

## GENERAL SYNOD

THE CHURCH OF ENGLAND FUNDED PENSIONS SCHEME  
(REVALUATION) (AMENDMENT) RULES 2008EXPLANATORY MEMORANDUM**Introduction**

1. The Pensions Act 2008 has made a change to the legislation that governs the increases that must be given to pensions in deferment (i.e. pension benefits already earned by members who are no longer in active service but who have not yet retired). This explanatory memorandum describes the legislative change and the consequential amendments that the Church of England Pensions Board proposes to the Rules of the Church of England Funded Pensions Scheme ('CEFPS').

**Background**

2. The pensions for members of the CEFPS who have deferred benefits increase in line with the increase to the maximum benefits under the scheme, i.e. in line with increases to the National Minimum Stipend for the preceding year. For example, if the National Minimum Stipend increases by 4%, then deferred pensions will also be increased by that percentage. A consequence of that is that the same pension is granted in respect of a given period of previously completed pensionable service for a member who has left the scheme before retirement as for someone remaining in service.
3. Legislation<sup>1</sup> requires that deferred pensions must increase (be revalued) by a minimum level. The increase applied to an individual pension is the lower of the increase in the Retail Prices Index or 5% pa, measured over the period of deferment (note: this is not calculated year-by-year but is an aggregate over the whole period)<sup>2</sup>.
4. Should the scheme increase described in paragraph 2 be lower than the statutory increase described in paragraph 3, then the higher, statutory rate would apply.

**The Pensions Act 2008**

5. The Pensions Act 2008 has amended the revaluation legislation and introduced a provision allowing schemes to adopt a lower rate for statutory revaluation. This is the lesser of the increase in RPI or 2.5% pa over the period of deferment. This lower revaluation rate can be applied to benefits in respect of service from 6 April 2009. (Note:

---

<sup>1</sup> The Pension Schemes Act 1993

<sup>2</sup> Members of schemes which were contracted out of the State Earnings Related Pension Scheme prior to April 1997 earn entitlement to "Guaranteed Minimum Pension" (GMP), which is broadly equal to the SERPS pension to which they would otherwise have been entitled. Increases to GMPs in deferment are applied at a different rate. The increase described in this paragraph then applies to any amount over and above the GMP. As the CEFPS did not commence until 1998 it does not contain any GMPs so the increase described applies to the whole of the pension earned under the scheme.

as with the pre-April 2009 statutory revaluation provisions, the test applies over the whole period of deferment and not year by year).

6. The legal advice received by the Pensions Board is that this change is incorporated automatically in the provisions of the scheme because the reference in the rules is specifically to “statutory revaluation” rather than to any particular calculation method.

### **Impact**

7. The introduction of a lower statutory revaluation rate would have no effect on the pension expectation for a deferred member at retirement age as that expectation is based on increases to the National Minimum Stipend. So, provided increases to National Minimum Stipend over the long term remain broadly at or above the level of the Retail Prices Index, there would be no actual effect on the eventual benefits at retirement as statutory revaluation would not bite. Should, however, increases to National Minimum Stipend fall below RPI for an extended period, the lower level of statutory increase would reduce the risk to the scheme of having to pay benefits at a higher rate than anticipated.
8. It should be noted that there will be no impact on deferred benefits for people who left service before 6<sup>th</sup> April 2009 (whether they have benefits in the pre-1998 scheme, the CEFPS or both) as the change can only apply in respect of benefits for service from 6 April onwards.

### **Rule Amendments**

9. As indicated above, the new provision automatically flows through into the scheme rules. However, for the avoidance of doubt, the Board’s legal advisers have recommended that the scheme rules should be formally amended to make it clear that it is intended that the alterations to the statutory revaluation basis should apply. The amendment put forward is designed to achieve that aim.
10. The Deployment, Remuneration and Conditions of Service Committee of the Archbishops’ Council has been informed of the intention to amend the Rules and has raised no objection.

Church House, Westminster

June 2009