

**CHURCH OF SCOTLAND PENSION TRUSTEES MAY 2021****Proposed Deliverance****The General Assembly:**

1. Receive the Report.

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

As at 31 December 2020, 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 5000 members. This Report is made by the Trustees of each of those Schemes (the "**Trustees**"). As at 31 December 2020 the Trustees held, in aggregate, total assets of approximately £524 million for the purposes of the Schemes.

**1.1 Scheme funding**

**1.1.1** A summary of the respective funding positions of the Schemes at 31 December 2020 and the change since the triennial valuation as at 31 December 2018 is set out here:

<b>Scheme</b>	<b>Funding level at 31/12/20</b>	<b>Change since 31/12/18</b>	<b>Surplus/ (Deficit)</b>	<b>Change since 31/12/18</b>
Ministers Scheme, Main Pension Fund	<b>117%</b>	-2.4%*	£49.7m	£-1.4m
Ministers Scheme, Widows & Orphans Fund	<b>111%</b>	3.9%	£3.8m	£1.8m
Ministers Scheme, Contributors Fund	<b>112%</b>	5.4%	£0.5m	£0.2m
Staff Scheme (CSC Section)	<b>108%</b>	2.8%	£2.1m	£1.4m
Staff Scheme (SCC Section)	<b>100%</b>	8%	£(0.2m)	£5m
MDS Scheme	<b>103%</b>	3%	£0.6m	£0.5m

The improvements in funding levels largely reflect excess investment returns as well as in the case of the SCC (CrossReach) Section, additional cash contributions up to and including January 2021, paid by the Employing Agency in line with agreements to reduce funding deficits.

\*As noted in 1.2.2 discretionary increases were awarded to increase members' benefits the impact of which is to reduce the funding level.

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

## CrossReach achieves full funding

**1.1.2** The Annual Actuarial Report as at 31 December 2020 confirmed the funding level of the CrossReach Section of the Staff Scheme reached 100%. This is a major milestone for the members of the Scheme, and is achieved after significant financial support from CrossReach. The Scheme Trustees agreed that with the funding level of the CrossReach Section at 100% they could implement a revised Schedule of Contributions (SoC).

This allowed for the immediate cessation of Deficit Reduction Contributions.

## 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 2021, were 0.5% in respect of benefits accrued between 6 April 1997 and 5 April 2005 and 0.5% 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 0.5%.

### 1.2.2 Discretionary increases in the Ministers Scheme

The Trustees of the Ministers Scheme have the unilateral power to award discretionary increases to benefits in the Ministers Scheme.

In September 2020 the Trustees applied a one-off uplift to members' pre-1997 benefits to bring them in line with the benefits that would be in payment, had full inflationary increases applied since their date of retirement. This was a one-off levelling up exercise to make up for previous years when there were insufficient funds to allow discretionary increases to benefits.

### 2021 pension increases

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

- Ministers Main Fund: 0.5% increase on pre-1997 pensionable service for all pensions in payment as at 1 January 2021
- Widows and Orphans Fund: 8% increase on benefits as at 1 January 2021 for all deferred and pensioner members' benefits
- Contributors Fund: 10% increase on benefits as at 1 January 2021 for all deferred and pensioner members' benefits.

## 1.3 Investment Strategy

The investment strategy employed by the Trustees reflects the strong funding levels and their desire with the support of the Employing Agencies 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. The objective is to reduce any unwanted investment risk due to the assets not matching the interest rate and inflation sensitivities of the liabilities.

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

During the year, the Trustees agreed the investment strategy of each Scheme, to target a return from assets of 0.3% per annum above the matching gilt yield. This is achieved by investing in a diversified manner in a variety of low risk assets, whilst still maintaining a full hedge against interest rate and inflation movements. 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 will be implemented in the first quarter of 2021.

The Trustees continue to consider the nature, disposition, marketability, security and valuation of the Scheme's investments and their appropriateness relative to the reasons for holding each class of investment

## 1.4 Changes in Staff and Trustees

We are delighted to 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.

### 1.4.1 Staff

Ruth Farquharson joined in February 2020 and Connor MacFadyen left in August 2020.

### 1.4.2 Trustees

#### *Pension Scheme for Staff*

John Thomson retired as a Member Nominated Trustee (MNT) of the Pension Scheme for Staff in May 2020. Anne-Marie Gillon and Stuart Stephen joined as MNTs in August 2020 and John Montgomery joined as a MNT in November 2020.

#### *Pension Scheme for MDS*

Neil Campbell resigned as a MNT in January 2021 and Ian Gray was appointed as a MNT in February 2021.

Andrew Sutherland retired as an Employer Nominated Trustee (ENT) of all three Schemes with effect from the 2020 General Assembly and Ray Martin and Lin Macmillan were appointed as ENTs for all three Schemes at the General Assembly in 2020.

**1.4.3** The Trustees wish to record thanks to Andrew Sutherland, John Thomson and Neil Campbell for their dedicated service and contribution to the work of the Trustees.

## 2. SCHEME ADMINISTRATION

**2.1** The General Assembly of 2018 invited the Trustees to deliver a Report to the 2019 General Assembly with recommendations on the most efficient means of administration of the closed funds (the "Scheme Administration").

The Trustees reported to the 2019 General Assembly 2019 that:

the current administration provisions be maintained, with further consideration given to this after the decision on buy-out is taken

The Trustees, having decided that buy-out was either unaffordable or did not offer best value for money, returned to Scheme Administration, concluding that existing arrangements be maintained.

The decision not to buy-out was part of a broader strategic review, summarised as:

Over the last two years the Trustees have considered the various options available, including the status quo. Our conclusion is that the members are best served by us not pursuing a buy-in, buy-out etc at this stage. Nor is it likely to be in the foreseeable future but we remain open to market developments.

A further piece of work reviewing practices, policies and procedures will be completed during 2021.

### **3. GOVERNANCE**

**3.1** The Trustees are conducting a formal review process for each of the key adviser roles of Scheme Actuary and Investment Consultant for the Schemes. This will be concluded in 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 two-day course covering the syllabus of the Pensions Management Institute part 1 exam in Professional Trusteeship.

**3.3** The Trustees are conducting a regular review of the policies, practices and procedures used by the in-house administration team. This will be completed during 2021.

*In the name of the Pension Trustees*

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