

Summary Report

Pension and Assurance
Scheme for Lay Employees
of the Methodist Church
as at 31 August 2020



Introduction

Welcome to the 2020 Annual Report to Members of the Pension and Assurance Scheme for Lay Employees of the Methodist Church (“the Scheme”). This report is designed to inform you of developments in the Scheme as well as update you on the financial position and the Scheme’s investments.

This issue features a summary of the Trustee Report and Accounts for the year to 31 August 2020.

As you are aware, the Scheme closed to new members and future contributions on 31 May 2019.

Please note: The full terms and conditions of the Scheme are contained in the Trust Deed and Rules. The Rules is a formal document, which will prevail in any dispute.

Covid-19 impact: On 11 March 2020, Covid-19 was declared a pandemic by the World Health Organisation. This caused significant disruption to economic activity and which has been reflected in global stock market fluctuations and in turn, Scheme asset valuations. As a consequence the Pensions Office has been operating remotely from home since March 2020 and continues to access all systems securely. Pensioner payroll has continued to operate normally and assurances have been received from the Scheme’s advisers and managers. Please contact the Pensions Office with any concerns you may have.

At a glance

The Scheme’s Funding position	3
Summary Funding Statement	4
Report and Accounts	4
Additional Voluntary Contributions	9
Pension Increases	11
Summary of Benefits	12
Membership Profile	13
Additional Information	15
Help and Support	19

The Scheme's Funding position

Every three years the Trustee arranges a full actuarial valuation of the Scheme. The valuation gives a snapshot of the cost of providing benefits to be paid to members and how that compares with the value of the Scheme's assets. The last full valuation of the Scheme's assets was carried out with an effective date of 1 September 2017. Between each triennial valuation the Scheme Actuary produces an actuarial report which gives an update on the funding position since the last full actuarial valuation was carried out, and explains any changes. In accordance with statutory legislation, the Trustee obtains annual actuarial reports which provide updates of the funding position. The last actuarial report at 1 September 2019 was signed off on 25 March 2020. The table below summarises the changes:

	£'000s			
	31/08/2016	31/08/2017	31/08/2018	31/08/2019
Assets	67,859	73,265	73,428	80,932
Liabilities	82,020	76,812	72,533	89,683
Shortfall	(14,161)	(3,547)	(895)	(8,751)
Funding level	82.7%	95.4%	98.8%	90.2%

The Scheme's next full valuation is being carried out at 1 September 2020. It is expected that the results will be available in early 2022.

Summary Funding Statement

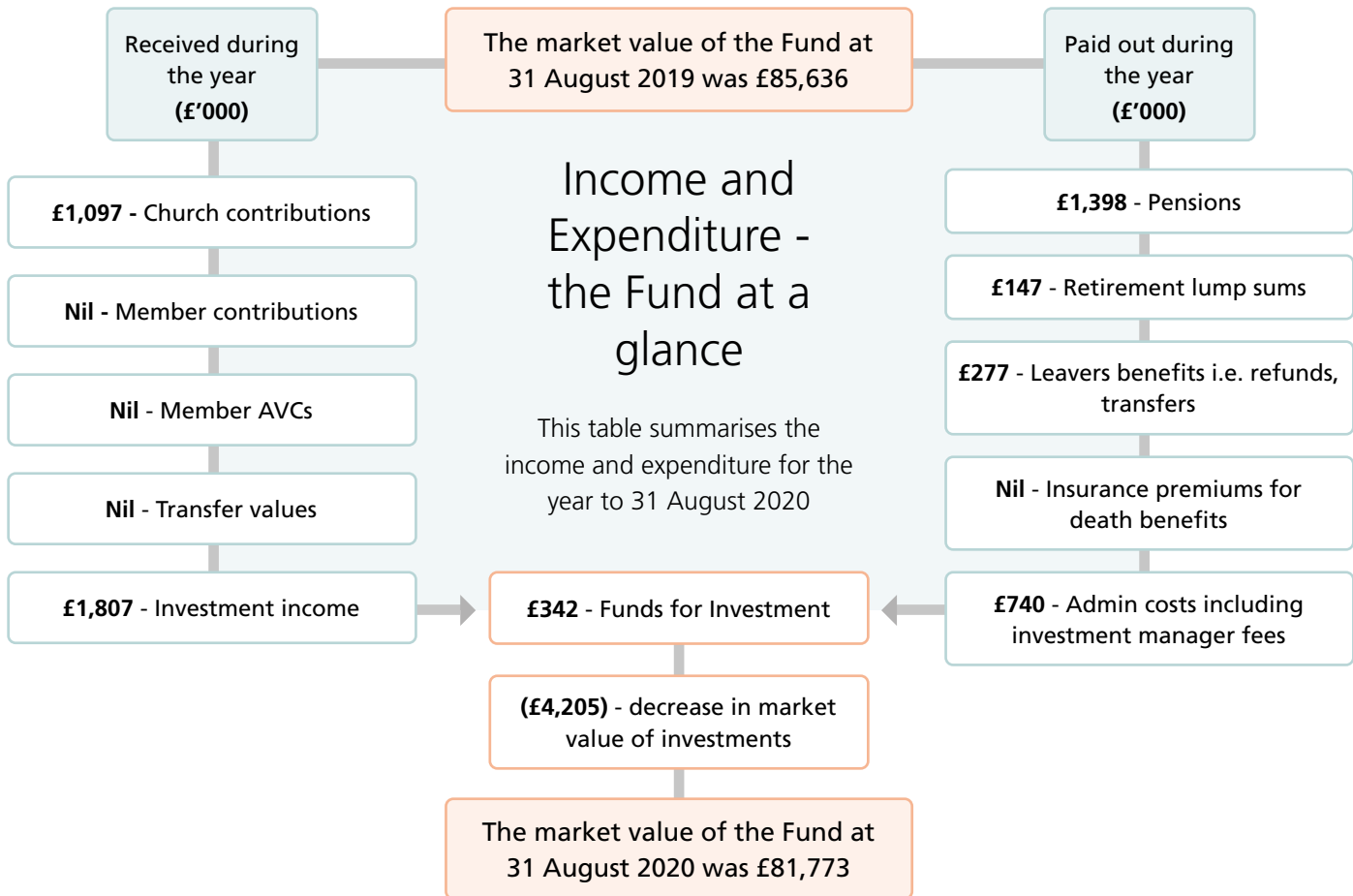
By law, every defined benefit scheme provider must produce an annual Summary Funding Statement. The statement summarises the position between each valuation and explains any changes to the funding position. Following the results of the 2017 valuation a Summary Funding Statement was issued to all members. A Statement based on the 2019 actuarial update was issued to members in March 2020. A Statement based on the 2020 triennial valuation will be issued once the 1 September 2020 valuation has been signed off.



Report and Accounts

Each year the Trustee of the Scheme produces a formal Report and audited Accounts, which provide information on the financial position of the Scheme over the year. The following page provides an abbreviation of the Report and Accounts for the year ending 31 August 2020. The full accounts may be downloaded from here: <https://www.methodist.org.uk/media/22496/paslemc-31082020-typeset.pdf>





Investments and Investment Management

The Trustee is responsible for determining the Scheme's strategy and sets this after taking into account considerations such as the strength of the Methodist Church's covenant and long term liabilities of the Scheme. The Trustee is represented by a Joint Investment Committee with the Methodist Ministers Pension Scheme, which considers decisions on investments and which it recommends to the Board of each Scheme.

The Trustee delegates the day-to-day management of the Scheme's assets to external professional investment managers.

The Trustee has mandates in place with the following investment managers:

- Epworth Investment Management Limited (EIML), a wholly owned subsidiary of the Central Finance Board of the Methodist Church (CFB) manages the Scheme's cash, corporate bond and equity assets.
- Schroder Real Estate Managers (Jersey) Limited (SREMJ) manages the Mayfair Capital Property Unit Trust fund in which the Scheme has a holding.
- BMO Global Asset Management (BMO) manages the Scheme's Liability Driven Investment (LDI) portfolio.
- Threadneedle Investments (CI) Limited manages the Threadneedle Property Unit Trust fund in which the Scheme has a holding.

The Trustee delegates the day-to-day management of the Scheme's assets to external professional investment managers with whom the Trustee has mandates in place.

The professional investment managers during the year were:

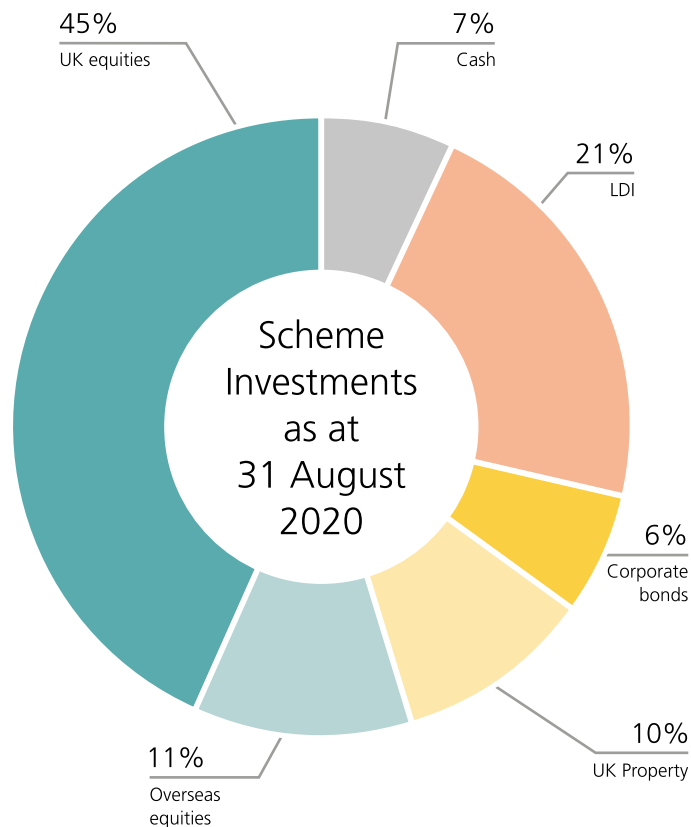
- Epworth Investment Management Limited (EIML), a wholly owned subsidiary of the Central Finance Board of the Methodist Church (CFB) manages the Scheme's cash, corporate bond and equity assets.
- Schroder Real Estate Managers (Jersey) Limited (SREMJ) manages the Mayfair Capital Property Unit Trust fund in which the Scheme has a holding.
- BMO Global Asset Management (BMO) manages the Scheme's Liability Driven Investment (LDI) portfolio.
- Threadneedle Investments (CI) Limited manages the Threadneedle Property Unit Trust fund in which the Scheme has a holding.

The Trustee determines the Scheme's investment strategy which it sets out in its Statement of Investment Principles (SIPs).

The Trustee reviews the SIPs once every three years or as otherwise becomes necessary. Disclosure legislation requires the Trustee to publish its SIPs on its website and a copy of the latest SIPs can be found here: <https://www.methodist.org.uk/media/20442/sips-paslemc-jan-2021.docx> The Trustee has also produced an Implementation Statement which explains how it has implemented the voting and engagement policies set out in its Statement of Investment Principles. A copy of the Implementation Statement can be found here <https://www.methodist.org.uk/media/22556/paslemc-implementation-statement-september-2020-final.pdf>

The Trustee reviews performance objectives for each of its investment managers and monitors performance against these each quarter. During the year, allocations to the LDI funds were increased to raise the level of protection against falls in interest rates and increases in inflation.

The allocation at 31 August 2020 is illustrated here: ►



How is the Fund performing?

The market value of the Fund (in £000s) decreased from £85,636 to £81,773 over the year to 31 August 2020 (see page 5). The investment return of the Fund over the 12 months to 30 September 2020 was -3.3% compared with -2.4 per annum for the benchmark index. Over three years the return was 4.9% per annum, compared with 5.9% per annum for the benchmark.

The major drivers of this underperformance were the LDI and Corporate bond mandates, and to a lesser extent tendency to be overweight in equities.



Social, environmental and ethical policy

The Trustee invests its assets responsibly in delivering its objectives to pay the right benefits to members at the right time. For this reason, the Trustee has its own Responsible Investment Policy, which can be accessed here: <https://www.methodist.org.uk/h4/202%20-%20PASLEMC%20Responsible%20Investment%20Policy%20FINAL%20Nov19.pdf> When investing the assets of the Scheme, the Trustee considers the integration of Environmental, Social and Governance matters in investment managers' processes in the belief that these factors can have an impact on performance.

The Trustees' Responsible Investment Policy is consistent with that of the Methodist Church. To monitor alignment with the policy, the Trustee reviews the annual report to Conference from the Joint Advisory Committee on the Ethics of Investment, which advises the CFB on ethical matters relating to investment. The Conference noted the Committee judges that the CFB has managed the funds under its control in support of an ethical stance which is in accordance with the aims of the Methodist Church.

The CFB / EIML have a strong stance and a clear policy on ethical investments which can be accessed here: www.cfbmethodistchurch.org.uk/ethics/index.php

Additional Voluntary Contributions (AVCs)



The Trustee holds assets invested separately from the main fund in the form of insurance policies securing additional benefits on a money purchase basis for the members electing to pay additional voluntary contributions with Aegon. Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and movement in the year.

The Trustee has made available a selection of funds for investment. However, where no choice is made from the outset, contributions have been invested in the default fund – the Ethical Cautious Fund. Its strategy aims to provide a combination of income and long-term capital growth by investing in a diversified portfolio of UK equities, fixed bonds and cash, similar to the ethical investment stance of the Methodist Church.

The accumulated AVC fund value at retirement can be used to purchase an additional pension (either within the PASLEMC, or externally on the open market), or, as an alternative, all or part of the AVC fund can be taken as cash at retirement (subject to HMRC limits).

Further information on AVCs is available from the pensions section of the Methodist Church website or directly from the Pensions Office. Specific information on each of the funds, including past performance details, can be found on the Aegon website.

- To access the latest Aegon High Equity With-Profits Fund (WP2) Factsheet here: <https://www.aegon.co.uk/content/dam/ukpaw/documents/WP2-Customer-Factsheet.pdf>
- You can access the latest Factsheet for all other Funds here: www.aegon.co.uk/Funds/Fund-prices-and-performance/Pension-funds/index.htm. Please then click on “Other Fund Ranges”. In order to access each Fund you will need to enter its unique ISIN code from the following list:

Fund Name	ISIN CODE
Blackrock Aquila 50/50 Global Equity Index	GB00B1G51136
Blackrock Aquila Over 15 Years Corporate Bond Index	GB00B1G2W778
Active Cash Fund	GB00B96SH433
Ethical (Equity Fund)	GB0007845422
Ethical Cautious Fund (Default Fund)	GB00B583JW06
Ethical Corporate Bond Fund	GB00B1VRK844

Pension Increases



The Rules of the Scheme provide for increases to pensions in payment to take account of inflation, subject to a cap of:

- 5% pa fixed for members who joined before 2 December 1997, on pensions accrued before 1 September 1998.
- Lower of 5% pa or Retail Prices Index (RPI) for pensions accrued before 1 September 1998, for members who joined after 1 December 1997.
- Lower of 5% pa or RPI for pensions accrued between 1 September 1998 and 5 April 2005.
- Lower of 2.5% pa or RPI for pensions accrued from 6 April 2005 onwards.

Pension increases are effective from 1 September each year and are considered in conjunction with July RPI inflation figures. The increases applied as at 1 September 2020 were:

Pensions in relation to service	Increase awarded
Pensions accrued prior to 1 September 1998 (for pre 2 December 1997 joiners)	5% FIXED
Pensions accrued prior to 1 September 1998 (for post 1 December 1997 joiners)	RPI, Max 5% (2020 – 1.6%)
Pension accrued between 1 September 1998 and 5 April 2005	RPI, Max 5% (2020 – 1.6%)
Pensions accrued since 6 April 2005	RPI, Max 2.5% (2020 – 1.6%)

Summary of Benefits payable from the Scheme

On Retirement

- A pension based on Final Pensionable Earnings x 1/70 (1/60 for service before 1 September 2006) x years of Pensionable Service.
- The option to exchange part of the pension for a tax-free lump sum.
- Annual pension increases.

On Death before Retirement*

- A refund of your own contributions.

On Death after Retirement

- A spouse's/civil partner's pension equal to half your own pension (before you exchange any part of it for a cash lump sum).
- Dependent children's pensions equal to 25% of the spouse's pension for each child under age 18, subject to a maximum of four children.
- A lump sum payable if you die within five years of starting to receive your pension.

Closure and Scheme membership

The Scheme closed to further accrual of Pensionable Service on 31 May 2019. Actively contributing members of the Scheme at this date who had attained 24 or more months Pensionable Service were categorised as **Closure Members**. From 1 June 2019 a benefit underpin applies to the calculation of the deferred pension. Once employment ceases the deferred benefit will be recalculated, as the benefit underpin guarantee will no longer apply. Further details may be requested from the Pensions Office.

*Closure Member - if death occurs before retirement and whilst still employed by the Church, a contingent pension of 25% of your pension, calculated at the date of death, will be payable.

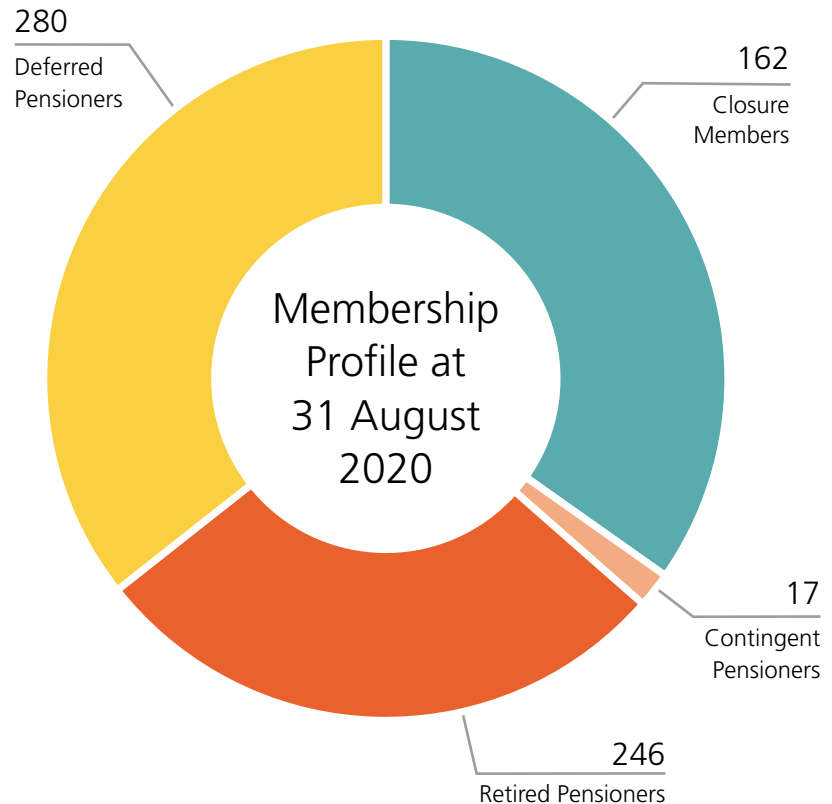
Important Note: The Trustee has discretion as whom any lump sum death benefit is paid. If you wish, you may nominate a beneficiary by completing a Nomination Form. If you have not completed one, cannot recall if you have, or simply want to update your wishes, please obtain a Nomination Form from the Pensions Office.

Membership Profile

Membership numbers at 31 August 2020 are summarised in the chart opposite. ▶

Deferred members are former contributors where pension benefits are held within the Scheme until such time that retirement is taken. Closure Members are former contributors where Pensionable Service ceased on 31 May 2019 and who continue to be employed by the Church.

Pensioner numbers are represented by 246 retired pensioners, 29 annuitants and 17 contingent pensions that are paid to a widow or widower.



Additional Information



State Pension Age (SPA)

You are entitled to claim your State Pension from your SPA. The Department of Work and Pensions has confirmed that SPA will increase to age 68 between 2037 and 2039. The change will affect those born on or after 6 April 1970 and before 5 April 1978.

The increases to SPA will be as follows:

- SPA rises to age 67 between 2026/2028
- SPA rises to age 68 between 2037/2039

Should you wish to calculate your SPA please click on the following link: <https://www.gov.uk/state-pension-age>

How does this affect your benefits in the Scheme?

Normal Pension Age (NPA) in the Scheme for service from 1 September 2015 would be the date male SPA has been attained. Hence, depending on your age, the change in your SPA will affect the date from which you can draw the benefits you have accrued from 1 September 2015 onwards, on an unreduced basis. (NB. There is no change to the benefits you have accrued before 1 September 2015).

Pension Scams

WARNING: No matter how savvy you are, anyone can be a pension scam victim!

The Pension Regulator is committed to combatting pension scams as part of its new campaign. Anyone can be a victim of a pension scam, but spotting the signs can help in avoid them.

Can you spot the warning signs?

- Cold calling about pensions, contact out of the blue or contact through social media, email, text;
- Phrases like “free pension review, pension liberation, loan, loophole, savings, advance, one-off investment, cashback;”
- Guarantees of better returns on pension savings;

- Help to release cash before age 55;
- Unusual high risk, complicated or overseas investments;
- Pressured sales tactics - usually with time limits when the deal expires;
- Documents delivered via couriers who wait until you sign on the dotted line.

The Regulator’s booklet on how to spot a scam can be located here: https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/16423_pensions_consumer_leaflet_screen.ashx

Savers could lose all their money!

Speak to an independent Financial Conduct Authority authorised adviser before making any decisions to transfer.



Electronic Communications

Whilst Methodist Church House remains closed, postal deliveries are not being received regularly. The Trustee has therefore been updating its records with email addresses in order to ensure that communications continue during the pandemic. If you wish to provide an email address for correspondence purposes, please contact the Pensions Team (see page 19).

NOTE; If you wish to opt out of receiving electronic communications, or have any concerns please contact the Pensions Office.

Certificates of Existence

In early 2020, the Trustee carried out an Existence exercise to ensure recipients are receiving pension payments. Unfortunately, the World Health Organisation declared a pandemic on 11 March 2020 causing worldwide concerns, and thus, leaving some members in situations where they were unable to obtain the necessary certifications. We are however pleased to report that of the 2,600 Certificates issued, only 34 were not returned. The Pensions Team are attempting to contact these members.

The Trustee Board

The Trustee is a corporate body appointed by the Methodist Council. The Trustee has a Board of Trustee Directors that ensures the Scheme is operated in accordance with its Rules and in line with legislative guidance.

There are eight Trustee Directors, some nominated by the Methodist Council and some by members of the Scheme, as follows:

- Four are Employer Nominated Trustee Directors and who are lay persons with professional experience in pensions or investment matters
- One is an Independent Trustee; and
- Three are Member Nominated Trustee Directors.

The Trustee Board Directors are:

Church Directors

Capital Cranfield Pension Trustees Limited, who is represented by Ms Ingrid Kirby (Chair).

Mr Ron Calver
Mr Graham Danbury
Mr Andrew Gibbs
Mr Andrew Paul

Member Nominated Directors

Mr Stephen Beer
(resigned 15/01/2021)
Mr David Fletcher (co-opted from 01/09/2020)
Mr David Friswell
(retired 31/08/2020)
Mr William Seddon

Help and Support



Answering your questions

If you have a question about the Scheme or about any of the detail contained within this document, please call the Pensions Office.

Meena Tooray

Scheme Secretary /
Pensions Manager

(020) 7467 5258

Christopher Pottruff

Deputy Pensions
Manager

(020) 7467 5260

Michael Hutton

Pensions
Administrator

(020) 7467 5223

Philip Jones

Pensions
Administrator

(020) 7467 5259

Keeping us informed:

Should any of your personal details change, including changes in your correspondence address, please ensure that you inform the Pensions Office in writing, Pensions Office, Methodist Church House, 25 Marylebone Road, London NW1 5JR or by email to pensionshelp@methodistchurch.org.uk.

Please note that under the Rules of the Scheme a lump sum death benefit is payable under discretionary trust. As such the Trustee will consider your wishes, though they are not necessarily bound by them, before taking any decision as to the recipient of such benefit.

Please therefore ensure that your nomination is kept up to date. If your circumstances have changed, or if you simply wish to update your nomination, please contact the Pensions Office by email to pensionshelp@methodistchurch.org.uk

The **Methodist** Church

Pensions Office

Methodist Church House

25 Marylebone Road

London NW1 5JR

Email: pensionshelp@methodistchurch.org.uk