PENSION REVIEW GROUP
RESPONSE TO SOME OF COMMENTS FROM INTERIM CONSULTATION

CURRENT PROVISION

I am paid more than the minimum stipend - what does that do to my Pension now and in the future?

Your pension will be calculated in two parts, as follows:
In respect of earnings up to the Minimum Pensionable Income (which is Home Mission stipend plus Manse allowance) there is a Defined Benefit pension based on your period of service in the Fund and Minimum Pensionable Income over the period prior to the date on which you leave service.
Premiums paid on earnings in excess of Minimum Pensionable Income purchase Supplementary Benefits which have some Defined Benefit characteristics and some Defined Contribution characteristics in that the premiums purchase a defined cash lump sum, and on retirement, that lump sum can be used to purchase additional pension at that time, according to the market conditions and life expectancy which then apply.
Please note that different arrangements apply in respect of service prior to 1985.

What happens about a pension for my spouse?

The pension based on the Minimum Pensionable Income includes a spouse's pension as standard; this pension is 50% of the member's own pension and is payable following the death of the member. Where a lump sum has been drawn on retirement, the spouse's pension is 50% of the member's pension that would have been payable before it was reduced because of the lump sum drawn.
The Supplementary Benefit from additional premiums does not automatically include a spouse's pension, but one of the options at the time the lump sum is converted into pension is to include a spouse's pension in the calculation. If this is done, the member's initial pension is lower than it might otherwise have been.

Is there flexibility about the percentage split of contributions?

There has always been a member's contribution within the Fund, and for several decades the split of total contributions has been one-third from the member and two-thirds from the employer. There is no relevant limit in law to the amount that employers can contribute to an employee's pension, so there is nothing to prevent an employer paying a greater share of the premium by agreement with the member. Nevertheless, the standard terms of settlement of an Accredited Baptist Minister currently envisage the premium being split one-third and two-thirds.
Members have the option to pay a larger amount into the Fund by way of Additional Voluntary Contributions, which currently form part of Supplementary Benefits. Members get tax relief on all their contributions, while churches do not pay tax and therefore cannot obtain tax relief on theirs.
(Please also see the answer below to the question "Why don't we introduce a 'salary sacrifice' arrangement in respect of the Fund, as many other employers are doing with their pension schemes?")

What is the current percentage of net income received in retirement against net income in work?

This varies according to individual circumstances. However, calculations in respect of an hypothetical minister who has spent 40 years in ministry on the Home Mission Stipend show that total income in retirement from the Fund, plus the Basic and Second State pensions, after tax deductions, is currently about 115% of the pre-retirement income from Home Mission Stipend, after the deduction of tax, National Insurance and pension contributions. If allowance is also made for housing costs, this figure reduces to about 95%.

This figure gradually changes as more of the pension earned before retirement comes from service after the Fund was greatly improved in 1985, and less comes from the basic arrangements in place prior to that date. If the current benefit structure were to be retained unchanged, post-retirement net income would eventually reach about 130% (110% after allowing for housing costs) of pre-retirement net income.

THE PENSION FUND

What is the relative balance of investments in equities and gilts?

The investment portfolio still has more investment in equities than bonds. This is because it is still expected that over the long term the return from equities will exceed that from bonds, and because the Fund is still growing (i.e. the pensions in payment are more than covered by new premiums being received, meaning that neither investment income nor asset sales are required to cover current benefit in payment). However, in recent years, the percentage held in bonds has been increased. At 31 December 2009, equities were 57.6% of the portfolio, bonds were 29.8% of the portfolio, property unit trusts were 8.6% of the portfolio, and cash represented 4% of the portfolio.

How has our Fund performed in recent years against targets and average market performance?

During the downturn of the markets in 2008 and 2009, the performance of the Equity manager was disappointing, and a change was made in the summer of 2009. The Fund Trustees have accepted the new managers' strategy of investing in the global marketplace rather than predominantly in the United Kingdom, having regard to the effects of globalisation and the likelihood that economic growth overseas will almost certainly exceed economic growth in the United Kingdom in years to come. Their performance to date has been in line with their benchmark.

The performance of the Bond portfolio was disappointing during the height of the so-called credit crunch in international markets, but has since recovered strongly. The last quarter of 2009 showed a performance significantly above the bond benchmark which left the portfolio after three years still a little below its benchmark but moving in the right direction.

The returns on property unit trusts have been weak, along with the whole property market, but the Trustees recognise that they are a long term investment which performed well immediately after their acquisition, and will improve again as the economic cycle progresses.

Further details of the Fund's assets and investment returns are shown in the Annual Report and Accounts, which are sent to all members annually.

Why don't we have yearly evaluations of the fund so that we spot the problems coming?

Legislation has made it a legal requirement since 2007 for the Fund Trustees to obtain an update of the Fund's actuarial position as at each 31 December to check how the funding of the scheme is progressing. Full actuarial valuations are required by law every three years, with the next one due as at 31 December 2010, but it would not be cost effective to turn the annual updates into full valuations. The annual updates do not revise the actuarial assumptions covering investment performance and life expectancy which are reviewed as part of the full valuations. If these assumptions are changed significantly, then there will be an effect on the funding position which may still be out of line with the expectations created by the annual updates.

I’m 60 and thought I knew what I’d be getting! Is it really all up in the air?

We regret that the form of pension provision for future service is still up in the air. However, whatever changes are made cannot by law reduce the pensions earned to the date of the change, so members can be assured that their pension entitlement at the date of the change is unaffected. Any uncertainty will only affect pension in respect of service between the date of change and the member’s retirement. When the Review Group has completed its work and Council has made its decisions on future provision then there will be a clear timescale of change to a new structure.

FUTURE PROVISION

Why should the BU provide a Pension scheme at all?

The Union believes that it has a Covenant relationship with its member churches and the Ministers on the Register of Covenanted Persons Accredited for Ministry. Ministers are not generally remunerated at a level which is commensurate with their qualifications and experience, and so do not normally have the opportunity to save for retirement in other ways. Accordingly, the Union believes that they should benefit from the best pension provision that can reasonably be afforded. As a matter of responsible stewardship, such provision can most cost-effectively be made through an employer-sponsored scheme, rather than leaving Ministers to their own devices.
However, the law does not permit an employer to insist that employees join a specific pension scheme, so not every Baptist Minister has chosen to be a member of the Baptist Ministers’ Pension Fund, although the take up has been higher in recent years as members have appreciated the quality of the pensions provided. Similarly, a number of Ministers re-entered the scheme as a result of the difficulties surrounding the mis-selling of personal pensions some years ago.

The Union continues to believe that the best pension that can be afforded should be provided, but the Review is attempting to establish what form that pension provision should take in the future.

In an environment in which defined benefit pension provision is becoming unusual (at least outside the public sector), why are the review group even considering retaining any element of defined benefits within a revised scheme?

The review group are very aware of this trend and the potential problems of ministers having more generous pension provision than many in their congregations. However, it is also recognised that most ministers have made significant financial and other sacrifices in order to pursue their calling and that some element of predictability in their retirement income is desirable, as they may not have had other opportunities to save for retirement.

Why don't we just close the existing Fund to new members and put them into a defined contribution scheme, as many other employers have done?

Following this approach would create a two-tier structure, which is regarded as potentially divisive in our situation. Moreover, it would only reduce overall risk to the churches and other employers participating in the Fund very gradually and in an uneven way between churches

Why don't we introduce a "salary sacrifice" arrangement in respect of the Fund, as many other employers are doing with their pension schemes?

The Review Group are aware of the potential benefits of such arrangements in terms of reducing the National Insurance contributions payable by both employees and employers. However, each employer that wishes to operate a salary sacrifice arrangement has to agree it with HMRC and so this would have to be done on a church-by-church basis, unless an overall concession could be negotiated with HMRC. As a salary sacrifice arrangement does not materially affect the overall issues of balancing future provision between the conflicting pressures of cost, risk and benefit levels, it is not currently seen as a priority.

Why did the interim consultation document suggest that net retirement income should be such a high percentage of net pre-retirement earnings? Most schemes only aim at 50-66%.

We agree that most good final salary schemes aim to provide between 50% and 66% of final salary. However, these figures are generally quoted as percentages of gross salary and exclude State pensions. In contrast, in trying to establish an appropriate target level of net income for Ministers in retirement, our calculations took into account both the Basic and Second State pensions as well as the Baptist pension. These State pensions between them form a significant part of overall pension provision for Ministers, being equal to some 30% of the Home Mission Stipend.

The figures are also worked on a net basis, since in retirement there are neither National Insurance contributions nor pension contributions to be deducted. The Review Group is also making an allowance for the extra housing costs Ministers normally face in retirement.

(Please also see the answer above to the question "What is the current percentage of net income received in retirement against net income in work?")

Can a future scheme have a number of graded options for contributions?

It may be possible to achieve this, and the Review Group will bear this in mind as they deliberate. It will be important to achieve the right balance between flexibility and complexity, which affects both members' understanding of the Fund and future administration. Whatever structure is put in place, members will be able to pay additional voluntary contributions to purchase additional benefits.

Could we merge our scheme with the Methodists or URC?

It would be difficult to achieve a merger because

our ecclesiology is different (which means in practice that their central employment of Ministers is a significant difference from our local employment of Ministers);

the terms, conditions and funding positions of each scheme will differ; and

decision-making in respect of a combined scheme would become extremely unwieldy.

Such a merger would not resolve the fundamental problems facing the Baptist Ministers' Pension Fund, first of meeting the funding shortfall in respect of benefits earned to date, and secondly of balancing future provision between the conflicting pressures of cost, risk and benefit levels.

Accordingly, the Review Group believes that it is right to resolve the future of the Baptist Fund first. Then if it were to be appropriate to talk about mergers, there would need to be a separate discussion, both about principles and practicalities.

Why don’t we just sell the whole fund now?

We have legal obligations to provide the pensions now in payment and the pension entitlements earned on service to date, so we cannot simply wind up the Fund and walk away, even if we felt morally that it was an option. Reference is sometimes made in the press to occupational pension schemes being “sold” en bloc to organisations who take on the risks currently borne by the sponsoring employers, but such an organisation would need to charge a significant premium in order to be compensated for taking on the funding shortfall and we have no means of paying such a premium.

PENSION AGE

If pension age is increased, will it affect the benefits I've already earned?

No, pension law requires that your pension entitlement earned up to the date of any change is protected and that covers both the amount and the date from which it is payable. If you start drawing your pension after age 65, the part which could have been payable from age 65 would be increased to reflect the delay.

Can’t I already work longer than 65?

You can if you obtain the permission of the church to remain in post on a paid basis. Under current legislation the church is not required to agree with a request from you to defer your retirement. If you do continue to work, then you can continue to pay premiums to the Fund. If you and the church decide that you should continue to work part-time, then you can continue to pay premiums on your part-time earnings, and at the same time partially retire and draw a proportion of your pension.

Can I retire earlier than 65?

You can retire at any time after the age of 55, but your pension will be reduced to take account of the fact that you would expect to be receiving it for longer. The reduction may be so significant that early retirement is not economically feasible. Please note that separate arrangements apply in cases of retirement due to incapacity. You should also bear in mind that State pensions cannot be drawn before State pension age. As noted above, State pensions form a significant part of overall retirement provision for Ministers.

I’m only 30 now, so won’t I have to wait until age 68 to get my State pension anyway?

Yes you will, and by then State pension age may have moved on even further. You will also need to wait until at least age 68 to get your Baptist Pension as well, since it has already been decided that the Fund’s normal retirement age will increase, broadly following the changes to State pension age. These have a stepped increase in pension age until 2046 when the State retirement age will be 68. The website http://pensions.direct.gov.uk/en/state-pension-age-calculator/pensions-reform.asp has a simple calculator that from your date of birth will tell you your current projected state retirement age.

Why is the pension age for men and women the same in the BMPF, when different State pension ages apply at present?

European equality legislation effectively requires work-related pension schemes to have the same pension age for men and women, but these requirements don't apply to State pension arrangements.

What happens if I only work part-time for the last few years of ministry?

Your final pension will still be based on the Minimum Pensionable Income at the date of your retirement, but working part-time will affect the number of years service that count towards your pension. For example if you worked half time for four years, you would only earn two full years of pensionable service in that time.

PERSONAL ACCOUNTS
(Now known as the National Employment Savings Trust (NEST))

Will churches with less than five employees have to set up NEST Pensions for their employees?

Yes, since Government legislation will require that pensions be provided for all employees. This differs from the requirements for stakeholder pensions, from which employers with five employees or less were exempted. These new NEST requirements come into force starting between 2012 and 2016, depending on the number of employees and some other variables, although of course there is still scope for these plans to change prior to implementation.

How would it help to open up the Fund for other church employees? Won't it just make the current funding problems worse?

The Government requirements for a personal pension for all employees can either be met by investing in the NEST or by investing in another pension scheme that meets the minimum standards required. We are considering opening our pension scheme, whatever its final form, so that all church employees can be included and hence wouldn't have to go into NEST.
Whatever form future provision for ministers may take, non-ministerial employees would only be eligible to join on a Defined Contribution basis, which does not involve the employer in guaranteeing a particular level of benefit, so there would be neither a positive or negative impact on the funding position.

OTHER

I'm worried about where I'll live when I retire. What is the current situation with the Retired Baptist Ministers Housing Society?

The Retired Baptist Ministers Housing Society is proud that it has been able to house all those eligible applicants who have needed the Society's help for many years. It will strive to maintain this record, but cannot give an absolute guarantee because each additional unit of housing is likely to cost in excess of £160,000 and the Society does not have limitless resources. However, knowing that there are a lot of Ministers planning to retire in the next five years, the Society has arranged to borrow substantial funds to enable it to continue provide housing. At some stage this borrowing will need to be repaid, but in the short term the Society expects to meet the demands placed upon it.

Ministers in need of retirement housing should be contacting the Society about five years before their expected date of retirement.

Should this Pension Review be linked to a wider review of ministry for the future in the Union? Isn't one going on anyway?

The changes to the Pension Scheme are now sufficiently urgent that they must proceed independently of any wider review of Ministry. The Ministry Department is aware of the main lines of discussion within the Pension Review, and any changes to the Pension Scheme may well make it easier to widen the membership of the scheme to match any potential changes to the Accredited List.

Why would I want to stay in the Fund in the future?

Neither the Union nor the Pension Fund Trustees can give financial advice to individual ministers concerning whether or not they should join or stay in the Fund. If a minister is concerned about this point, he or she should consult with an Independent Financial Advisor to discuss their pension provision in the light of their personal circumstances.

Within such discussion ministers may want to have regard to such issues as death-in-service benefits, early retirement on grounds of incapacity to work benefits, and spouses pension, as well as the basic pension provisions of any scheme.

From a different perspective it should be noted that in both the Interim Consultation comments received and the discussions at Baptist Union Council thus far a number of voices have spoken of the Pension Fund as being about fellowship within the Union. If the Union sees the provision of an appropriate pension as part of its covenantal relationship with its ministers then can ministers see membership of the Fund as part of their covenant with the Union? Broadly speaking it is better for the Fund to have more members than less.

I've heard people talking about the costs and implications of 'cessation events'. What are these and what is the Union doing about them?

Under pension legislation, where there is a multi-employer pension scheme, a cessation event arises when one of the employers ceases to have any active members remaining in the scheme. Recent legal advice has clarified that the Baptist Ministers' Pension Fund is a multi-employer scheme for this purpose, even though Ministers are not officially classed as employees and churches have not signed formal participation agreements with the Pension Fund Trustees.

The effect of this is that where a Minister who is the only active member that a church has in the Pension Fund leaves that church (or opts out of the Fund), a cessation event arises.The law then requires the whole Fund to be valued by the actuary, comparing the Fund's assets with its liabilities, when measured on a very stringent basis. An employer debt, calculated as a pro-rate share of the resulting deficit, is then to be charged to the particular church leaving the scheme. Potentially this could lead to very significant demands being made on individual churches.

The regulations have already been amended several times, and the effect of this is that cessation events arising before 2 September 2005 do not give rise to any amounts being repaid to the scheme, cessation events arising between 2 September 2005 and 5 April 2008 fall into one category and cessation events arising after 5 April 2008 fall into another category. In the latter case, the Regulations now permit there to be a gap of twelve months between employees before a cessation event is triggered, so that provided the church notifies the Pension Fund Trustees within one month of a minister departing of its intention to appoint a successor minister, the cessation event is deferred for twelve months.

These regulations were clearly not designed to cater for Baptist churches, where the period between Ministers in post at any particular church typically exceeds twelve months, and so the Union and Pension Fund Trustees have lobbied the Department of Work and Pensions to find a way of offering relief to our Fund, perhaps by extending the permitted gap between employees as far as five years. No response has yet been received and the process is now in abeyance for the period of the General Election. Even if any change to the regulations is made to help us, it will not happen quickly, nor will it deal with cessation events that have already occurred.

The Union is seeking ways to minimise the impact on churches of these cessation events, although because the legislation has to be observed, inevitably there will be some impact. The Union is in the process of writing individually to all the churches in this position.