Beneficiary Fund

BACKGROUND
The Uniting Church in Australia Beneficiary Fund (the Fund) was established by the Inaugural Assembly of the Uniting Church in Australia (the Church) pursuant to Regulation 6·1·1 and the Fund was deemed to be an Assembly Agency.

The Fund provides benefits to retiring Ministers, predominantly in the form of a pension payable for life (commutable to a lump sum, at the election of the Member). The amount of the pension is determined using a formula based on years of service and Notional Stipend at retirement, and has in the past been indexed or partly indexed for inflation each year, depending on the financial health of the Fund. The Notional Stipend is calculated by the Actuary by averaging stipends paid by all Synods and after considering the financial health of the Fund. Benefits are payable on retirement, resignation, death, and disablement.

All Defined benefits are guaranteed by the Church and any shortfall in funding is underwritten by the Church. The Ministers know what their projected retirement will be worth, irrespective of market volatility so they can plan their retirement with a degree of confidence. The Fund also provides Accumulation benefits which make up a small but growing number of Members. Accumulation Members bear the risk of any adverse investment return (and benefit from any out-performance of investments).

RETURN ON INVESTMENT PERFORMANCE
Investment markets collapsed during 2008 as major financial and economic crises gripped the globe. The resource-led Australian share market slumped by 39% reflecting the biggest loss on record (worse than 1930). Superannuation funds in Australia posted an average negative 24% result for the year.

The Fund performed relatively well by comparison with the Defined Benefit section achieving a negative 11.8% and the Accumulation Benefit section negative 15.8%. In national surveys, the Fund was ranked first or second best performed fund of growth funds in Australia.

To out-perform the market by 10% would normally be a cause of satisfaction but the Board and Staff of the Fund consider it to be a hollow result in view of the overall adverse impact on the Fund. The Fund adhered to its diversification strategy and was overweight in cash and bonds, whilst being underweight in Australian equities. It had no exposure to the toxic mortgage securities and structure financial products that forced the US and other global regulators into radical market interventions to prevent a total melt-down of international financial systems.

The 2009 year to date has shown some signs of stabilisation but the Fund remains cautious as the market often rebounds after a major financial crisis only to slump again, after a major crisis.

CURRENT FINANCIAL STATUS

- Defined Benefit superannuation fund's financial status is measured by their Vested Benefit Index (VBI). This represents the total assets of the Fund covering the accrued liabilities to Members. In January of 2008, the VBI was calculated to be 140%, i.e. we had 40% more assets than liabilities.

- A VBI of less than 100% indicates an unsatisfactory financial position. The Fund's Actuary, Watson Wyatt, estimate the VBI as at 31 December 2008 to have deteriorated to 86%.

- The Fund Actuary, Watson Wyatt, formally advised the Fund on the 17th February 2009 that the Fund was in an "unsatisfactory financial position" as it could not meet its vested benefit obligations, i.e. assets would not cover benefits payable if all Members voluntarily leave the Fund on the same day. The likelihood of all Members all leaving on the same day is remote, to say the least, but legislation prescribes that the Actuary value the Fund on this basis.

- Superannuation laws and regulations require the Trustee to take "reasonable" action to correct any funding shortfall. This includes advising the Australian Prudential Regulatory Authority (APRA), advising Members and instituting a contribution program with the Church (as sponsoring employer) in accordance with the Actuary's advice and the Church's obligations to fund the liability to Members. The funding commitment was adopted by the Assembly Standing Committee at its meeting held on 12 – 14 November 2004 (Resolution 04.90.02).
- The shortfall calculated by the Actuary is $15 million but just under $10 million is required over a phased period. The timeframe for returning the Fund to a satisfactory position is not prescribed by legislation but in our experience up to three years is acceptable to APRA and in some cases five years is allowed for, provided that the rectification program is commenced in early course.

- A paper was prepared and presented to the March 2009 Assembly Standing Committee.

Technical Insolvency
There is a stricter measure of a fund's financial situation than the "unsatisfactory financial position" classification, and that is "technical insolvency". This means the inability of the Fund's assets to cover minimum requisite benefits (that is, benefits that just meet the Government Superannuation Guarantee requirements). This is a serious position, as an actuary is appointed with considerable powers in the daily running of the Fund, including authority to approve payments out of the Fund. In the current investment environment, there is a risk that the Fund could breach this threshold if appropriate action is not taken to address the funding issues.

PREVIOUS DETERMINATIONS
The Fund in conjunction with the Fund Actuary undertook a funding review in 2002. The review

indicated that although the Fund was in a satisfactory financial position at that point in time, it faced potential solvency issues in the future.

The Fund presented a report to the Assembly Standing Committee in March 2003, which highlighted the following issues:

- The Church's then contribution rate of 13% of Notional Stipend was not sufficient to fund benefits for Ministers in the future.
- A significant increase in the average age of new Ministers joining the Fund (42.2 years for males, 46.7 years for females) was adversely impacting on the funding.
- Increasing longevity of Members was causing the value of pensions to appreciably increase over time.
- The Assembly Standing Committee directed the Fund to engage in dialogue with a Church appointed Working Group, various Stipend Committees and prepare a report for the November 2003 meeting of the Assembly Standing Committee.
- The Working Group, which included all Synod General Secretaries, General Secretary of the National Assembly and Chairperson of the National Finance Committee, unanimously agreed that the Beneficiary Fund was providing valued benefits to active and retired Ministers and should be continued. However, it was agreed that the Actuary's recommendation that Church contributions increase by an additional 7%, in one step, was not financially feasible for some congregations.

ASSEMBLY STANDING COMMITTEE DETERMINATIONS

- Further Beneficiary Fund reports were presented to the Assembly Standing Committee in 2003 and to the meeting of the Assembly Standing Committee of 12 – 14 November 2004.
- The Assembly Standing Committee resolved as follows:
  - o Close the defined benefit section of the Fund to new members as from 1 July 2005.
  - o Increase the Church contributions to 15% of Notional Stipend.
  - o Directed the Fund to take positive steps to improve the Vested Benefit Index (VBI) by constraining, for a period of not more than three years, increases in the Notional Stipend and CPI increases for Pensioner Members.
  - o That the Church commit itself to a specific contribution strategy being:
    - ▪ If the VBI falls below the 100% threshold level, increased contributions would be provided by the Church to restore the Fund's financial position.

VBI Range	Additional contributions to restore to top of band over:
90% - 95%	5 years
80% - 90%	3 years
≤ 80%	Immediately

OPTIONS MOVING FORWARD

The Trustee is sensitive to the financial position of the Church and has closely monitored the Fund's performance and alternative funding option, particularly since 2004. The Trustee has carefully considered winding up the Fund. This is not an option as the Fund and the Church would still be left with an ongoing liability to fund. AMP quoted an upfront fee of $190 million (in addition to asset transfer) to administer the Pensioner Members but would not provide commutation options. Evaluation of merger options have not proved encouraging.

The Trustee is of the view that there are several options:

(i) Lump Sum

- Under this option the Church could make the necessary lump sum contributions over the next five years in accordance with the funding strategy. Specifically:

	Year Ending				
	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
Contribute each year	$2.50 mil	$2.50 mil	$2.50 mil	$1.10 mil	$1.10 mil

- Alternatively, the Church could elect to make a one-off payment for the full amount.
- It could transfer an asset in specie to the Fund (i.e. a property).

(ii) Church Increases its Contribution

- The Church is currently making contributions to the Fund of 15% of Notional Stipend for active defined benefit members.

- The Church could meet the cost of the additional contributions over the next five years by increasing the contribution rate from 15%. This approach effectively results in the additional cost being spread over the Fund's Active Defined Benefit membership.
- The increase in the Church's contribution rate, and the corresponding dollar increase for each Defined Benefit Member, is as follows:

	Year Ending				
	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
Additional Contributions* (as % of Notional Stipend)	6.9%	7.1%	7.6%	3.5%	3.7%
Current 15% Church contributions per DB Member*	$6,263	$6,513	$6,774	$7,045	$7,327
Additional Church contributions per DB Member*	$2,881	$3,083	$3,432	$1,644	$1,807

*Assumes Notional Stipend increases of 4.0% pa and Defined Benefit membership movement in line with projections undertaken for the Fund's actuarial review at 31 December 2008.

Both of the options proposed would result in additional Church contributions totalling $9.7 million over the next five years (as distinct from the $15 million shortfall). This is to provide the Church with a measure of flexibility in this difficult financial environment. The remaining 5% shortfall (currently $5.4 million, including 15% contribution tax) would remain in the Fund after five years, subject to the Fund's experience over that period and any directive by APRA.

Attribution Analysis VBI

- The significant 54% reduction in the VBI was attributable as follows:

a) Negative investment returns	- 32.7%
b) Alteration in discount for valuing pension liabilities	- 4.8%
c) Impact of increases in Notional Stipend	- 10.3%
d) Impact of Ministers attaining 55 during 2008	- 6.2%

- This highlights the fact that negative investment returns for 2008 would have still left the VBI at above 100% (107%) but that other factors, mainly associated with providing pension entitlements, continue to challenge the Fund.

In the final analysis, the Church has unfettered discretion to decide the most acceptable alternative to address the funding issue, but the Fund will assist as required.

The March 2009 Assembly Standing Committee resolved to:

1. Note the Contribution Management Strategy adopted by the Church on 14 November 2004;
2. Resolve that in order to address the Actuary's classification of the Uniting Church in Australia Beneficiary Fund as being in "an unsatisfactory financial position" and preclude the risk of the Fund becoming "technically insolvent"
   a) the Church to commit to providing lump sum contributions of $2.5 million in 2009, 2010, 2011, and $1.1 million in 2012 and 2013 if required;
   b) request the General Secretary, in consultation with the Executive Director of the Beneficiary Fund, to negotiate with the Synods as to the way in which the contributions from across the Church shall be delivered to the Beneficiary Fund; and
   c) report back to the August 2009 meeting of the Assembly Standing Committee on the outcome of these negotiations. (unconfirmed minutes)

FUTURE FOCUS

Investment markets will eventually recover, and when they do, the rebound is likely to be powerful given the extreme pessimism currently priced into the market.

Some important pre-conditions for a market turning point are emerging:

- Extremely cheap equity market valuations relative to long term benchmarks, with the Fund continuing to focus on the long term given its Member profile and accrued liabilities.
- Aggressive ongoing policy responses from central banks and governments.
- A significant amount of cash that is sitting on the investment sidelines that is earning low interest rates (in the case of Japan – zero earning rates).

The Fund will continue to focus on its long term strategic asset allocation despite market volatility. It will strategically diversify its investment portfolio across asset classes and investment managers who have different investment styles, thereby aiming to reduce risk.

The Trustee Board is committed to continue to closely monitoring the VBI, the longevity of Member trends, and to evaluate alternative options to managing these issues.

Mr Robert Runco
Executive Director