Pension Funds Frequently Asked Question: Multiple Ministers in one church

Baptist Union of Great Britain
Encouraging Missionary Disciples

Question

Currently we have three ministers in the Fund – one long term and two short term members of the Fund. Presumably what matters is that we as a church continue to contribute to the Fund…or a cessation event would occur. On that basis is it possible for the church to withdraw two of the members from the Fund and simply provide adequate pension contributions elsewhere through a personal pension?
Presumably if we do the above the church would not experience a cessation event?
Moreover new members of staff do not need to continue to contribute to the Fund if we provide adequate pension provision elsewhere.

I am aware the benefits of the new scheme may well outweigh provision that can be provided elsewhere…but as a church community we are also aware of the significant cost of paying for the deficit for several ministers when for many years we had only one member in the Fund at any one time.

Answer

The questions you raise relate to a wider issue which potentially arises in respect of all churches and other employers which have more than one contributing member in the Fund. This issue is the way in which deficiency contributions should be allocated between employers participating in the Fund.

Employers with multiple members have already implicitly accepted the principle that deficiency contributions are due in respect of all their contributing members, because the current contributions include a deficiency element equal to 5.8% of Minimum Pensionable Income. However, this issue has been highlighted by the need to identify deficiency contributions separately and by the expected increase in the amount of deficiency contributions, probably to somewhere between 10% and 12% of Pensionable Income.

For each minister on the Standard Stipend, this represents an additional cost to the employer of between £1,100 and £1,600 per year. We recognise this is unwelcome to employers, but it seems to us that the increased demand on an employer that has several members is no greater pro rata than the demand on a church that is only paying one minister.

We have considered various alternatives, including expressing the deficiency contribution as an amount per participating employer. However, this seemed unjust in that a small church, struggling to support one minister, would bear the same monetary cost as a large church or another employer which has several members in the Fund. The financial impact on the two organisations would be very different.

We recognise that there are issues around fairness in relation to the deficiency contributions. We are therefore working at present on establishing, without incurring huge actuarial costs, an approximation of the liabilities attributable to each employer, having regard to the record of service by Fund members with that employer. During the first three years of the new deficit contributions, i.e. by the time the next Actuarial Valuation is completed, we will be trying to find a way to make the deficit contributions more representative of these liability of each employer. We do not have the information to do this immediately, and also want the Pensions Regulator to see that for the time being, all the employers are contributing to the deficit.

The Church would presumably need the consent of any existing members before withdrawing them from the Fund, as it would probably constitute a change in their terms of settlement. If this were done, it would leave the other contributing member as the Church's sole employee in the Fund. This means that if that minister ceases to be a contributing member and the Church does not at that time (or within the permitted period of grace) have another contributing member in a section of the Scheme, a cessation event would occur. This would bring a liability for an employer debt which the Pension Fund Trustees would presumably have to collect, especially since the Church would have chosen not to put eligible staff into the Scheme.

In addition, it should be noted that:

- the financial advantage to the Church from paying only one set of deficiency contributions could be short-lived, assuming we are able to introduce the more accurate and equitable deficiency contribution structure described above, following the next actuarial valuation.
- The Pension Trustees current policy of receiving deficiency contributions and not pursuing cessation event debts does depend on the Baptist family responding responsibly to the challenge of meeting the deficit in the Pension Fund, and if insufficient contributions are received, then the Pension Fund Trustees will need to reconsider their policy.
- There are potentially significant implications for any current contributing members who leave the Fund when they could have continued as contributing members. These are explained in the answer to the separate question on opting out.