THE SUM OF AROUND £500,000 ANNUALLY HAS BEEN SAVED, AS A BENEFIT OF MOVING THE INVESTMENTS MORE INTO LOW RISK GILTS AND INDEX LINKED GILT ASSETS. THESE HAVE MUCH LOWER MANAGEMENT CHARGES. THE HALF A MILLION POUND ANNUAL SAVING WILL CONTINUE TO ACCRUE TO THE FUNDS YEAR AFTER YEAR.. INDEED, THERE MAY BE A LITTLE MORE TO COME AS THE TRUSTEES CONTINUE TO NEGOTIATE SUCCESSFULLY WITH EXTERNAL FUND MANAGERS IN WHAT IS A FAVOURABLE ENVIRONMENT TO SECURE FEE REDUCTIONS.

[5] WE STILL SEE PRESS COMMENT THAT DEFINED BENEFIT SCHEME ARE IN TROUBLE AND THE COSTS OF COVERING DEFICITS IS A GREAT BURDEN ON EMPLOYERS. NOT SO FOR

THE CHURCH. DECISIONS TAKEN OVER THE LAST FOUR OR FIVE YEARS HAVE LEFT US IS WHAT OUR ACTUARY HAS CALLED “AN ADMIRABLE SITUATION” COMPARED TO OTHER SCHEMES.

[6] ONE OF THE TECHNICAL POINTS ON PENSIONS IS AROUND WHAT IS CALLED THE EMPLOYER COVENANT. IN SIMPLE LANGUAGE THIS ASSESSES THE ABILITY AND WILLINGNESS OF THE EMPLOYER TO STAND BEHIND THE PENSION PROMISES, INCLUDING ADDING ADDITIONAL CASH IF REQUIRED IF THERE WERE TO BE ADVERSE CIRCUMSTANCES.

WHEN WE HAD A VERY IN DEPTH REVIEW OF THIS THE RESULT WAS THAT THE EMPLOYER COVENANT WAS “STRONG” – THE SECOND HIGHEST IT COULD BE. WE HAVE REVIEWED THIS FURTHER AND STILL REGARD TO EMPLOYER COVENANT AS “STRONG”, SO WE ARE VERY HAPPY WITH THAT.

[7] THE TRUSTEES HAVE INVESTED IN THE IMPROVEMENT OF ADMINISTRATION AND I HOPE THAT FUTURE GENERAL ASSEMBLIES WILL HEAR ABOUT THE BENEFITS BEING DELIVERED.

SOME YEARS AGO IT BECAME APPARENT THAT WE COULD NOT CONTINUE TO RUN THE SCHEMES ON THE EXISTING ADMINISTRATION SYSTEMS. I'LL BE CANDID HERE 'SYSTEMS' REALLY MEANT OLD EXCEL SPREADSHEETS. MANY CALCULATIONS HAD TO BE DONE BY HAND AND THE SYSTEM WAS INSECURE AND OPEN TO ABUSE IF ANY ONE HAD GAINED ACCESS TO IT.

I'M PLEASED TO REPORT TO COMMISSIONERS THAT SIGNIFICANT WORK HAS BEEN COMPLETED BY STEVE KANEY, THE PENSIONS MANAGER AND HIS TEAM AND THAT WE NOW HAVE AN INDUSTRY STANDARD PENSIONS ADMINISTRATION PLATFORM INSTALLED.

AS PART OF THE PRELIMINARY WORK TO IMPLEMENTING THIS NEW SYSTEM WE CONDUCTED A REVIEW OF THE COMPLEX SCHEME RULES, WHICH HAVE CHANGED SHAPE MANY TIMES OVER THE YEARS AS THE SCHEMES WERE CONCEIVED, INTRODUCED, ADAPTED AND IN 2013 CLOSED. THE DOCUMENTATION WAS REVIEWED AND UPDATED AS APPROPRIATE AND A CHECK OF ADMINISTRATION PRACTICE WAS COMPLETED – TO ENSURE THAT SCHEME MEMBERS WERE HAVING THE BENEFIT OF THE TRUSTEES STATUTORY

RESPONSIBILITY TO ADMINISTER BENEFITS IN LINE WITH THE,  
OFTEN COMPLEX, RULES.

THAT REVIEW IS DRAWING TO COMPLETION AND WILL  
SHORTLY BE COMPLETED. THIS HAS BEEN A DETAILED AND  
VERY WORTHWHILE EXERCISE INVOLVING CONSULTATION  
WITH EACH OF THE EMPLOYING AGENCIES ALONG THE WAY.  
THANKS ARE DUE AGAIN TO THE STAFF OF THE PENSIONS  
DEPARTMENT EACH OF MINISTRIES COUNCIL, CROSSREACH  
AND THE COUNCIL OF ASSEMBLY / CSC FOR THEIR  
ENGAGEMENT THROUGHOUT THIS PROCESS. THIS HAS  
DELIVERED FOR THE SCHEMES A CLARIFIED AND UP-TO-DATE  
SET OF SCHEME RULES & CLEANSED DATA TO LOAD ONTO THE  
NEW ADMINISTRATION PLATFORM. IT GIVES TRUSTEES  
CONFIRMATION THAT THEY ARE DISCHARGING THEIR  
STATUTORY RESPONSIBILITY TO ADMINISTER BENEFITS IN  
LINE WITH THE SCHEME RULES, AND THERE IS NOW IN PLACE  
AN UPDATED AND CONSOLIDATED SET OF SUCH RULES, ALL  
OF WHICH WILL IMPROVE EFFICIENCY AND SERVICE LEVELS  
FOR MEMBERS.

TAKEN TOGETHER THE REVIEW OF RULES & BENEFITS AND  
THE IMPLEMENTATION OF THE NEW SYSTEM COMBINE TO



LEAVE THE SCHEMES AND THEIR ADMINISTRATION IN A STRONG, ROBUST POSITION FOR THE FUTURE.

[8] SOME OF YOU WILL KNOW THAT I HAVE NOT BEEN AS HEALTHY AS I WOULD LIKE THIS LAST YEAR HAVING BEEN DIAGNOSED WITH ANGINA AND UNDERGOING BYPASS SURGERY ON MY HEART. I AM FINE NOW BUT DURING THAT PERIOD MY VICE CHAIRMAN, GRAEME CAUGHEY, HAS CARRIED MOST OF THE BURDEN WHICH WOULD NORMALLY HAVE FALLEN TO ME AND I SHOULD LIKE TO PAY TRIBUTE TO HIM PUBLICLY FOR THE WORK ON THE BENEFIT REVIEW AND THE CONCLUSION OF THE VALUATION PROCEDURES. THANK YOU GRAEME.

[9] ON STAFFING , WE HAVE HISTORICALLY HAD AN UNDERSTAFFING PROBLEM IN THE PENSION DEPARTMENT BUT THIS WAS RESOLVED AROUND THE TIME OF THE LAST GENERAL ASSEMBLY – WITH THE HELP OF THE COUNCIL OF ASSEMBLY STAFFING GROUP AND THE HR DEPARTMENT. NOW THAT THE NEW SYSTEM IS IN PLACE WE ARE REVIEWING THE POSITION. IT HAS BEEN THE PLAN FOR SOME TIME TO HAVE SOME OF THE INFORMATION ON THE DEFINED CONTRIBUTION PLAN COME INTO THE REMIT OF THE PENSION DEPARTMENT.

THE DEFINED CONTRIBUTION PLAN IS NOTHING TO DO WITH THE PENSION TRUSTEES BEING A CONTRACT BETWEEN THE MEMBER AND THE INSURANCE COMPANY SO SOME WORK WILL NEED TO BE DONE TO SEPARATE OUT THE ROLES AND RESPONSIBILITIES. IT IS HOPED THAT THIS MAY BEGIN AROUND OCTOBER.

[11] TURNING TO THE TRUSTEES - MY RETIRAL MEANS AN OPPORTUNITY FOR MY REPLACEMENT. THE TRUSTEES ALWAYS SEEK TO KEEP A GOOD BALANCE OF SKILL AMONGST THEIR NUMBER AND I AM PLEASED TO PROPOSE ADRIAN BARK AS AN ASSEMBLY APPOINTED TRUSTEE. COMMISSIONERS WILL HAVE RECEIVED THE APPROPRIATE NOTICE OF MOTION IN THIS REGARD. IN ADDITION YOU WILL SEE FROM THE WRITTEN REPORT IN THE BLUE BOOK THAT GRAEME CAUGHEY FALLS TO BE REAPPOINTED AND THAT IS IN THE DELIVERANCE AS IT IS. GRAEME WILL BECOME THE NEW CHAIRMAN AND I AM CONFIDENT THAT THE SCHEMES WILL CONTINUE TO GO FROM STRENGTH TO STRENGTH UNDER HIS LEADERSHIP.

IT IS ONE OF THE GREAT STRENGTHS OF THE CHURCH OF SCOTLAND THAT THERE IS SUCH A POOL OF TALENT AND EXPERIENCE WHO ARE WILLING TO SERVE ON THE VARIOUS

COUNCILS – IN THIS CASE THE PENSION TRUSTEES – AND I AM VERY THANKFUL FOR ADRIAN AND THE OTHER TRUSTEES WHO GIVE THEIR TIME AND SKILLS TO ENSURE THE WORK OF THE TRUSTEES IS COMPLETED TO SUCH A HIGH LEVEL.

WE KNOW FROM OUR ACTUARIAL AND LEGAL ADVISORS THAT THIS IS NOT OFTEN THE CASE WITH PENSION SCHEMES SUCH AS OURS. THEY OFTEN STRUGGLE TO FIND SUITABLE SKILLS FROM WITHIN THEIR ORGANISATIONS AND WHERE THEY DO CONFLICTS OF INTERESTS CAN MEAN THEY ARE UNABLE TO TAKE UP TRUSTEE POSITIONS. THIS HAS LED TO A TREND TOWARDS PAYING FOR PROFESSIONAL FIRMS – TO ACT AS EMPLOYER NOMINATED TRUSTEES. NOT SO WITH THE CHURCH SCHEMES – WHERE WE ARE FORTUNATE TO HAVE IN EFFECT 6 INDEPENDENT TRUSTEES ALL OF WHOM GIVE THEIR TIME AND ENERGY FREE. IN MANY RESPECTS, LIKE OTHER CHURCH COUNCILS WE ARE TRULY FORTUNATE TO HAVE SUCH EXPERIENCE AND WILLING RESOURCE AVAILABLE. IN PENSIONS JARGON WE HAVE *THE* MODEL TRUSTEE BOARD STRUCTURE, AND WITHOUT THE COSTS NORMALLY ASSOCIATED WITH THIS..

[12 I HAVE MENTIONED TO PREVIOUS GENERAL ASSEMBLIES WE SOMETIMES HAVE PROBLEMS GETTING MEMBER

NOMINATED TRUSTEES. TO BROADEN THE POOL OF PEOPLE ELIGIBLE FOR THESE MEMBER NOMINATED POSITIONS WE ARE NOW INVITING MEMBERS NOT ONLY TO NOMINATE THEMSELVES OR OTHER SCHEME MEMBERS BUT ALSO ANYONE THEY BELIEVE WOULD BE APPROPRIATE TO FILL THE TRUSTEE ROLE. WE HAVE WRITTEN TO ALL SCHEME MEMBERS RECENTLY IN THIS REGARD, ASKING FOR NOMINATIONS, AS THERE ARE VACANCIES IN EACH OF THE MINISTERS, MINISTRIES DEVELOPMENT AND STAFF SCHEMES.

IT IS A POINT OF PENSION LAW THAT MEMBERS HAVE THE RIGHT TO APPOINT ONE THIRD OF THE TRUSTEES AND AS THERE ARE 6 ASSEMBLY APPOINTED TRUSTEES THAT MEANS THERE CAN BE 3 MEMBER NOMINATED TRUSTEES. PLEASE COULD SOME OF YOU THINK ABOUT THAT OR THINK OF A FRIEND WHO MIGHT HAVE THE INTEREST TO DO THIS JOB

[13] IN CONCLUSION, MODERATOR,

- THE SCHEMES ARE IN GOOD SHAPE FINANCIALLY. WITH FINANCIAL GUARANTEES & STRONG COVENANT AND THE TRUSTEES OPINION IS THAT MEMBERS BENEFITS ARE SECURE.

- WE HAVE VACANCIES FOR NEW TRUSTEES NOMINATED BY MEMBERS. PLEASE CONSIDER PUTTING YOURSELF OR A SUITABLE PERSON FORWARD.
- THE PENSION TRUSTEES HAVE INVESTED IN A SIGNIFICANT RULES & BENEFIT REVIEW AND INSTALLED A NEW COMPUTER SYSTEM. TAKEN TOGETHER THIS WILL IMPROVE ADMINISTRATION AND PUTS THE SCHEMES IN A VERY STRONG POSITION FOR THE YEARS AHEAD.
- ENGAGEMENT AND COMMUNICATIONS BETWEEN THE CHURCH – IN ITS ROLE AS EMPLOYER – AND THE PENSION TRUSTEES HAS BEEN SUBSTANTIAL. I'VE MENTIONED THANKS ALREADY TO THE COUNCILS INVOLVED. CATHERINE SKINNER IN HER MINISTRIES COUNCIL ROLE AND MORE RECENTLY COUNCIL OF ASSEMBLY ROLE HAS BEEN AT THE SHARP END OF THE MANY MEETINGS BETWEEN THE CHURCH AND THE PENSION TRUSTEES. MANY THANKS TO CATHERINE AND ALL THE COUNCIL MEMBERS AND 121 EMPLOYEES WHO HAVE ENGAGED AND SUPPORTED THE TRUSTEES WORK IN DELIVERING THEIR WORK FOR PENSION SCHEME MEMBERS.

MODERATOR AS I AM NOT A COMMISSIONER CAN I ASK  
THE PRINCIPAL CLERK TO MOVE THE DELIVERANCES.