Paper G5

URC future pension arrangements

Finance and Pensions Committees

Basic information

Contact name and email address	Ian Hardie, Treasurer ianzhardie@googlemail.com
Action required	Decision.
Draft resolution(s)	**11. General Assembly endorses the work done in devising a defined contribution pension scheme to replace both the URC Final Salary Scheme and the URC Ministers' Pension Fund as the recipient of future pension contributions, and authorises formal consultation with members of the existing schemes about the proposals as outlined in the paper and briefing note presented at General Assembly 2022.** **12. General Assembly approves signing of the contract with Aon referred to in that paper.** **13. General Assembly authorises Assembly officers to consider the outcome of the consultation with members and:** • **if the officers are satisfied that no (or only minor) changes to the proposals as outlined are required, General Assembly also authorises Assembly officers to finalise the new scheme, and make arrangements for the closure of the existing schemes to future accrual after 31 December 2022, and for the beginning of the new scheme with effect from 1 January 2023, or as soon as practicable thereafter** • **if not satisfied that only minor changes to the proposals are required, the Assembly officers should ensure that revised proposals are brought back for reconsideration by General Assembly or Assembly Executive acting on behalf of General Assembly as soon as is feasible.**

Summary of content

Subject and aim(s)	To invite General Assembly to: • endorse the work of the Pensions Review Group in devising a new URC defined contribution pension scheme for ministers/CRCWs and lay staff

	• authorise the required consultation with members of the existing pension schemes about the proposals in this paper; and • make arrangements for considering the outcome of the consultation and bringing the new pension arrangements into effect as presently outlined, or as amended following the consultation.
Main points	General Assembly 2021 agreed in principle to the closure of the existing URC pension schemes to future accrual, which had been proposed primarily on grounds of increasing unaffordability. Over the past year, the Pensions Review Group has developed proposals for a replacement defined contribution pension scheme. The main elements of these proposals are summarised in this paper, and set out in greater detail in an attached briefing note. Subject to Assembly approval, the intention is to begin the legally required consultation with the members of the existing schemes about the proposals as soon as possible. If the consultation throws up no issues, or only ones requiring minor amendment to the proposals, it is suggested that Assembly officers be authorised to finalise the scheme and approve it beginning to operate on 1 January 2023. If major issues arise, reconsideration of the scheme should be referred to either Assembly Executive or General Assembly as soon as is feasible.
Previous relevant documents	Paper G1 for November 2021 Assembly Executive Paper G4 for 2021 General Assembly.
Consultation has taken place with...	It is expected that before Assembly meets, consultation will have taken place with Equalities Committee, URC Youth, Unite, and a DEI specialist.

Summary of impact

Financial	The design of the proposed new arrangements is intended to return the costs of future benefit contributions to 2021 levels, while making good pension arrangements for the Church's office holders and staff.
External (eg ecumenical)	

1. This paper briefly restates the reasons for the decision in principle by General Assembly 2021 to close both current URC pension schemes to future accrual. It outlines the main features of the proposals by the Pensions Review Group

(PRG), endorsed subsequently by the URC Pensions and Finance Committees, for a new defined contribution (DC) scheme to replace both the current schemes.

2. It explains why the PRG believes the proposed scheme is very generous, with the outcome for most office holders likely to be the same or better than if the current schemes remained in place. It suggests the way forward from this point if General Assembly is willing to endorse the proposals as ready for consultation with members of the existing schemes.

3. Much more detail about the proposals and the process which has been gone through to arrive at them is provided in a briefing note attached to this paper, which will also be used to facilitate briefings with members of Assembly prior to the meeting of Assembly. An attempt has been made to make this as easy to read as possible but, inevitably, it is quite long and some may find it hard going. However, its aim is to provide those who are interested in understanding the full picture with adequate information to do so.

The 2021 decision

4. Last year's General Assembly was presented with a paper that argued the current URC defined benefit pension schemes were no longer the "gold standard" in pension provision they had once been thought to be. Legislation which had enabled 'drawdown' arrangement for DC pension pots, the fact that such pots were assets that could be passed on to others at death, and the greater flexibility in pursuing investment returns in DC schemes, combined to make them an increasingly attractive option. It was also explained how greater prudence on the part of the Pensions Regulator was expected to almost double the costs of the employer contributions for future service benefits of a minister in 2022, with further increases expected later in the decade. Although less dramatic, the cost of providing future benefits in the staff scheme was also affected by the same issues. General Assembly agreed in principle to the closure to accrual of the current schemes. It was accepted that a lot of work needed to be done to devise a good quality DC scheme to replace the current ones. General Assembly therefore suggested that the earliest possible date for introduction of any new pension arrangements would be 1 January 2023.

The PRG proposals

5. The URC has been extremely fortunate over recent years in having several members who are actuaries or retired actuaries, and who have been willing to give their time and expertise in addressing URC pension matters. However, that situation cannot be expected to continue indefinitely. Accordingly, the PRG recommends that the new DC scheme should be established with a third-party Master Trust provider, which has the in-house expertise to oversee our scheme for the long term. (See section 9 of the briefing note for information about master trusts.)

6. The PRG has identified Aon as our preferred Master Trust provider. As well as having a recent record of achieving good financial outcomes for their current pension schemes (though that is no guide to future performance), Aon also demonstrates a strong and developing commitment to Environmental, Social and Governance (ESG) issues. They are respectful of the ethos of the Church, and have a suite of funds that will enable scheme members, if they wish, to make

investment choices to meet their own wishes and/or take account of the Church's ethical investment guidelines.

7. Aon is able to support our members with appropriate information and guidance via phone and face-to-face channels, as well as online. Moreover, it has indicated that its phone operators would know about the specifics of the URC scheme – which some other Master Trust providers were not able or willing to undertake.

8. All master trusts will have default funds into which member's money goes, unless the member self-selects a different fund. No master trust offers a totally 'fossil fuel free' default fund: but Aon's Managed Retirement Pathway Funds comes as close as any. (See section 9.3 of the briefing paper.)

9. The Aon Managed Global Impact Fund cannot be a default fund in a master trust because of its cost structure, but it is available as a member self-select fund. It is designed to invest in sustainable businesses, therefore effectively excluding fossil fuel companies but without explicitly naming them, and instead investing in renewable and carbon reduction technology ventures. The fees charged for investing in this self-select fund will be higher than for the default fund.

10. Although we envisage a single URC pension scheme operated by Aon, it will have two sections: one for ministers/CRCWs remunerated under the Plan for Partnership, and the other for lay staff and a few ministers working under contracts of employment.

11. The PRG understands that General Assembly will want to be satisfied that the move to a DC scheme, while attempting to put a cap on rapidly rising costs, is not a cost-cutting exercise, which it often has been in the case of private sector companies. Section 7 of the briefing note seeks to offer this reassurance.

12. In the case of the staff section of the new scheme, we envisage employee contributions being as at present, with employer contributions being set at 16% of salary for all employees. In the ministers' section, we envisage member contributions also being as at present, but the employer's contributions increasing as the minister's age increases. Having different age-related contributions in pension arrangements is specifically provided for under the Equality Act (Age Exceptions for Pension Schemes) Order 2010, if this is done to make the benefits 'more nearly equal'.

13. In our situation, where ministers receive exactly the same stipend irrespective of their time in office, widely different outcomes were produced when the result of using a single level of contributions was modelled (see section 17 of the briefing note). The PRG is satisfied that age-related contributions for ministers do indeed result in more nearly equal benefits for all our ministers. The specific contribution levels recommended in section 10 of the briefing note cost the equivalent of 18% of stipend for every minister. The difference between the contribution rates for staff and ministers reflects the fact that the staff rate is applied to salaries which cover housing costs, whereas the rate for ministers is applied to stipends, which do not.

14. Both rates of employer contribution are well above the norm for DC pensions, which two recent surveys (FTSE: 350 and Aon UK) both suggested ranged

between 6% and 10%. (This fits with the PLSA quality standards set out in section 11.7 of the briefing note.)

15. Currently, both death-in-service and ill-health early retirement arrangements are dealt with within the pension schemes. This is not possible within the DC scheme. Sections 12 and 13 of the briefing note set out in some detail the proposals for dealing with these matters going forward. Initially, the interaction of the current scheme rules and the proposed new arrangement for death-in-service will result in more generous treatment overall for widows/widowers, but this extra generosity will diminish with time.

16. Section 16 of the briefing note sets out the results of one of the modelling exercises done on our behalf, and section 17 refers to the results of some other modelling, but in less detail. It is important to emphasise that such modelling exercises are just a guide to possible outcomes, not a statement of what will actually happen. Nonetheless, the PRG was pleased to note that for all except one of the sample member projections the drawdown result using a conservative "low return environment" assumption, exceeded the amount that would have been received if the existing ministers' scheme stayed in place, and the shortfall in the other projection was only around £100 per year. Since the projections refer to "at least" the amounts mentioned, the actual gap on the basis of that final projection may be less or non-existent. Aon will be able to support members when it comes to deciding how to use their pension pot and helping them through that process, as will Independent Financial Advisors.

17. To sum up this section, the PRG believes that the proposals outlined here, and in the more detailed briefing note, constitute a generous package backed up by professional support with a good track record, and a good customer-service advisory operation, which is expected to result in good pensions for our staff and ministers, while avoiding the increase in future costs that led last year's General Assembly to conclude the existing schemes had to close to accrual as soon as possible.

18. Before Assembly meets, the PRG intends to meet with representatives of the URC Equalities Committee, URC Youth, Unite, and with a DEI specialist for discussions about the proposals.

19. The PRG, Pensions Committee and Finance Committee commend the proposals to General Assembly.

The way forward

20. At the time of writing this note, there are a few further loose ends to tie up in completing the final design of the new pension scheme, but these are relatively minor and should be completed by the time General Assembly meets.

21. Accordingly, we invite General Assembly to endorse the proposals, and authorise the formal 60-day consultation on those proposals with members of the current schemes as required by law. If Assembly approves this course of action, this consultation will begin as soon as possible.

22. With Assembly's approval, we will also finalise our contract with Aon following this endorsement.

23. The consultation may throw up no issues for reconsideration, in which case the resolution suggests that Assembly officers be authorised to give final approval on behalf of General Assembly for the new scheme to begin on 1 January 2023.

24. The consultation may raise issues requiring amendment to the proposals. If, in the opinion of Assembly officers, these are minor changes only, the resolution again gives those officers the authority to finalise on General Assembly's behalf the scheme as amended, and to approve its start of operations on 1 January 2023.

25. In the (hopefully) unlikely event that the issues raised by the consultation are not regarded by the Assembly officers as requiring only minor changes, the resolution dictates that the matter should be brought to the Assembly Executive or a future General Assembly as soon as is feasible. That is likely to entail a delay in the start date of the new scheme, which would mean that the significantly increased costs of the current schemes would continue for longer.

A briefing document on the proposals to be made to General Assembly 2022 regarding new pension arrangements for the Church's office holders and staff

This briefing document has two purposes:

i) to provide detail in support of the related Assembly paper; and
ii) to support online briefing sessions for Assembly representatives that should improve understanding of these complex matters, and save time at the actual meeting of Assembly.

Part A: Introduction

1. Purpose and scope

1.1 The purpose of this note is to summarise work done since Assembly 2021, and make proposals about the future pension arrangements for office holders and staff of the United Reformed Church.

1.2 This note does not attempt to cover every detail of the proposals, which will be set out in the formal documentation of the new pension scheme. Some of those details have not yet been finalised. Pensions matters are inherently complex, with their own vocabulary. The note is written in a form that is intended to be accessible, and that provides sufficient information to enable members of Assembly to make good decisions about the Church's future pensions arrangements.

1.3 Part B of this paper covers the main elements of the proposed new pensions arrangements, and explains how these have been arrived at. It also identifies issues of detail which remain to be resolved.

1.4 Part C provides results of some of the financial modelling which underpins the proposals in Part B. This modelling focuses on office holders who spend their whole working lives in the Church, and shows the estimated income in retirement under various scenarios, including what would have been expected if the existing Ministers' Pension Fund had continued to operate as now.

2. Some definitions and explanations

2.1 **Defined Benefit (DB) pension schemes**

The United Reformed Church currently has two active pension schemes, and they are both Defined Benefit (DB) pension schemes. The **URC Ministers' Pension Fund (MPF)** is the pension scheme for nearly all office holders (ministers and church related community workers). It is managed by the URC Ministers' Pensions Trust. All the directors of this independent trust company are members of the Church. The **URC Final Salary Scheme (FSS)** is the pension scheme for all staff and a small number of ministers. It is managed by TPT Retirement Solutions through a Master Trust.

A DB pension scheme is one where the method of calculating a member's pension is pre-determined, without reference to actual investment returns. In both the URC schemes, the calculation is based on years of service and salary or stipend at, or close to, retirement. The fact that the formula for calculating a pension is pre-determined does not mean that its value, in terms of its purchasing power, is known in advance. That depends on a number of factors, including how the person's salary or stipend increases compared to price increases over the same period.

From the perspective of the members, DB pension schemes operate automatically with very little involvement required except through the payment of contributions. On the other hand, there is very little flexibility for each member, except in relation to when the pension will be taken and whether some is taken as a lump sum.

The Church, as the principal employer or sponsor of both the DB schemes, is legally obliged to meet the cost of providing these pre-determined pensions, net of any contributions from the members, whatever that cost is. The Church contributions into these schemes are based on triennial actuarial valuations which estimate what the future costs will be, but these are only estimates.

2.2 **Defined Contribution pension schemes**

The purpose of all pension schemes is essentially the same. Setting aside and investing funds during a person's working life is intended to provide income in retirement. Defined Contribution (DC) pension schemes are currently the only practical alternative to DB schemes. The overall objective is the same, but the operation of DB and DC schemes is very different, making comparisons difficult.

Defined contributions: The employer/sponsor and the members make regular contributions into a DC pension scheme. The level of these contributions is fixed, but is subject to regular review. It is usually possible for members to make additional contributions, above the standard or minimum level.

Investments: These contributions are invested. A DC pension scheme will have default arrangements for the investment of its funds. However, individual members may be able to choose different investment options – for example, to take more or less risk, or to avoid certain types of investment. Typically, a Master Trust is responsible for the assets of many pension schemes. This achieves economies of scale that benefit all parties.

Personal pension pots: Each member of a DC pension scheme has a personal pension pot, which consists of the contributions made on their behalf plus the accumulated investment gains on those contributions. This pension pot is held by the trustee on behalf of the member. When a member dies, their pension pot is available to provide benefits for their beneficiary(-ies), as determined by the trustee.

Choices at and after retirement: Each member of a DC pension scheme has important choices to make as they approach retirement and then regularly afterwards, which are mainly to do with the rate at which the accumulated pension pot is spent. This will depend on personal circumstances, and these can change over time. It is important for members to obtain independent financial advice about these choices as, once a DC pension pot is spent, it is gone.

Annuity or Drawdown: Members with a small DC pension pot at retirement may be able to take it as cash. However, for most members the main choice is between an annuity and drawdown. Drawdown typically means agreeing once a year on an amount to be withdrawn, leaving the rest of the pension pot invested. The alternative is to use the pension pot to purchase an annuity from an insurance company. The member in effect sells their pension pot but, in exchange, they (and possibly their spouse in the event of the prior death of the member) are guaranteed a monthly income for life. It is possible to use drawdown for a period after retirement and then, later, change to an annuity.

2.3 **Office holders and staff**. In this note, 'office-holders' are defined as ministers and Church-Related Community Workers who are working under the terms of the URC Plan for Partnership. Almost all office-holders are currently members of the MPF. 'Staff' are those who have employment contracts with the Church, and this includes a small number of URC ministers.

2.4 **Pensions Review Group (PRG)**. This is the group that has been working on the development of new pensions arrangements, as explained in section 4.

3. Decisions taken at Assembly 2021

3.1 Resolution 19 agreed at General Assembly 2021:

The General Assembly, being representative of Local Churches, Synods and the whole Church, confirms the Church's commitment to the pensions promises already made, and wishes any consideration of future pension arrangements for the Church's Ministers of Word and Sacraments, Church Related Community Workers, missionaries and staff to keep clearly in mind:

a) The Church's warm gratitude for the commitment, gifts and service of those who work among us and serve in our name;
b) The Church's desire to deal with these people honourably in their retirement;
c) The Church's desire to act as a responsible employer, for the people we employ and for our stipendiary office-holders.

3.2 The principles contained in this resolution have governed the work on designing new pension arrangements for office holders and staff.

3.3 *Resolution 20 agreed at General Assembly 2021:*

General Assembly, recognising that the significant changes to the legal and regulatory framework for defined benefit pension schemes are making the two current URC pension schemes disproportionately expensive for the benefits they deliver, agrees in principle to the closure to future accruals of both the Ministers' Pension Fund and the Final Salary Pension Scheme.

3.4 It is worth recapping the scale of the financial challenge that would face the United Reformed Church if it was to stay with the two existing DB pension schemes.

At the time of Assembly 2021, the contributions being paid into the two pension schemes were:

Ministers' Pension Fund (MPF)	Church	21.95% of stipend
	Members	7.5% of stipend

Final Salary Scheme (FSS)	Church	25.3% of salary
	Members	7.5% of salary

As noted in the resolution, the level of contributions is increasing significantly, mainly because of the extra prudence required by the Pensions Regulator, combined with the fact that the MPF is approaching maturity.

The valuation of the MPF as at 1 January 2021 has now been completed, and as a result, the Church contributions have almost doubled in 2022 to 41.25%. This rate is expected to increase again at each of the next three valuations, by which time the MPF should have reached its long-term funding target.

The cost of Church contributions to the MPF in 2022 will be more than £1.5 million higher than in 2021. This increase is almost 10% of the Church's total budget. The URC Trust has agreed to meet this increase in pension costs in 2022. However, if this level of costs was to continue, then drastic changes would be needed to bring the Church's budget back into balance, including the possibility of having to reduce the number of stipendiary ministers.

The extra prudence required in the valuation of the MPF has also created a sizeable deficit in relation to the benefits already earned by the members. In the 2021 valuation, this deficit was estimated at £23 million. The next three valuations will be increasingly prudent, and the estimated total deficit funding required by 2030 is £40 million. A plan has been agreed with the Synod Trusts and the URC Trust to meet this challenge, but only on the understanding that the MPF will be closed to future accrual, in order to avoid further such costs in the future.

3.5 Resolution 21 (amended) agreed at General Assembly 2021:

General Assembly acknowledges the careful work that has already been done on these complex and sensitive matters, authorises further work to be done on developing new pensions arrangements for office holders and staff, and requests that, as part of this work, Diversity, Equity, and Inclusion (DEI) specialists are consulted, with the aim of presenting detailed options to Mission Council in November 2021, and then final proposals to General Assembly 2022, for implementation no sooner than January 2023.

[A note was subsequently inserted in the Record of Assembly 2021 which said: *It was understood by all parties that in this resolution equity means fair and just treatment of people, but does not relate to stocks and shares or to mortgages*.]

3.6 The design of new pension arrangements for office-holders and staff has proved even more complex and time-consuming than anticipated. With hindsight, the suggestion that detailed options would be available in time for Assembly Executive in November 2021 was unrealistic.

4. Process and personalia since Assembly 2021

4.1 The PRG was set up in 2020 as a working group to consider the future of the Church's pension schemes. The PRG is accountable to the Pensions Committee. Following Assembly 2021, the group was expanded to bring in others with experience and expertise in the design of pension schemes. Rob Seaman was asked to act as secretary of the Group.

The PRG comprises:

Jane Baird (Convenor)	DGS Admin and Resources
Rob Seaman (Secretary)	URC Pensions Manager
David Martin	member of Pensions Committee, retired actuary
Gordon Justham	retired actuary
Ian Hardie	URC Treasurer
John Piper	member of Pensions Committee, formerly URC Deputy Treasurer
Lyndon Thomas	deputy chair of the Ministers' Pensions Trust
Richard Nunn	convenor of Pensions Committee, retired actuary
Tim Lancaster	member of Investment Committee, working actuary
Vaughan Griffiths	URC Deputy Treasurer

John Bradbury, General Secretary, has received all relevant papers, and has contributed to the discussions.

Others have been involved when appropriate.

4.2 The whole PRG has met monthly, but much of the detailed work has been done in two sub-groups – one focused on governance and management issues, and the other looking at the design of the new pension scheme.

4.3 The PRG has continued to rely on the support of a team from Hymans Robertson, independent pensions consultants with considerable experience of helping organisations migrate to new pensions arrangements, and aware of the Diversity, Equity and Inclusion issues that need to be taken into account.

4.4 The work on governance and management issues led to the appointment in January 2022, subject to contract, of Aon to operate the new URC pension scheme under its Master Trust. Since then, work with Aon has focused on how the funds of the scheme will be invested, and on the implementation plan.

4.5 The work on scheme design began by looking at death-in-service benefits and ill health early retirement. Previously, these were provided as part of the DB scheme arrangements. In future, they will have to be provided separately outside the new DC pension scheme. It was necessary to be able to estimate the cost of these benefits in order to know how much would be available for Church contributions to the new pension scheme. It was not until February 2022 that work could properly begin on possible contribution structures and the benefits that these might deliver.

5. Future process and possible timetable following Assembly 2022

5.1 There is a legal requirement for the Church to carry out a formal consultation with the members of both current URC pension schemes before new arrangements are introduced. That is why Assembly is being asked to agree to the proposals set out in Part B below subject to consultation, with authority delegated to the Assembly officers or to Assembly Executive to give final approval to the new scheme.

5.2 If Assembly accepts these proposals, then the formal consultation process will begin straightaway, probably concluding in the second half of October.

5.3 The results of that consultation will be considered carefully. The PRG will discuss these results with the Assembly officers. If the consultation results in no changes or very minor changes to the proposals, then Assembly officers will be asked to give final approval to the proposals so that the process of implementation can continue. In the extremely unlikely event that the consultation gives rise to some significant issues, then Assembly officers may decide to refer the matter to Assembly Executive. This would almost certainly result in a delay in the implementation of the new pension arrangements, resulting in further significant costs to the Church or to the URC Trust beyond the end of 2022.

5.4 In parallel with this decision-making process, planning for the implementation of the new pension arrangements will continue. In particular, the Church and Aon will work closely together to ensure that all members are provided with appropriate information and support before, during, and after the implementation. Members will be signposted to sources of independent financial advice, and will be encouraged to make regular use of such advice.

5.5 The PRG continues to plan for an implementation date of 1 January 2023.

Part B: proposals

6. In summary…

6.1 **Current Defined Benefit pension schemes:**
The benefits earned by members of the two URC Defined Benefit (DB) pension schemes up to the point when they are closed to future accrual are protected, and will be unaffected by these changes.

For example, a minister who has been a member of the MPF for 20 years at this date will, on retirement at normal retirement age, receive a pension from the MPF of 20/80 of stipend. This will be in addition to any income from the new DC scheme.

6.2 **Proposed new Defined Contribution pension scheme**
One new DC pension scheme for all office holders and staff. See 8.

The new scheme is to be managed by Aon through its Master Trust. See 9.

Contribution rates: See 10.

Members (minimum): 7.5% of salary or stipend (as now)

Church:	Office holders	age related contributions - estimated total cost of 18% of stipends
	Staff	16% of salary

Death-in-service benefits: See 12.

Office holders	8 times stipend plus any pension from the DB scheme.
Staff	5 times salary plus any pension from the DB scheme.

Ill health benefits: See 13.

Office holders	Total payments of either 50% of stipend or 25% of stipend depending on level of incapacity and up to normal retirement age. This will include any pension from the existing DB schemes, which are payable for life.
Staff	No new provision, but a pension may be payable from the DB scheme.

7. Overall approach to scheme design

7.1 As explained in section 2, DB and DC pension schemes are very different in the way that they operate. Therefore, designing a new DC pension scheme to replicate the features of the existing DB schemes was neither possible nor desirable.

The priorities for the PRG have been to design a new pension scheme which:

- is fair to all members whatever their age, previous service, and circumstances
- is as generous as possible, within what is affordable for the Church
- provides excellent support to the members before and after implementation; and
- is as simple and straightforward as possible for the members and for the Church.

7.2 The PRG has taken ‘affordable’ to mean roughly the same level of Church payments for pensions benefits as there was in 2021 – ie before the most recent valuation of the MPF. The intention is not to reduce costs, but to stop them escalating to unaffordable levels. In this context, ‘Church payments’ excludes the substantial deficit contributions to the MPT, as these are now being dealt with separately. The Church’s future service contributions to the current DB pension schemes are expressed as a percentage of salary or stipend, and those figures for 2021 are set out in 3.4.

The proposed new arrangements for death-in-service benefits and for ill health early retirement are set out in sections 12 and 13 below. These are separate from the new pension scheme, and the Church must pay for them separately.

Deducting the estimated costs of these items from the 2021 level of Church contributions to the current DB schemes is how the proposed Church contribution rates to the new DC pension scheme have been arrived at.

The proposals set out in section 10 below assume **overall Church contributions of 18% of stipends for office holders and 16% of salaries for staff**.

Member contributions are set at the same level as currently, 7.5% of salary or stipend.

It is likely that the costs of administering the new arrangements will be slightly higher than they are presently, but this has been ignored in these calculations.

8. One new Defined Contribution pension scheme

8.1 The Church currently operates two DB pension schemes. The MPF is used for virtually all stipendiary ministers and church related community workers. The FSS is used for all staff and a small number of ministers.

8.2 The only practical alternative to DB pension schemes that is currently available is some form of DC pension scheme.

8.3 It is proposed to introduce one new DC pension scheme for all office holders and staff, but with some differences in the arrangements for each.

9. Using a Master Trust operated by Aon

9.1 Choosing a Master Trust as the legal structure

As explained in section 2.1, one of the current DB pension schemes is managed through a trust company, the directors of which are all members of the Church, and the other is operated by a third-party organisation through its Master Trust. In relation to the new pension arrangements, an important consideration for the PRG was the long-term ability of the Church to carry out its responsibilities, given the increasing difficulty of finding willing volunteers with the appropriate expertise. Various legal structures were considered, but the only practical option was to use a third-party DC Master Trust.

A Master Trust is a legal vehicle which is used, typically, to manage the assets of several different pension schemes together. This achieves significant economies of scale which benefit all parties.

9.2 Choosing Aon as the preferred provider

The priority for the PRG was to identify a provider that could deliver, for the long term, the highest quality of product, service, and member support.

There are only 38 current providers of Master Trusts, and that number is reducing. This is partly because the government is encouraging consolidation, and partly because the economics of operating a Master Trust require heavy investment. However, the larger the provider, the less likely that the Church's particular needs and interests would be taken into account. In all, 13 providers were sent initial invitations to tender and eight expressed an interest. Five were invited to submit formal tenders, and three were shortlisted for interviews.

All three potential providers had interesting, yet different, propositions; all had excellent ESG (Ethical, Social and Governance) credentials in their investment approaches; and all were capable of meeting the Church's needs.

Shortlisted providers were interviewed in mid-December 2021, and Aon was identified as the preferred choice. Two further meetings with Aon were held in

January to explore the Church's needs in more detail. Aon has serviced the Church well for many years as key advisers to the Ministers' Pensions Trust. The team from Aon not only demonstrated a good understanding of the Master Trust market and how this is likely to develop, but also had a clear vision of the needs of the Church and of how Aon can meet them. They showed real enthusiasm for becoming the Church's partners in this new venture.

Providers of Master Trusts get most of their income by levying a charge on the investments they manage. However, Aon is also proposing to charge the Church an implementation fee of £10,000 and an annual service charge of £5,000. Although Aon's service is slightly more expensive than that of the other shortlisted providers, the PRG is clear that the extra cost is worthwhile.

Aon has been appointed as the Master Trust provider, subject to contract.

9.3 **Choosing the default investment fund**

The Church will choose a default investment fund into which all Church and member contributions will be paid, except where a member opts (or 'self-selects') for a different Fund or Funds to receive some or all of their contributions. The management charges on self-select funds are likely to be higher than those on default funds.

The PRG has identified the Aon Target Date Managed Retirement Pathway Fund as its preferred default fund for the new DC pension scheme. With this Fund, as a member approaches and then moves into retirement, the pension pot of that member is gradually transitioned into investments carrying less risk. This Fund is made up of several elements, containing different sorts of investment with their associated risks/rewards. The management of all the Aon Funds takes account of ESG issues, and this one includes a climate transition focus.

For members not close to retirement, 10% of this proposed default fund is invested in the Aon Global Impact Fund. One of the aims of this Fund is sustainability, including carbon reduction. Although this Fund does not explicitly exclude investment in fossil fuel businesses, the emphasis on sustainability makes such investment highly unlikely. This is an almost-identical approach to that of the current MPF equity fund managers, as approved by the URC Investment Committee and the Ministers' Pensions Trust. The Global Impact Fund is one of the funds that will be available to members as a self-select fund.

10. Contribution levels for the Church and for the members

10.1 **Member contributions**

Member contributions into both current DB schemes are 7.5% of salary or stipend. **It is proposed that the minimum level of member contributions into the new DC pension scheme will also be fixed at the level of 7.5% of salary / stipend.**

Members may make additional contributions into the scheme. It is planned to offer staff members of the new pension scheme the option of 'salary sacrifice' on a similar basis to that available in the current DB pension scheme.

10.2 **Church contributions – office holders**

As discussed in section 7, it is suggested that an **overall contribution rate of 18% of total stipends** is approximately equivalent to what the Church was paying in 2021, excluding the items that will be paid for separately which are dealt with in sections 12 and 13.

The argument for age-related contribution rates:
The standard Church contribution rate to the MPF is really an average. In the MPF, a minister who works for a year at age 28 earns the same pension as a minister who works for a year at age 68. However, the pension earned by the older minister will actually be much more expensive for the Church because it will have to be paid out almost immediately, whereas the contributions for the younger minister will be invested for a long time before the pension is payable.

The same point applies to the new DC pension scheme, except here the effect is on the members rather than on the Church. If the same contribution is made for a 28-year-old as for a 68-year-old, then the income in retirement of the 28-year-old will almost certainly be significantly higher than that of the 68-year-old, because the money will be invested for much longer. The way round this problem is to use age-related contribution rates which aim to make the member benefits 'more equal', whatever their ages. Part C of this paper includes some financial modelling based on the age-related contribution rates and, for comparison, provides information on the effect of using a standard contribution rate of 18%.

Proposed age-related Church contribution rates:

Age at 1 January	Church contribution
Under 28	**11%**
28 to 37	**13%**
38 to 47	**15%**
48 to 57	**17%**
58 and over	**19%**

A member's age at 1 January will determine the contribution rate for that calendar year.

The spread of these rates has been set by actuaries to try to equalise the impact of the different periods for which the funds will be invested. The level has been set so that the total cost is about 18% of total stipends. The range reflects the fact that the average age of Church office holders is over 55, partly because of the number of people who enter stipendiary ministry in later years after other careers.

10.3 **Church contributions – staff**
The same argument could be made for age-related contribution rates for staff. However, here there are other factors at play. In particular, whereas all office holders are on the same stipend regardless of age and experience, it is likely that salaries for staff will vary reflecting experience, length of service, and expertise. The value of any level of contribution will be in proportion to those salaries. For this reason, it is proposed to have the same Church contribution rate for all staff.

Church contributions for office holders are based on stipend which takes no account of housing costs, whereas for staff the contributions are based on salaries which are intended to cover all costs, including housing. The PRG is of the view that this justifies a slightly lower contribution rate for staff. The proposed

Church contribution rate is much higher than the rates being paid by most employers operating DC pension schemes (see 11.7 below).

Proposed Church contribution for staff: 16% of salary

10.4 It will be appropriate for these pension contribution rates to be regularly reviewed. The frequency of such reviews has not yet been determined.

11. Projected income in retirement

11.1 Most individuals will receive income in retirement from several different sources. What will matter to them is their total income, from whatever source. Because everyone's circumstances are different, it is hard to make any comments that will be generally applicable.

11.2 **State pension**. The level of state pension receivable is dependent on the number of years for which National Insurance contributions have been paid.

11.3 **URC DB pension schemes**. For those who have already retired or left the service of the Church, the pension receivable at retirement from one of the URC DB pension schemes will be unaffected by these changes.

For those who are active at the time when the new pension arrangements become effective, a pension will be payable at retirement from their URC DB pension scheme based on the years of service up to that date.

11.4 **URC DC pension scheme**. As already described, a DC pension scheme builds up a pension pot for each member. The purpose of that capital sum is to provide an income in retirement. It will be for each member, having taken appropriate advice, to decide how and when to take that income.

11.5 **Other income**. Some members of the URC pension schemes may have other income in retirement, possibly related to other employment before or after their service with the Church.

11.6 **Projections**. The projections of income in retirement described in Part C of this paper are for a very particular group of people: office holders (so the stipend is fixed) who spend their whole working lives serving the Church (so there are no other work-related pensions). For office holders with more complicated circumstances and for staff, any projections of income in retirement need to be based on their personal circumstances. It will be important for all members to obtain independent financial advice related to their particular circumstances, especially as retirement approaches.

The projections are based on the age of the member at the date of the change to the proposed new DC pension arrangements. They show estimated income in retirement under three different scenarios:

Left	Assuming the current DB pension scheme remains open.
Centre	Assuming the new DC pension scheme is introduced, and the member opts to receive an annuity at retirement.
Right	Assuming the new DC pension scheme is introduced, and the member opts to use drawdown to obtain their income in retirement.

The projections are based on modelling hundreds of possible outcomes for future investment returns.

The projections suggest that, assuming drawdown is used in retirement and assuming the proposed age-related Church contributions are agreed:

An office holder aged 58 at the time of the change to new arrangements opting for drawdown at age 68, has a 50% chance of achieving total annual income in retirement at least £1,100 more than they would receive if the current DB scheme remained open. They have a 75% chance of achieving total annual income in retirement of at least what they would receive if the current DB scheme remained open less £100. It should be noted that Aon assumes that the pension pot of a person within 10 years of retirement will be progressively de-risked to protect it from potential financial shocks. It would be possible for an individual member to adopt a different strategy.

An office holder aged 28 at the time of the change to new arrangements opting for drawdown at age 68, has a 50% chance of achieving a total annual income in retirement that is £22,099 (95%) higher than the income they would receive if the current DB scheme remained open. They have a 75% chance of achieving total annual income in retirement at least £5,069 more than the income they would receive if the current DB scheme remains open.

The projections using a flat rate Church contribution of 18% suggest that the annual income in retirement of the office holder aged 58 at the time of the change would be about £200 lower than this, whereas the annual income in retirement of the office holder aged 28 at the time of the change would be from £2,000 to £5,000 higher.

11.7 **Independent measures of retirement living standards**. The Pensions and Lifetime Savings Association (PLSA) is an independent organisation concerned about living standards in retirement. In relation to DC pension schemes, the PLSA has introduced a Pensions Quality Mark (PQM) and a PQM Plus.

Their website says:

HOW CAN SCHEMES QUALIFY?

To meet the standards the employer must offer employees a minimum contribution of 12% (with at least 6% from the employer) or 15% for PQM Plus (with at least 10% from the employer).

The scheme must have effective governance, an appropriate default investment strategy, an understanding of its members with inclusive engagement strategy, and support for members at retirement.

The PRG views these proposals to Assembly as significantly better than the PQM Plus standard.

12. Death-in-service benefits

12.1 **Current benefits from the URC DB pension schemes**

Death-in-service benefits are currently provided from the two DB pension schemes.

In relation to the death of a member of the MPF, a lump sum of 3 x stipend is paid plus, where appropriate, a spouse's pension of up to half of the member's prospective pension, depending on when the member joined the MPF.

In relation to the death of a member of the FSS, a lump sum of 2 x salary is paid plus, where appropriate, a spouse's pension of up to two-thirds of the member's pension, based on the past years of service only.

12.2 **Continuing benefits from the URC DB pension schemes**

Once the new pension arrangements are introduced and the two URC DB schemes are closed to future accruals, there will be no death lump sums payable from the DB schemes, but spouse's pensions will continue to be payable, based on the years of service up to the date of the changeover.

12.3 **'Children's pensions'**

'Pensions' are currently paid to retired office holders or to the spouses of deceased office holders in relation to dependent children. These are equivalent to the children's allowances paid to serving office holders. In fact, these are not pensions but are grants from Church resources, and there will be no change to these arrangements.

12.4 **Lump sums payable in future**

An insurance policy will be taken out to provide for the payment of future lump sums on the death-in-service of office holders and staff. These arrangements will be administered through an insurer on behalf of the Church, but totally separate from the new DC pension scheme and under a separate Master Trust.

The proposed multiplier for office holders is higher than that for staff because it is based on the stipend which takes no account of housing costs.

The lump sums payable in future will be:	**Office holders**	**8 x stipend**
	Staff	**5 x salary**

12.5 **The DC pension pot of a deceased member is an asset**

The pension pot of a member held in the DC pension scheme is an asset of that member held in trust for them. On the death of the member, the assets can be used to provide benefits for a spouse or other beneficiaries.

12.6 It is acknowledged that, initially, these new arrangements will be much more generous than the current ones, with a larger lump sum payable on top of the pension payable from one of the DB pension schemes. However, the latter will become less significant over time. The proposal is intended to keep the insurance arrangements simple, which reduces their cost.

12.7 The estimated annual cost of these proposals is about 2% of stipends for ministers, and less for staff.

13. Dealing with Ill Health Early Retirement (IHER)

13.1 Current benefits from the URC DB pension schemes

In appropriate circumstances, a member of either of the two current URC pension schemes may retire early on grounds of ill health, and they will then receive a pension from that date. The arrangements in the two schemes are different and they are complicated – partly because they have been changed several times.

The maximum IHER pension payable to a member of the MPF is 50% of stipend, based on their prospective years of service to normal retirement date.

The IHER pension payable to a member of the FSS is the pension accrued at the date of their ill health early retirement.

13.2 Continuing benefits from the URC DB pension schemes

Those who have already retired on grounds of ill health will be unaffected by these changes.

It is expected that, after the new pension arrangements have been introduced, someone who was a member of one of the two DB pension schemes will receive a pension from that scheme calculated on the same basis as someone who has a deferred pension having left the service of the Church. However, see 13.3 below.

13.3 Proposed new arrangements for office holders

Office holders who are granted early retirement on grounds of ill health will, up to the normal retirement age, receive payments totalling either 50% of stipend or 25% of stipend. This will depend on whether they are totally unable to work, or if they are able to work in another occupation but are not able to carry out the duties of a Church office holder. This is the total amount that will be received.

Part of this total amount may come from one of the DB pension schemes. As now, this will be a pension for life. If the DB pension is less than the above total, then the balance will be paid through the URC payroll up to normal retirement age and will, for tax and national insurance purposes, be treated in the same way as earnings. Corresponding Church contributions will be paid into the DC pension scheme, but members will not be expected to contribute.

It is not intended to make any new arrangements for staff, in addition to those in the existing Final Salary Scheme.

13.4 Availability of the DC pension pot

Subject to the agreement of the trustees, a member who has retired early on grounds of ill health may be able to gain early access to the funds held in their DC pension pot. It will be for the member to decide whether to do this as, clearly, this will reduce the income available after normal retirement age.

13.5 The estimated annual cost of these proposals is about 3% of total stipends.

14. Existing Additional Voluntary Contributions

14.1 Additional Voluntary Contributions (AVCs) are paid by some members of both the current DB pension schemes. The arrangements in the two schemes for investing those contributions and for calculating the additional pensions payable are different, and they are complex.

14.2 There is a range of possible options in relation to these existing arrangements, but the necessary discussions with the trustees of the two DB schemes have not yet taken place.

14.3 Whatever happens with the existing AVC arrangements, it will be possible for members of the new DC pension scheme to make additional contributions into that scheme, over and above the minimum 7.5% of salary or stipend.

Part C: Income in retirement – financial modelling for office holders

15. Introduction and explanations

15.1 Purpose of financial modelling

The outcome for an individual member of a DC pension scheme depends on many factors, each of which will vary over time. Financial modelling looks at hundreds of different possible scenarios in order to present the likely range of outcomes with probabilities attached to them.

The Hymans Robertson team has carried out several such modelling exercises. The ones presented below are those that relate to the proposals in Section B.

15.2 Limited scope of the modelling

This modelling is focused on office holders (ministers and church-related community workers), and assumes they all receive the same stipend. The modelling also only considers office holders who spend their whole working lives in the Church. This means they build up their pension entitlement over 40 years in the Church, and they are assumed to have no other work-related pensions.

Modelling for staff on a range of different salaries or for office holders who have had previous careers before working for the Church could only be done separately for each individual.

This modelling is based on an investment strategy that closely replicates the shape of the Aon Fund that is likely to be adopted as the default Fund by the Church, and it assumes Aon's standard approach to each member's retirement timetable. In particular, as explained in section 11, it is assumed that the pension pot of a member approaching retirement will be de-risked over a number of years to reduce the impact of any financial shocks during that time. This has the effect of reducing the expected investment returns, and this can be seen in the modelling results for those aged over 58. It will be possible for individual members to choose a different approach to risk.

The modelling assumes that the State Pension is £9,000 for all members, and uses the current stipend of £28,428.The modelling ignores inflation, so everything is expressed in current prices. The modelling only takes account of the investment gains over and above those needed to offset the effects of inflation.

15.3 Focus on income in retirement

The modelling looks at the likely income in retirement for three different scenarios:

First:
The existing defined benefit pension scheme, were it to continue as it is.

As explained in section 11, there lots of choice is available to members regarding the use of their DC pension pot in retirement. The following scenarios are based on just two of those options.

Second:
Purchase of an annuity at retirement. This is a prudent or low-risk approach, but it is also costly, which means that the returns are likely to be lower than using drawdown. The pension pot of a member is transferred to an insurance company, in exchange for a pension for life.

Third:
Drawdown. Here, the member decides periodically (say, once a year) how much money to take out of the pension pot. The rest remains invested. The income is likely to be higher, but it requires more involvement from the member.

A popular approach is to use drawdown in the early years of retirement, and then convert to an annuity later. The appropriate approach for each member will depend on their own circumstances and their priorities.

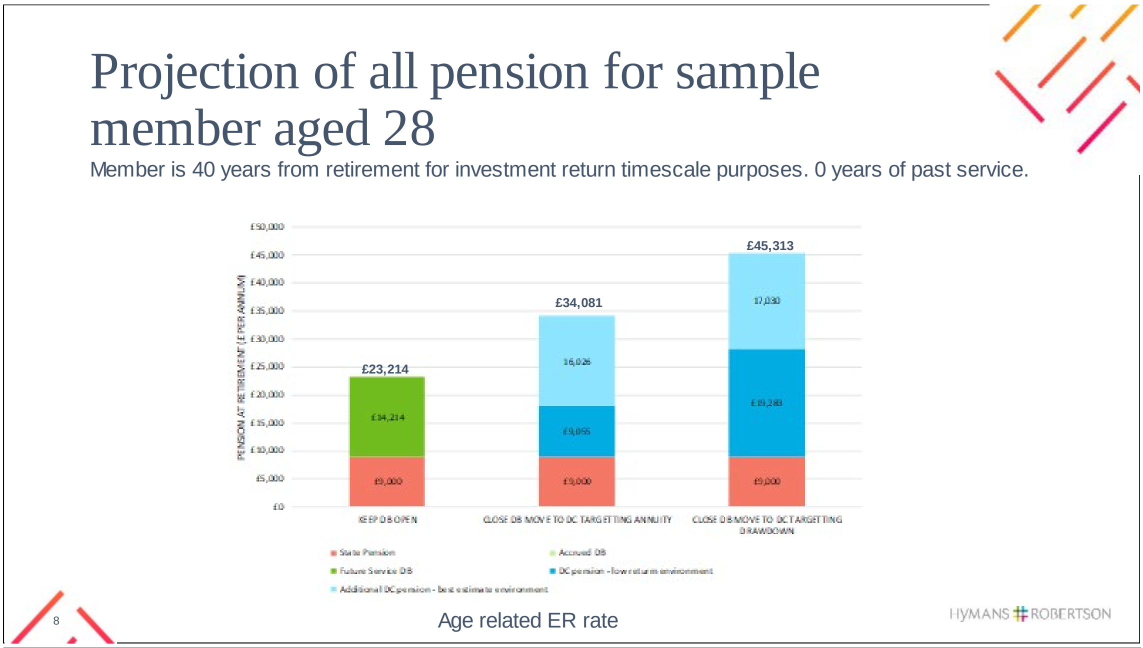
16. Financial modelling based on age-related contributions

16.1 Contribution rates
Section 10 explains why it is proposed to use age-related Church contribution rates for office holders and sets out the proposed rates, which are:

Age	Percentage of stipend
Under 28	11%
28 to 37	13%
38 to 47	15%
48 to 57	17%
58 and over	19%

Member contributions will, as now, be a minimum of 7.5%.

16.2 Member aged 28 when the new pension scheme is introduced



This person is just starting work when the new pensions arrangements are introduced. Therefore, they have no pension built up in the MPF. It is assumed they will work for 40 years as a member of the new pension scheme. The chart shows estimated income in retirement on three bases. In all three cases, the bottom rectangle represents a State Pension of £9,000.

Existing DB scheme
The left-hand block shows that, if the existing DB scheme continues as now, the member will receive a pension from the MPF of £14,214 plus the State Pension of £9,000, making total income in retirement of £23,214.

Proposed DC scheme with an annuity purchased at retirement
The central block represents the proposed DC scheme, with an annuity purchased at retirement.

The dark blue rectangle indicates a 75% chance of receiving an annuity at retirement of at least £9,055.Total annual income including the State Pension would be more than £9,000 + £9,055 = at least £18,055.

The light blue rectangle indicates a 50% chance of receiving an annuity at retirement of at least £25,081.Total annual income including the State Pension would be more than £9,000 + £25,081 = at least £34,081.

Proposed DC scheme with drawdown used after retirement
The right-hand block represents the proposed DC scheme, and assumes that the member will use drawdown to provide income in retirement. For the purpose of this modelling, it is assumed that drawdown will be used to deliver an annual income for life, which is set at retirement and then increased annually by inflation, and that, if the member dies first, this will be followed by income at half this level to a surviving spouse for the rest of their lifetime. These assumptions are made so that the results are comparable with the benefits receivable from the MPF.

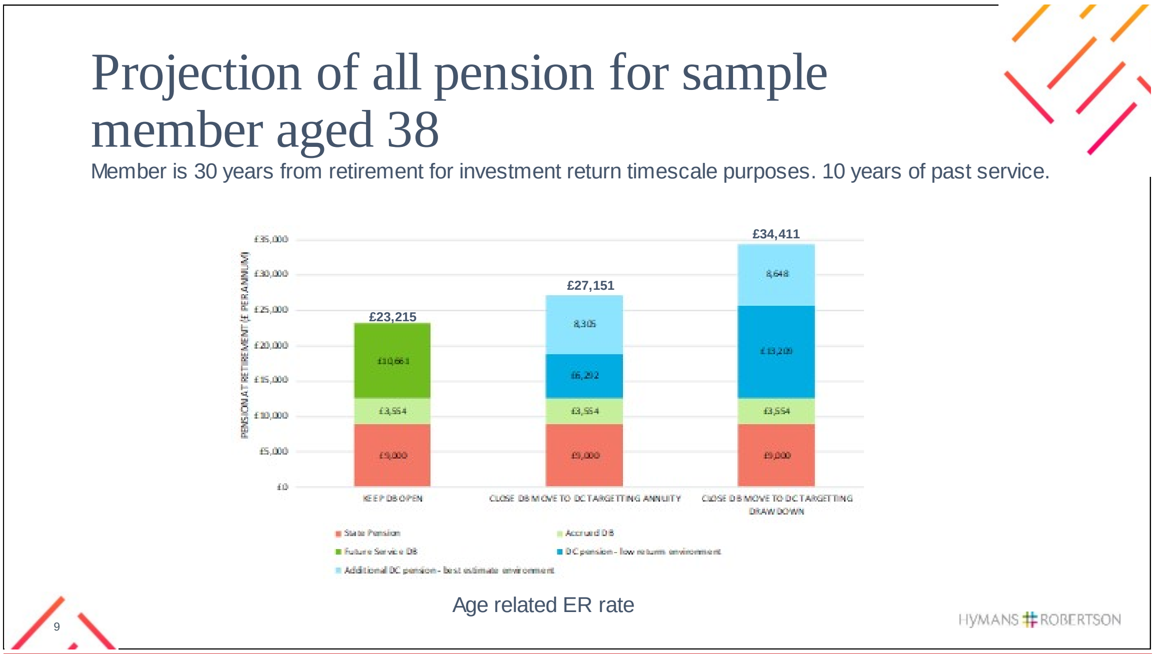
The dark blue rectangle indicates a 75% chance of delivering at least £19,283 per year at retirement. Total annual income including the State Pension would be more than £9,000 + £19,283 = at least £28,283, which is more than 20% above the income in retirement if the current DB pension scheme remains open.

The light blue rectangle indicates a 50% chance of delivering at least £36,313 per year at retirement. Total annual income including the State Pension would be more than £9,000 + £36,313 = at least £45,313.

Observations
Because the expected time to retirement is 40 years, the range of the modelling results is very wide.

However, it will be noted that the results suggest there is a good chance that younger members will receive a much better income in retirement from the proposed new pension arrangements than from the current DB pension scheme.

16.3 Member aged 38 when the new pension scheme is introduced



This person has built up ten years of accrued pension in the MPF. It is assumed they will work for another 30 years as a member of the new pension scheme. As before, the rectangle at the bottom of all three blocks represents a State Pension of £9,000. Now, there is a light green rectangle above this in all three blocks, which represents the pension payable from the MPF for 10 years' service, which is 10/80 of stipend = £3,554.

Existing DB scheme
The left-hand block shows that, if the existing DB scheme continues as now, the member will receive a pension from the MPF of £14,215 plus the State Pension of £9,000, making total income in retirement of £23,215.

Proposed DC scheme with an annuity purchased at retirement
The central block represents the proposed DC scheme, with an annuity purchased at retirement.

The dark blue rectangle indicates a 75% chance of receiving an annuity at retirement of at least £6,292. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £3,554 + £6,292 = at least £18,846.

The light blue rectangle indicates a 50% chance of receiving an annuity at retirement of at least £14,597. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £3,554 + £14,597 = at least £27,151.

Proposed DC scheme with drawdown used after retirement
The right-hand block represents the proposed DC scheme, and assumes that the member will use drawdown to provide income in retirement. The same assumptions are made as before.

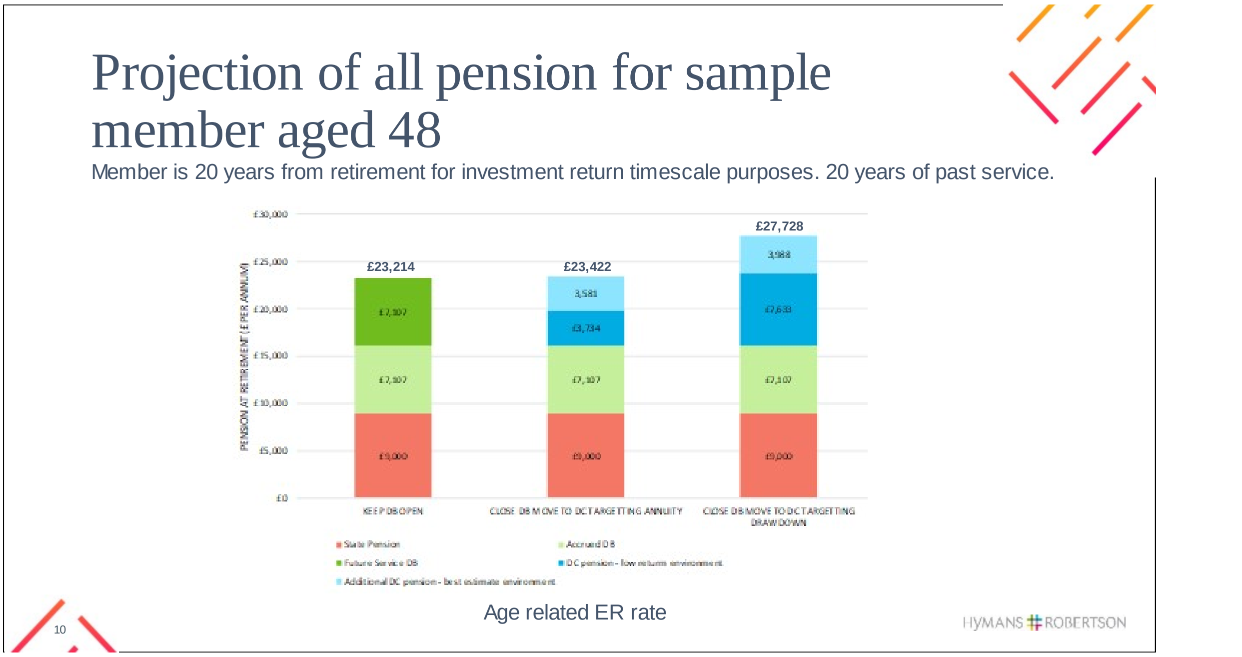
The dark blue rectangle indicates a 75% chance of delivering at least £13,209 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £3,554 + £13,209 = at least £25,763, which is 10% above the income in retirement if the current DB pension scheme remains open.

The light blue rectangle indicates a 50% chance of delivering at least £21,857 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £3,554 + £21,857 = at least £34,411.

Observations
The expected time to retirement is now 30 years. This has reduced the spread of the modelling results, but it is still wide.

It will be noted that the results suggest there is still a good chance of producing a much better income in retirement than from the current DB pension scheme.

16.4 Member aged 48 when the new pension scheme is introduced



This person has built up 20 years of accrued pension in the MPF. It is assumed they will work for another 20 years as a member of the new pension scheme. As before, the rectangle at the bottom of all three blocks represents a State Pension of £9,000. The light green rectangle above this in all three blocks represents the pension payable from the MPF for 20 years' service, which is 20/80 of stipend = £7,107.

Existing DB scheme
The left-hand block shows that, if the existing DB scheme continues as now, the member will receive a pension from the MPF of £14,214 plus the State Pension of £9,000, making total income in retirement of £23,214.

Proposed DC scheme with an annuity purchased at retirement
The central block represents the proposed DC scheme with an annuity purchased at retirement.

The dark blue rectangle indicates a 75% chance of receiving an annuity at retirement of at least £3,734. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £7,107 + £3,734 = at least £19,841.

The light blue rectangle indicates a 50% chance of receiving an annuity at retirement of at least £7,315. Total annual income including the State Pension and the MPF pension would be £9,000 + £7,107 + £7,315 = at least £23,422.

Proposed DC scheme with drawdown used after retirement
The right-hand block represents the proposed DC scheme, and assumes that the member will use drawdown to provide income in retirement. The same assumptions are made as before.

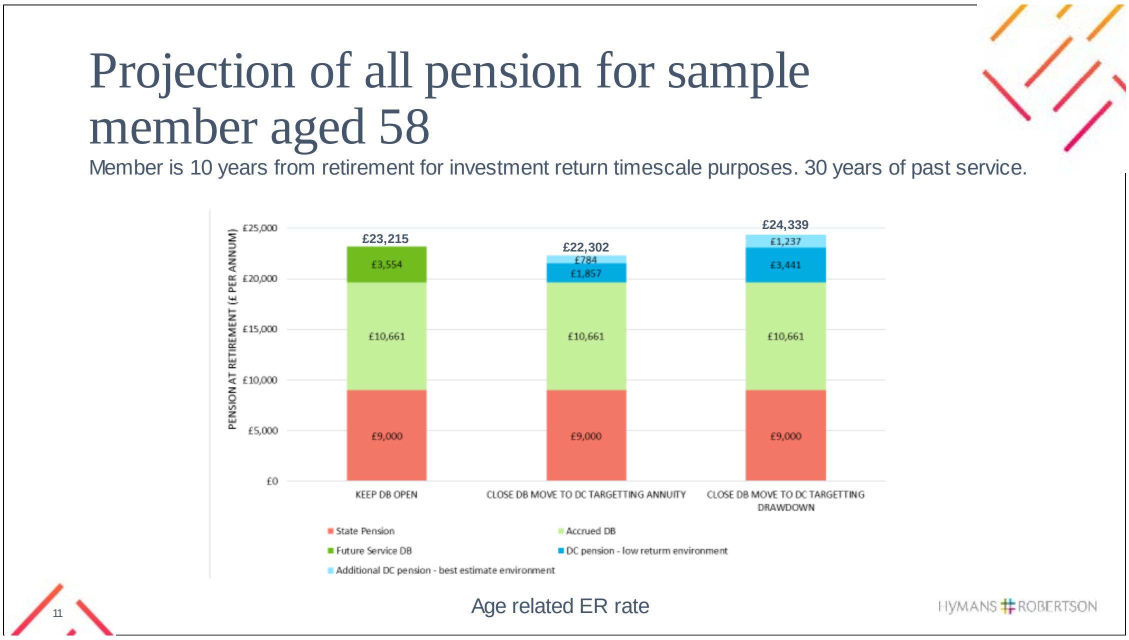
The dark blue rectangle indicates a 75% chance of delivering at least £7,633 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £7,107 + £7,633 = at least £23,740. That is about 2% above the income in retirement if the current DB pension scheme remains open.

The light blue rectangle indicates a 50% chance of delivering at least £11,621 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £7,107 + £11,621 = at least £27,728.

Observations
The expected time to retirement is now 20 years. The spread of the modelling results has reduced further.

It will be noted that the results suggest there is still a good chance of producing a better income in retirement than from the current DB pension scheme.

16.5 **Member aged 58 when the new pension scheme is introduced**
This person has built up 30 years of accrued pension in the MPF. It is assumed they will work for another 10 years as a member of the new pension scheme. As before, the rectangle at the bottom of all three blocks represents a State Pension of £9,000. The light green rectangle above this in all three blocks represents the pension payable from the MPF for 30 years' service, which is 30/80 of stipend = £10,661.



Existing DB scheme
The left-hand block shows that, if the existing DB scheme continues as now, the member would receive a pension from the MPF of £14,215 plus the State Pension of £9,000, making total income in retirement of £23,215.

Proposed DC scheme with an annuity purchased at retirement
The central block represents the proposed DC scheme with an annuity purchased at retirement.

The dark blue rectangle indicates a 75% chance of receiving an annuity at retirement of at least £1,857. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £1,857 = at least £21,518.

The light blue rectangle indicates a 50% chance of receiving an annuity at retirement of at least £2,641. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £2,641 = at least £22,302.

Proposed DC scheme with drawdown used after retirement
The right-hand block represents the proposed DC scheme, and assumes that the member will use drawdown to provide income in retirement. The same assumptions are made as before.

The dark blue rectangle indicates 75% chance of delivering at least £3,441 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £3,441 = at least £23,102.

This total is almost the same as the income in retirement if the current DB pension scheme remains open.

The light blue rectangle indicates a 50% chance of delivering at least £4,678 per year at retirement. Total annual income including the State Pension and the MPF pension would be more than £9,000 + £10,661 + £4,678 = at least £24,339.

Observations
The expected time to retirement is now ten years. The standard approach of the trustees of the DC scheme for a member this close to retirement would be to gradually de-risk the investments held, leading to a reduction in the expected investment returns. This is factored into these modelling results.

It will be noted that, even assuming this de-risking of the investments, using drawdown there is still a good chance of income in retirement being at least as good as from the current DB pension scheme if it remains open. This would not be true if a standard contribution rate was used across all ages – see 17 below.

17. Financial modelling based on a standard contribution rate

17.1 The proposals in Section B are based on age-related Church contribution rates for office holders. The reasons for this are explained in 10.2.

17.2 If a standard contribution rate is used, then the outcomes for members aged over 48 when the new arrangements are introduced will be slightly worse than those set out above. The outcomes for members aged under 48 when the new arrangements begin will be significantly better than those set out above.

17.3 All the detail is not reproduced here. However, the following comparisons of the modelling of income when using drawdown may be of interest:

Age of member	Income in retirement		Income in retirement	
at changeover to	Age-related contributions		Standard contributions	
new arrangements	75% prob.	50% prob.	75% prob.	50% prob.
	at least	at least	at least	at least
	£	£	£	£
28	28,283	45,313	30,311	49,959
38	25,763	34,411	26,400	35,709
48	23,740	27,728	23,740	27,779
58	23,102	24,339	22,973	24,163