

**Proposed
Changes
to the
Beneficiary
Fund
Explained**

FOR

**members
and
annuitants**



**Presbyterian Church
of Aotearoa New Zealand**



This booklet has been compiled based on work undertaken by the Council of Assembly in consultation with the Beneficiary Fund's trustees, the Church Property Trustees. The work arises from a General Assembly decision in 2014 to review the Beneficiary Fund.

The Beneficiary Fund Workgroup, members are as follows:

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Contents

> Introduction	3
> About the Beneficiary Fund	5
> What is the impact of proposed changes?	6
> Why change?	10
> What are the changes?	12
> Who makes the decision about whether changes go ahead?	13
> Help and support	15

*Ray Coster replaced Bruce Hansen on the workgroup following Bruce's resignation as a Church Property Trustee.

The Workgroup has been supported in their work by a range of advisers who include retirement scheme experts, the Beneficiary Fund actuary and specialist legal advisers.

The Small Print

This guide is intended to provide you with a general overview of the proposed changes. While great care has been taken to get the details right at the time of publication, statements in this document are for general information only, and subject to change.

Introduction

This booklet is part of an information pack for Beneficiary Fund (the Fund) members and annuitants about proposed changes to the retirement scheme for the Church's national ordained ministers.

Significant changes are proposed, and these recommendations have not been made lightly. A massive amount of research and analysis has gone into bringing these recommendations for change. At the forefront of the Beneficiary Fund Workgroup's work has been the long-standing commitment by the Church to support its ministers and their families.

Much consideration has been given to Fund members' and annuitants' needs, and their potential concerns about the proposed changes. The Beneficiary Fund Workgroup and its advisers have worked tirelessly to not only understand the impacts of the proposed changes, but also to develop strategies to address these.

The Church greatly values the efforts of our ministers who have given many years of service to the Church, and the package of changes has been shaped with this important point in mind.

What is changing?

A package of changes will be presented to General Assembly 2016; these include a recommendation to wind up the Defined Benefits sections of the Beneficiary Fund, and replace them with a different style of retirement fund.

By their nature, recommendations to change the Beneficiary Fund are closely linked to ministerial support, and accordingly General Assembly will also consider a series of changes to the support package for ministers including an increase in basic stipend.

Changes to the governance structure of the Fund and amendments to the Fund Trust Deed are among other changes proposed.

Changes to the Beneficiary Fund will impact members differently depending on whether they joined the Fund before or after 2009. Prior to November 2016, members and annuitants will receive a letter that provides details about the impact of the proposed changes on their entitlements, including an indication of their lump sum cash distribution.

"At the forefront of the Beneficiary Fund Workgroup's efforts has been the Church's long-standing commitment to support ministers and their families."

In other changes to be considered by General Assembly, it is proposed that the Church makes similar retirement support available to both national and local ordained ministers.

Why change?

The proposed changes have been structured to deal with various issues in the Fund and the way the Church provides retirement support to its leaders. In particular, the changes aim to:

- › bring about a retirement scheme where all ministers (both local and national) have similar access to retirement support
- › bring about a fairer charge on parishes for the provision of retirement support
- › develop a retirement scheme that better recognises different ministry forms
- › reduce the future investment risk currently borne by parishes

The package of proposed changes provide more equitable access to retirement support that is not possible under the current scheme, and will better equip the Church to support the retirement needs of the increasingly diverse range of ministry leaders.

General Assembly will also consider a recommendation to establish a new governance structure for the Beneficiary Fund that is compliant with the requirements of the Financial Markets Conduct Act, which applies to the Fund from 1 December 2016.

More information

All of this and much more is explained in detail in this booklet. Proposed changes to the Beneficiary Fund will also be outlined in question and answer sessions at presbyteries around the country in August and September. All Fund members and annuitants are encouraged to attend one of these meetings.

As well as reading the supporting material, it is strongly recommended that members seek independent financial advice, for which a grant will be available.

Please feel free to utilise any of the mechanisms available (listed at the end of the booklet) to ask questions and share feedback on the proposed changes. Responses to your questions and comments will be addressed in ongoing communication about this matter, so that all members can benefit from the questions asked.

About the Beneficiary Fund

The Beneficiary Fund was established with the purpose of providing for national ordained ministers and their families in their retirement. It provides a mixture of retirement and welfare related support to members and their spouses.

How does the Beneficiary Fund operate now?

The Fund is currently made up of two Defined Benefit sections (referred to together as the "Defined Benefit section") and a KiwiSaver compliant Defined Contribution section.

The proposal recommends winding up the Defined Benefit sections of the scheme, and replacing them with a second Defined Contribution section within the Beneficiary Fund.

Who can join?

The Beneficiary Fund is only open to national ordained ministers. Local ordained ministers, those in local ministry teams, youth pastors and the many other types of ministry leaders serving the Church are ineligible to join.

What support is available?

Fund member retirement support includes an optional lump sum commutation of a portion of their future entitlement on retirement (and for pre 1 January 2009 members there is an additional lump sum), and an annuity based on years of service. The Fund also offers a range of related support such as disability benefit, special grants (usually related to medical assistance), death and funeral coverage.

The level of support offered varies according to whether members joined the scheme before or after 1 January 2009.



What is the impact of proposed changes?

This section outlines the impact of proposed changes on Beneficiary Fund members and annuitants, parishes and the wider church community.

Impact on members and annuitants

Wind-up involves a lump sum cash distribution

Should General Assembly agree to wind up the Defined Benefits section of the Beneficiary Fund, members and annuitants will receive a lump sum cash distribution under the terms of the Trust Deed.

Annuitants can either take their lump sum cash distribution, or transfer an amount equivalent to the distribution into the new Defined Contribution section of the Beneficiary Fund. Annuitants will be able to withdraw all or part of their transferred funds at any time.

Contributing members will be able to invest some or all of their lump sum distribution, or transfer an equivalent amount, into the Defined Contribution section of the Beneficiary Fund, and withdrawal will be subject to the withdrawal provisions of the Fund.

The lump sum cash distribution is based on your actuarial entitlements, which value your:

- > Annuity
- > Spouse and dependent benefits including funeral allowance
- > Death-in-service benefit
- > All other benefits provided by the scheme.

Due to procedural windup requirements, the process (including the payment of cash lump sum) will take several months to complete. This process will start on 30 June 2017 and payments will not be made until several months later. Annuitants will continue to receive a monthly payment during this process.

For more details about the lump sum distribution, see the Lump Sum Cash Distribution Explained Factsheet available on the Church's website: www.presbyterian.org.nz/for-parishes/church-property-trustees/the-beneficiary-fund/proposed-changes

More positive distribution environment

The Defined Benefit sections' current surplus will be distributed in accordance with the terms in the Trust Deed. Where the Fund Trust Deed, actuarial standards and legal advice allow, an approach of favouring support to members on wind-up should be followed.

A change to the current ministerial support package

A new ministerial support package is being designed in consultation with external advisers. The aim will be to ensure that the combination of an increased stipend, other benefits and the recommendations with respect to wind-up distributions will ensure that contributing ministers are no worse off in terms of the value of their support package. The result is likely to be an increase in stipend of around 5 percent.

Full details of the proposed changes to the support package can be found in the Ministerial Support Package Explained Factsheet available on the Church's website: www.presbyterian.org.nz

Ability to bequeath remaining funds on death

Under the existing Defined Benefit section, when an annuitant dies an annuity continues to be paid to their spouse. However, on death, no remainder is payable to the estate of the annuitant or, if applicable, their widow/widower's estate. Payment of a lump sum to annuitants will mean that to the extent that funds have not been exhausted, the amount remaining may be bequeathed.

Providing for those who enjoy a very long life

Under the Defined Benefit section, an annuity would be paid until the end of the person's life. With the proposed lump sum distribution, which is in part based on the assumption that all members are in average health and have an average life expectancy for their age, if the member or annuitant survives beyond this date, it is possible that they may run out of funds.

The Church is resolute in its commitment to honouring our obligations to ministers and their families, and to this end some of the Beneficiary Fund's surplus will be used to establish a charitable fund. It is intended that this fund will, among other things, be available to current members who despite financial prudence, need to request financial assistance to meet reasonable living costs or alleviate any hardship associated with wind-up of the Defined Benefits section of the scheme.

Lump sum cash distribution may impact entitlement to means-tested benefits

Members and annuitants will not be subject to income tax on receipt of their distribution from the Defined Benefit section as the Fund is an approved superannuation fund.

However, members in receipt of family assistance, or whose children currently qualify for student study allowances (based on their parents' income) may be adversely affected in the year of distribution as the distribution may be counted as "income" for that year for means-testing purposes. Annuitants may also be affected if the receipt of wind-up distribution payments means that they are no longer eligible for government-assisted rest home or hospital accommodation and care.

It is anticipated that members and annuitants adversely affected will be few, and residual surplus funds held on trust can be applied for in circumstances where hardship arises as a result of the wind-up.

More information about this impact is available in Lump Sum Cash Distribution Explained Factsheet available on the Church's website: www.presbyterian.org.nz/for-parishes/church-property-trustees/the-beneficiary-fund/proposed-changes

Impact on others

Individual Fund members will be affected by the proposed changes, as will local ordained ministers, other ministry leaders and indeed all church employees.

Equitable access to retirement and insured benefits for local ordained ministers

The proposed changes, if agreed by Assembly, will bring about a retirement scheme where all ministers (both local and national) have similar access to retirement support. Under proposed changes, parishes will make contributions to local ordained ministers' nominated KiwiSaver accounts at a similar rate to national ordained ministers. (Read more about this in the "What is changing?" section of this booklet.)

Parishes face reduced future financial risk

The key impact of the recommended course on the Church is to remove from parishes the liability of funding possible scheme deficits in the future. (This is explained in more detail in the "Why change" section of this booklet.)

Fairer charges on parishes for Beneficiary Fund contributions

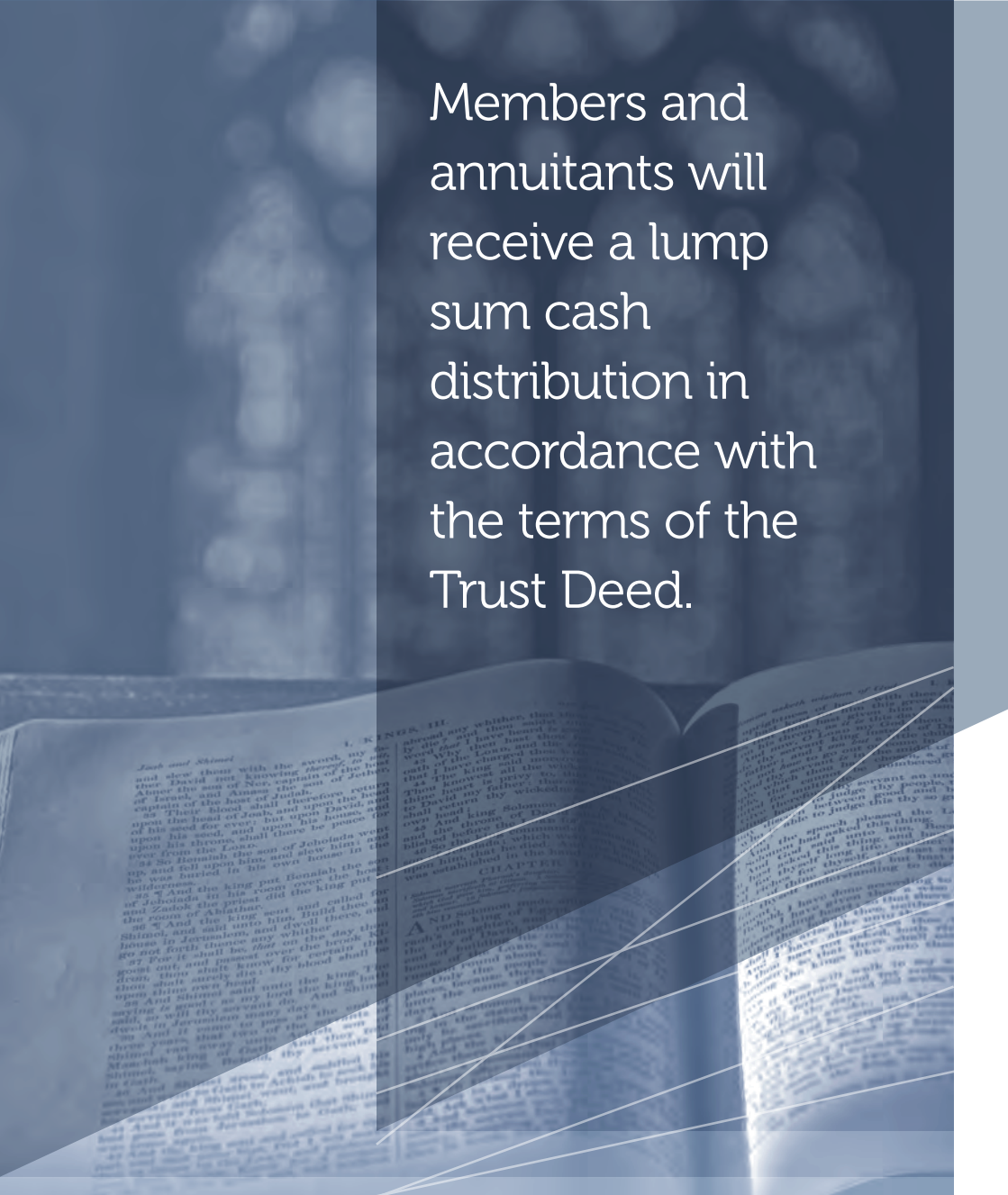
If the proposed changes are agreed by General Assembly, this will result in a fairer charge being made on parishes for superannuation. It will enable a considerable reduction in Assembly Assessment levies since parish contribution to the Beneficiary Fund will change from central funding through Assembly Assessment, to a parish contribution as a percentage of total stipend (including seniority allowance).

The Assembly Assessment levy will be recalculated to recognise the changed burden on parishes to contribute to the Beneficiary Fund. It is expected that the new rate will be effective from July 2017.

Employees and non ordained ministry leaders will benefit

The 2012 General Assembly adopted a living wage policy where congregations were encouraged to pay the living wage for all employees. Further, the Beneficiary Fund Workgroup is strongly recommending that parishes pay KiwiSaver contributions for all employees at the same rate as contributions to Kiwisaver for locally ordained ministers.

Members and annuitants will receive a lump sum cash distribution in accordance with the terms of the Trust Deed.



Why change?

The proposed changes have been structured to deal with various issues in the Fund and the way the Church provides retirement support to its leaders. Overall it is expected that the changes will provide a retirement scheme that is sustainable in the long term, better recognises the value of all leaders, and removes undue financial risk from parishes.

It is also necessary to introduce a new governance structure that is compliant with the requirements of the Financial Markets Conduct Act, which applies to the Fund from 1 December 2016.

Better recognise all forms of ministry

Beneficiary Fund membership is limited to national ordained ministers, which has created a situation where there is not equal access to church-funded retirement support for ministers.

Locally ordained ministers, youth pastors, children and families workers, for example - are treated less favourably than nationally ordained ministers, when it comes to the Church providing for their welfare both during employment and into their retirement.

The proposed changes provide similar retirement support between local and national ordained ministers, and also encourage equitable retirement support for non ordained ministry leaders and employees.

What is the difference between Defined Benefit and Defined Contribution schemes?

A Defined Benefit (DB) scheme is where payments are made into the scheme and in return the scheme promises to provide a pension. The important thing to note about this type of scheme is that all the investment risk, and risk that the pensioner lives longer than expected, lies with the scheme. In the Church's case, this means that parishes have a financial liability if the scheme has too little money to service the pension obligations. On the death of a member and their spouse, no entitlements remain.

A Defined Contribution (DC) scheme is where the payments accumulate and the retiree is entitled to whatever happens to be in their scheme account when they retire. (Kiwisaver is an example of a Defined Contribution scheme). The important thing to note is that in a Defined Contribution scheme, the investment risk lies with members. On the death of a member, their entitlements transfer to their estate.

Remove future financial risk to the Church and parishes

The Defined Benefit section poses a financial risk to the Church, a risk that must be borne by all parishes in New Zealand. The financial risk exists because the defined benefit sections require the Beneficiary Fund to pay a “defined” ongoing pension based on each minister’s years of service to the Church and other factors. This pension obligation exists regardless of the amount of contribution from the Church, the minister or their parish and regardless of the level of income and assets the scheme itself accumulates on those contributions.

Such a situation is an inherent risk in Defined Benefit schemes, and is one of the reasons schemes like this have closed over the years.

The scheme has made considerable investment gains in recent years, a situation that has de-risked the fund by providing a significant buffer between its projected obligations and available funds. However, such investment gains are not guaranteed and the current Defined Benefit sections’ surplus can be markedly eroded (and even become a deficit) in a short space of time.

Winding up the Defined Benefits part of the scheme reduces the future financial risk to parishes and the wider Church.

Bring about a more equitable retirement support model

Contributions to the Fund are a large proportion of the Assembly Assessment (around 43 percent), and Assembly Assessment is paid by all parishes, regardless of whether they have one minister, more than one minister or no ministers. In reality, parishes that are served by a non-nationally ordained ministry leader are contributing an inequitable proportion of ministerial retirement funding within their Assembly Assessment payments.

Churches that have locally ordained ministers (who cannot join the scheme) are doubly affected because these parishes also have a legal obligation to contribute to such minister’s third-party operated KiwiSaver accounts on top of the Assembly Assessment.

If the proposed changes are adopted, the proportion of Assembly Assessment comprising Beneficiary Fund contributions will be removed and be replaced by parishes contributing to the scheme through payment of a percentage of a minister’s total stipend (including seniority allowance).

What are the changes?

A summary of the package of proposed changes is outlined below and will be presented to General Assembly in November 2016 for consideration.

Beneficiary Fund changes:

- › The Defined Benefit sections of the Beneficiary Fund be wound up.
- › Creation of a new Defined Contribution section of the Fund to allow members or annuitants to transfer all or part of their lump sum distribution to this new Defined Contribution section of the Fund (current regulations prohibit those over 65 joining the current Defined Contribution section of the scheme).
- › The surplus in the Defined Benefit sections of the Fund be distributed in accordance with the Trust Deed, including returning some to the general reserves of the continuing sections of the Fund, and the remainder to be held in a trust fund for charitable purposes for the advancement of religion, in particular for the support of ministers of religion.

In order to give effect to the changes and ensure legislative compliance, the Fund will be temporarily closed to new members from 1 December 2016 until 1 July 2017.

Other changes:

- › Adjustment of ministerial support package to include an increase in stipend and other changes. (See the Ministerial Support Package Explained Factsheet, available on the Church's website in mid-September, for further details).
- › Extend retirement scheme support to local ordained ministers through a change in policy that specifies parishes make employer KiwiSaver contributions for LOMs at a rate of not less than 4 percent (unless the minister is not a KiwiSaver member or is on a contribution holiday).
- › Parishes will be encouraged to pay KiwiSaver contributions for all employees at the same rate as contributions to KiwiSaver for local ordained ministers.

General Assembly will also consider a recommendation to establish a new governance structure for the Beneficiary Fund that is compliant with the requirements of the Financial Markets Conduct Act, which comes into effect on 1 December 2016.

Amendments to the Beneficiary Fund Trust Deed are required to facilitate the proposed changes and General Assembly will also be asked to agree to amendments, which will be available for viewing on the Church website in October.

Feedback from gatherings with Fund members, annuitants and parishes around the country may warrant amendments or additions to the recommendations that are broadly outlined above. While all care has been taken to ensure the completeness and accuracy of these recommendations, it is important to signal that they are subject to change.

Who makes the decision about whether changes go ahead?

The final decision on whether the proposed changes go ahead lies with General Assembly which meets in Dunedin 15-19 November 2016.

What if General Assembly agrees to the changes to the Beneficiary Fund?

If the proposed changes are approved, members will be sent further information about timeframes, next steps and other relevant details in the weeks following General Assembly.

What if General Assembly disagrees?

The Workgroup does not believe that maintaining the Defined Benefit section in its current form is in the best interests of the Church in the long term. If General Assembly does not agree to the proposed changes the Council of Assembly may continue to examine alternative options for the future of the Fund.

As a Fund member, do I have any say?

Fund members and annuitants may offer feedback to the Beneficiary Fund Workgroup and a summary of key themes from the feedback will be presented to General Assembly, which in accordance with the terms of the Trust Deed, is the only entity authorised to wind-up the Defined Benefits section of the Beneficiary Fund.

The final decision lies
with General Assembly
WHICH MEETS 15-19 NOV 2016.





What do the changes mean for me?

Prior to November 2016, a personalised communication including an indication of the level of lump sum cash distribution will be sent to all members and annuitants. (This figure will be indicative and can only be finalised at the time of wind-up based on the funds that are available at that date.)

The letter will also explain proposed changes to the ministerial support package.

Help and support

A comprehensive support package is available to help Fund members understand the proposed changes and what they mean.

Factsheets and other resources | Presbyterian Church website

The Presbyterian Church website will contain a variety of resources that you may find useful to explain the proposed changes. Visit www.presbyterian.org.nz to access these resources, or if you prefer, ring us on the 0800 number below and we'll be happy to post information to you.

Independent financial advice | List of financial advisors

It is strongly recommended that Fund members and annuitants seek independent financial advice about how to best manage any lump sum cash distribution. To this end, a grant will be available to assist members to seek financial planning advice. Information about how to access the financial advice will be provided in the Seeking Financial Advice Factsheet, which will be available on the Church's website: www.presbyterian.org.nz

Elder abuse | Contact Age Concern

Unfortunately abuse or undue pressure from a family member or caregiver can occur when someone comes into a sum of money. If you are concerned about this, please contact us to organise a pastoral visit, or contact your nearest branch of Age Concern for further information. (www.ageconcern.org.nz/ACNZ_Public/EANP_contact_information.aspx)

Pastoral visit | Contact us

We'd be happy to organise someone to meet with you regarding the proposed changes to the Beneficiary Fund. Call 0800 773 779 or email us to organise a visit.

Roadshow | 17 locations

Please join us at any one of the presentations at regional centres around New Zealand where we will explain the changes. You will have the opportunity to ask questions. A list of the roadshow dates and venues is available on the Church's website: www.presbyterian.org.nz.

Feedback | Tell us what you think

We welcome your feedback on the proposed changes. So that we may capture the feedback accurately, we ask that you email or post your comments to us where possible. Phone calls are also welcome (see below for contact details).

Contact us |

Please do contact us with any questions.

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